

Accounting Fundamentals

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Introduction

Accounting is playing a central role in nearly all forms of economic activity in the public, private and non-profit sectors. Business managers and owners, in small or large businesses are using accounting to see how their businesses are doing. Non-profit organizations can check the income and cash flow they needed to support their mission.

The government also uses accounting systems for taxpayers.

In brief, accounting is the heart of the business.

Actually, nothing can be done in the business world without accounting fundamentals.

Task 1

The ledger Accounts of Maxim as at 30 April

The information contained in the books of prime entry is summarised and posted to accounts in the general ledger (Wood and Sangster, 2012).

Dr		Capital	Cr
30 April	Cash	£60.00	5 April Cash £300.00
Closing ledger Account at 30 April			£240.00

Dr		Purchase goods	Cr
7 April	Cash	£200.00	
Closing Purchase goods Account at 30 April			£200.00

Dr		Loan from Tatiana	Cr
29 April	Cash	£200.00	8 April Cash £250.00
Closing Loan Account at 30 April			£50.00

Dr		Motor van	Cr
15 April	Cash	£150.00	
Closing Motor van Account at 30 April			£150.00

Dr		Sales	Cr
		20 April Cash £350.00	
Closing Sales Account at 30 April			£350.00

Dr		Rent	Cr
28 April	Cash	£50.00	
Closing Rent Account at 30 April			£50.00

Dr				Cr			
Cash account							
7 April	Purchase	£200.00		5 April	Capital	£300.00	
15 April	Motor van	£150.00		8 April	Loan	£250.00	
28 April	Rent	£50.00		20 April	Sales	£350.00	
29 April	Repaid loan	£250.00					
30 April	Withdraw	£60.00					
		£660.00					£900
Closing Cash Account at 30 April				£240.00			

The Journal of Maxim

The journal is a book with records of all financial transactions of the organizations in order by date. It is also a book of original entry (Dyson, 2010).

Journal			
Date	Description	Debit	Credit
5 April	Cash account	£300.00	
	Capital		£300.00
	Introduce cash into the business		
7 April	Purchase account	£200.00	
	Cash account		£200.00
	Purchase goods		
8 April	Cash account	£250	
	Loan from Tatiana		£250.00
	Received loan from Tatiana payable within twelve months		
15 April	Motor van account	£150.00	
	Cash account		£150.00
	Purchased a motor van		
20 April	Cash account	£350.00	
	Sales account		£350.00
	Sold goods		
28 April	Rent account	£50.00	
	Cash account		£50.00
	Paid rent		
29 April	Loan form Tatiana	£200.00	
	Cash account		£200.00
	Repaid part of the loan from Tatiana		
30 April	Withdraw	£60.00	
	Cash account		£60.00
	Drew cash from business		
30 April		£1,560.00	£1,560.00

The Trial Balance of Maxim as at 30 April

The trial balance is a list of account balances arranged according to whether they are debit balances or credit balances (Wood and Sangster, 2012).

Trial Balance		
Description	Debit	Credit
Cash	£240.00	
Capital		£240.00
Purchase	£200.00	
Motor van	£150.00	
Rent	£50.00	
Current Liabilities/Loan from Tatiana		£50.00
Sales		£350.00
Total	£640.00	£640.00

Statement of Profit or Loss of Maxim for the month ended on 30 April

The statement of profit or loss account shows expenses for a year revenue of the year and give us the profit or the loss for a year (Weetman, 2011).

Statement of Profit or Loss		
Description	Debit	Credit
Sales		£350.00
Cost of goods		
Purchases	£200.00	
Less closing stock	-£100.00	
Net cost of goods sold	£100.00	
Gross Profit		£250.00
Less Expenses		
Rent	£50.00	
Total Expenses	£50.00	
Net Profit		£200.00

Statement of Financial Position of Maxim as at 30 April

The balance sheet shows us the value of the assets and the liabilities of the company at a particular period (Atrill and McLaney, 2008).

Balance Sheet		
Description	Debit	Credit
Fixed Assets		
Motor van	£150.00	
Total Fixed Assets		£150.00
Current Assets		
Cash	£240.00	
Closing stock	£100.00	
Total Current Assets		£340.00
Total Assets		£490.00
Current Liabilities		
Loan		£50.00
Total Liabilities		£50.00
Capital	£300.00	
Add Net Profit	£200.00	
Less Drawings	-£60.00	
Net Capital		£440.00
Total liabilities + Capital		£490.00

Total Assets = Total liabilities + Capital

Task 2

The Ledger Accounts of Pendo as at 31 January

The information contained in the books of prime entry is summarised and posted to accounts in the general ledger (Wood and Sangster, 2012).

Cash Account					
Dr			Cr		
2Jan	Motor van	£600.00	1Jan	Capital	£5000.00
3Jan	Purchase	£1300.00	4Jan	Loan from Sergei	£1000.00
10Jan	Expenses Motor van	£250.00	13Jan	Sales	£300.00
24Jan	Storage Expenses	£150.00	20Jan	Sales	£500.00
27Jan	Loan Repaid	£350.00			
30Jan	Drawings	£175.00			
		£2,825.00			£6,800.00
Closing Cash Account at 31 January					£4025.00

Sales			
Dr		Cr	
		13 Jan	Cash £300.00
		20 Jan	Cash £500.00
Closing Sales Account at 31 January			£800.00

Loan from Sergei			
Dr		Cr	
27Jan	Cash £350.00	4Jan	Cash £1000.00
Closing Loan Account at 31 January			£650.00

Capital			
Dr		Cr	
30Jan	Cash £175.00	1Jan	Cash £5000.00
Closing Capital Account at 31 January			£4825.00

Motor van			
Dr		Cr	
2Jan	Cash £600.00		
10Jan	Cash £200.00		
Closing Motor van Account at 31 January			£800.00

Dr Purchases Cr		
3Jan	Cash	£1300.00
Closing Purchase Account at 31 January		£1300.00

Dr Storage Expenses Cr		
24Jan	Cash	£150.00
Closing Storage Expenses Account at 31 January		£150.00

Dr Withdraw Cr		
30Jan	Cash	£175.00
Closing Withdraw account at 31 January		£175.00

The Trial Balance of Pendo as at 31 January

The trial balance is a list of account balances arranged according to whether they are debit balances or credit balances (Wood and Sangster, 2012).

Trial Balance		
Description	Debit	Credit
Cash	£4,025.00	
Loan		£650.00
Sales		£800.00
Capital		£5,000.00
Motor van	£800.00	
Purchases	£1,300.00	
Expenses	£150.00	
Drawings	£175.00	
Total	£6,450.00	£6,450.00
Closing stock as at 31Jan is £800		

The Journal of Pendo as at 31 January

The journal is a book with records of all financial transactions of the organizations in order by date. It is also a book of original entry (Dyson, 2010).

The Journal			
	Description	Debit	Credit
01-Jan	Cash account	£5,000.00	
	Capital		£5,000.00
	Introduce cash into the business		
02-Jan	Motor Van account	£600.00	
	Cash account		£600.00
	Purchase a Motor Van		
03-Jan	Purchase account	£1,300.00	
	Cash Account		£1,300.00
	Bought goods		
04-Jan	Cash account	£1,000.00	
	Loan account		£1,000.00
	Received loan from Sergei payable within twelve months		
10-Jan	Motor Van Expense account	£200.00	
	Cash account		£200.00
	Paid expenses on the Motor Van		
13-Jan	Cash account	£300.00	
	Sales account		£300.00
	Sold goods		
20-Jan	Cash account	£500.00	
	Sales account		£500.00
	Sold goods		
27-Jan	Loan from Sergei	£350.00	
	Cash account		£350.00
	Repaid part of the loan from Sergei		
30-Jan	Withdraw	£ 175.00	
	Cash account		£ 175.00
	Withdrew cash from the business		
31.01		£9,425.00	£9,425.00

Statement of profit or loss for the month ended 30 January

The statement of profit or loss account shows expenses for a year revenue of the year and give us the profit or the loss for a year (Weetman, 2011).

Statement of profit or loss for the month ended 30 January		
Description	Debit £	Credit £
Sales		£ 800.00
Purchases	£ 1,300.00	
Less Closing stock	-£ 800.00	
Net cost of goods sold	£ 500.00	
Gros profit		£ 300.00
Less Expenses		
Motor van	£ 200.00	
Storage Expenses	£ 150.00	
Loan	£ 350.00	
Total Expenses	£ 700.00	
Net profit or Loss		-£ 400.00

Balance Sheet

Balance Sheet at 30 January		
Description	Debit £	Credit £
Fixed Assets		
Motor van	£ 600.00	
Total Fixed Assets		£ 600.00
Current Assets		
Cash	£ 4,025.00	
Goods in Hand	£ 800.00	
Total Current Assets		£ 4,825.00
Total Assets		£ 5,425.00
Non-Current Liabilities		
Loan		£ 1,000.00
Current liabilities		
Total Liabilities		£ 1,000.00
Capital		£ 5,000.00
Add net profit		-£ 400.00
Drawings		-£ 175.00
Net Capital		£ 4,425.00
Total liabilities + Capital		£ 5,425.00

Total Assets = Total liabilities + Capital

Task 3

The Ledger Accounts of Mafuta as at 31 of January

The information contained in the books of prime entry is summarised and posted to accounts in the general ledger (Wood and Sangster, 2012).

Cash Account					
Date	Description	Debit £	Date	Description	Credit £
05-Jan	Wages	£ 12.00	01-Jan	Capital	£ 343.00
09-Jan	Account Payable Max	£ 21.00	07-Jan	Account Receivable Smith	£ 18.00
14-Jan	Wages	£ 14.00	11-Jan	Sales	£ 64.00
14-Jan	Purchases	£ 75.00	23-Jan	Account Receivable Harvey	£ 25.00
15-Jan	Account Payable Rich	£ 162.00	21-Jan	Sales	£ 110.00
20-Jan	Office desk	£ 32.00	28-Jan	Sales	£ 84.00
21-Jan	Wages	£ 17.00	31-Jan	Sales	£ 30.00
23-Jan	Office expense	£ 3.00			
28-Jan	Wages	£ 15.00			
		£ 351.00			£ 674.00
Closing Cash Account at 31 January					£ 323.00

Purchases Account					
Date	Description	Debit £	Date	Description	Credit £
01-Jan	Account Payable Max	£ 12.00			
01-Jan	Account Payable Rich	£ 21.00			
05-Jan	Account Payable Rich	£ 150.00			
14-Jan	Cash	£ 75.00			
		£ 258.00			
Closing Purchase Account at 31 January					£ 258.00

Sales					
Date	Description	Debit £	Date	Description	Credit £
			01-Jan	Tr. Rec. Account - Smith	£ 18.00
			01-Jan	Tr. Rec. Account - Harvey	£ 39.00
			01-Jan	Tr. Rec. Account - Moon	£ 26.00
			02-Jan	Tr. Rec. Account - Harvey	£ 124.00
			11-Jan	Cash	£ 64.00
			21-Jan	Cash	£ 110.00
			28-Jan	Cash	£ 84.00
			31-Jan	Cash	£ 30.00
					£ 495.00
Closing Sales Account at 31 January					£ 495.00

Account Payable Rich					
Date	Description	Debit £	Date	Description	Credit £
01-Jan	Purchases	£ 12.00	15-Jan	Cash	£ 162.00
05-Jan	Purchases	£ 150.00			
		£ 162.00			£ 162.00
Closing Account Payable Rich at 31 January					£ 0.00

Account Payable Max					
Date	Description	Debit £	Date	Description	Credit £
01-Jan	Purchases	£ 21.00	09-Jan	Cash	£ 21.00
		£ 21.00			£ 21.00
Closing Account Payable Max at 31 January					£ 0.00

Account Receivables Moon					
Date	Description	Debit £	Date	Description	Credit £
			01-Jan	Sales	£ 26.00
					£ 26.00
Closing Account Receivable Moon at 31 January					£ 26.00

Trade Receivables Account - Smith					
Date	Description	Debit £	Date	Description	Credit £
07-Jan	Cash	£ 18.00	01-Jan	Sales	£ 18.00
		£ 18.00			£ 18.00
Closing Trade Receivables Account - Smith at 31 January					£ 0.00

Account Receivables Harvey					
Date	Description	Debit £	Date	Description	Credit £
23-Jan	Cash	£ 25.00	01-Jan	Sales	£ 39.00
			02-Jan	Sales	£ 124.00
		£ 25.00			£ 163.00
Closing Account Receivables Harvey at 31 January					£ 138.00

Capital					
Date	Description	Debit £	Date	Description	Credit £
			01-Jan	Cash	£ 343.00
			01-Jan	Inventory	£ 458.00
			01-Jan	Furniture and fittings	£ 198.00
					£ 999.00
Closing Capital Account at 31 January					£ 999.00

Wages					
Date	Description	Debit £	Date	Description	Credit £
05-Jan	Cash	£ 12.00			
14-Jan	Cash	£ 14.00			
21-Jan	Cash	£ 17.00			
28-Jan	Cash	£ 15.00			
		£ 58.00			
Closing Wages Account at 31 January					£ 58.00

Office expenses					
Date	Description	Debit £	Date	Description	Credit £
23-Jan	Cash	£ 3.00			
		£ 3.00			
Closing Office expenses Account at 31 January					£ 3.00

Purchases					
Date	Description	Debit £	Date	Description	Credit £
01-Jan	Goods from Rich	£ 12.00			
01-Jan	Goods from Max	£ 21.00			
05-Jan	Goods from Rich	£ 150.00			
14-Jan	Goods	£ 75.00			
		£ 258.00			
Closing Purchases Account at 31 January					£ 258.00

Office desk					
Date	Description	Debit £	Date	Description	Credit £
20.01	Cash	£ 32.00			
		£ 32.00			
Closing Office desk Account at 31 January					£ 32.00

Capital					
Date	Description	Debit £	Date	Description	Credit £
			01-Jan	Cash	£ 343.00
			01-Jan	Inventory	£ 458.00
			01-Jan	Furniture and fittings	£ 198.00
					£ 999.00
Closing Capital Account at 31 January					£ 999.00

Wages					
Date	Description	Debit £	Date	Description	Credit £
05-Jan	Cash	£ 12.00			
14-Jan	Cash	£ 14.00			
21-Jan	Cash	£ 17.00			
28-Jan	Cash	£ 15.00			
		£ 58.00			
Closing Wages Account at 31 January					£ 58.00

Office expenses					
Date	Description	Debit £	Date	Description	Credit £
23-Jan	Cash	£ 3.00			
		£ 3.00			
Closing Office expenses Account at 31 January					£ 3.00

Purchases					
Date	Description	Debit £	Date	Description	Credit £
01-Jan	Goods from Rich	£ 12.00			
01-Jan	Goods from Max	£ 21.00			
05-Jan	Goods from Rich	£ 150.00			
14-Jan	Goods	£ 75.00			
		£ 258.00			
Closing Purchases Account at 31 January					£ 258.00

Office desk					
Date	Description	Debit £	Date	Description	Credit £
20.01	Cash	£ 32.00			
		£ 32.00			
Closing Office desk Account at 31 January					£ 32.00

The Trial Balance of Mufata as at 31 January

The trial balance is a list of account balances arranged according to whether they are debit balances or credit balances (Wood and Sangster, 2012).

Trial balance as at 31 January		
Description	Debit £	Credit £
Trade Receivables Account - Harvey	£ 138.00	
Trade Receivables Account - Moon	£ 26.00	
Sales		£ 495.00
Cash	£ 323.00	
Purchases	£ 258.00	
Opening inventory	£ 458.00	
Furniture and fittings	£ 198.00	
Capital		£ 999.00
Office desk	£ 32.00	
Wages	£ 58.00	
Office expenses	£ 3.00	
	£ 1,494.00	£ 1,494.00
Closing inventory		£ 374.00

Statement of Profit or Loss of Mafuta for the month ended 30 April

The statement of profit or loss account shows expenses for a year revenue of the year and give us the profit or the loss for a year (Weetman, 2011).

Statement of profit or loss for the month ended 30 April		
Description	Debit £	Credit £
Sales		£ 495.00
Cost of goods sold		
Opening inventory	£ 458.00	
Purchases	£ 258.00	
Less Closing stock	-£ 374.00	
Net cost of goods sold	£ 342.00	
Gross profit		£ 153.00
Less Expenses		
Office expense	£ 3.00	
Wages	£ 58.00	
Total Expenses	£ 61.00	
Net profit		£ 92.00

Statement of Financial Position of Mufata as at 30 April

The balance sheet shows us the value of the assets and the liabilities of the company at a particular period (Atrill and McLaney, 2008).

Balance Sheet at 30 April			
Description	Debit	£	Credit £
Fixed Assets			
Furniture and fittings	£	198.00	
Office desk	£	32.00	
Total Fixed Assets			£ 230.00
Current Assets			
Inventory	£	374.00	
Cash	£	323.00	
Both Accounts Receivables	£	164.00	
Total Current Assets			£ 861.00
Total Assets			£ 1,091.00
Total Liabilities			
Current liabilities			
Total Liabilities			
Capital			£ 999.00
Add net profit			£ 92.00
Net Capital			
Total liabilities + capital			£ 1,091.00

Total Assets = Total liabilities + Capital

Task 4

Ledger Accounts

The information contained in the books of prime entry is summarised and posted to accounts in the general ledger (Wood and Sangster, 2012).

Claire Account					
Date	Description	Debit	Date	Description	Credit
02-Jun	Sales	£ 8,500.00	22-Jun	Sales	£ 1,000.00
			24-Jun	Cash	£ 7,125.00
			24-Jun	Sales Discount	£ 375.00

Cash Account					
Date	Description	Debit	Date	Description	Credit
24-Jun	Claire	£ 7,125.00	25-Jun	Georgia	£ 11,160.00
25-Jun	Hywel	£ 8,550.00	27-Jun	Andrew	£ 4,410.00
20-Jun	Sales	£ 6,000.00			£ 15,570.00
		£ 21,675.00			
Closing Cash Account at 30 June £ 6105.00					

Hywel Account					
Date	Description	Debit	Date	Description	Credit
14-Jun	Sales	£ 8,550.00	25-Jun	Cash	£ 8,550.00

Andrew Account					
Date	Description	Debit	Date	Description	Credit
27-Jun	Cash	£ 4,410.00	21-Jun	Purchase	£ 4,500.00
27-Jun	Purchase discount	£ 90.00			

Mandy Account					
Date	Description	Debit	Date	Description	Credit
24-Jun	Sales	£ 5.000			

Sales Account					
Date	Description	Debit	date	Description	Credit
22-Jun		£ 1,000.00	02-Jun	Claire	£ 8,500
			14-Jun	Hywel	£ 8,550
			20-Jun	Cash	£ 6,000
			24-Jun	Mandy	£ 5,000
					£ 28,050

Purchase Account					
Date	Description	Debit	Date	Description	Credit
13-Jun	Cash	£ 12,000.00			
21-Jun	Andrew	£ 4,500.00			

Georgia Account					
Date	Description	Debit	Date	Description	Credit
25-Jun	Cash	£11,160.00	13-Jun	Purchase	£12,000.00
25-Jun	Purchase discount	£ 840.00			
		£12,000.00			

Sales discount Account					
Date	Description	Debit	Date	Description	Credit
24-Jun	Claire a/c	£ 375.00			

Purchase discount Account					
Date	Description	Debit	Date	Description	Credit
			25-Jun	Georgina a/c	£ 840.00
			27-Jun	Andrew	£ 90.00
					£ 930.00

The Journal of Ricardo

The journal is a book with records of all financial transactions of the organizations in order by date. It is also a book of original entry (Dyson, 2010).

JOURNAL			
Date	Description	Debit	Credit
2.06	Account Receivable Claire	£ 8,500.00	
	Sales		£ 8,500.00
	Sold goods to Claire on credit		
13-Jun	Purchase	£ 12,000.00	
	Account Payable Georgina		£ 12,000.00
	Bought goods from Georgina on credit		
14-Jun	Hywel	£ 8,550.00	
	Sales		£ 8,550.00
	Sold goods to Hywel		
20-Jun	Cash	£ 6,000.00	
	Sales		£ 6,000.00
	Sold goods to Jane for cash		
21-Jun	Purchase	£ 4,500.00	
	Account Payable Andrew		£ 4,500.00
	Bought goods from Andrew on credit		
22-Jun	Sales returned	£ 1,000.00	
	Claire		£ 1,000.00
	Claire returned goods sold		
24-Jun	Account Receivable Mandy	£ 5,000.00	
	Sales		£ 5,000.00
	Mandy bought goods		
24-Jun	Cash	£ 7,125.00	
	Sales discount	£ 375	
	Account Receivable Claire		£ 7,500.00
	Claire paid after discount		
25-Jun	Cash	£ 8,550.00	
	Account Receivable Hywel		£ 8,550.00
	Hywel settled amount		
25-Jun	Georgina	£ 12,000.00	
	Cash		£ 11,160.00
	Purchase Discount		£ 840.00
	Ricardo paid Georgina after discount		
27-Jun	Andrew account	£ 4,500.00	
	Cash		£ 4,410.00
	Purchase Discount		£ 90.00
	Payment made to Andrew		
27-Jun		£ 78,100.00	£ 78,100.00

Trial Balance at 27 of June

The trial balance is a list of account balances arranged according to whether they are debit balances or credit balances (Wood and Sangster, 2012).

TRIAL BALANCE		
Description	Debit	Credit
Sales		£ 27.050
Purchase	£ 16.500	
Cash	£ 6.105	
Purchase Discount		£ 0.930
Sales Discount	£ 0.375	
Mandy	£ 5.000	
Total	£ 27.980	£ 27.980

Task 5

What is the difference between capital expenditures and revenue expenditures?

Capital expenditures are also known as CAPEX, are amounts which a company can use to buy, upgrade and support existing assets such as industrial buildings, properties, new technology or equipment.

They are often used to investments in the new projects. Capital expenditures of the fixed assets can be everything from building a new roof to the property to buying and replacing a part of the equipment, to purchasing a new factory. Those kinds of financial expenses also help companies to increase their operations.

The capital expenditures are those expenses that companies show on their balance sheet as an investment, not on their income balance as expenditures.

Revenue expenditures are those costs which are top up to expense as soon as they are consumed. The business uses revenue expenditures in the same reporting period they are made. There are two types of revenue expenditure. First of them is supporting a revenue earning an asset, as repairing and maintenance expenses, because they are using to move on daily operations. The other type is generating revenues. Those are all day expenditures which business needs, as team salaries, rent, office consumables, and utilities.

Capital expenditures are the expenditures for investing in fixed assets, those assets that are expected to use over a long period. The revenue expenditures are expenditures that are related to specific earnings or for particular periods,

such as the value of the goods sold or the costs of maintenance and repair of the equipment (Bragg, 2018).

As a result of the above, we can say that there are several differences between capital expenditures and revenue expenditures. One of them is the time /period for their spending.

According to Bragg, the capital expenditures can be put on top in stages through depreciation charges over a more extended period (Bragg, 2018). The revenue expenditures can count as expenditures almost only during the current reporting period. The next significant difference is usage. We know that capital expenditures are for use over a long period; this can be directly connected to the fixed assets. Revenue expenditures are assumed to use for a shorter period.

Another significant difference is the magnitude of the spending. For understandable reasons, capital expenditures are comparatively much larger than the amounts earmarked for revenue expenditures. There is a reason to be like that; there is a rule for which a sum is defined as an expenditure of the capital only if it is above a specific value if it is at a lower cost than this limit immediately passes as an expenditure of the revenue. There are also exceptions, of course, there are expenditures with high values that are defined as revenue expenditures, because they are directly related to sales transactions, or they can be spent for the short period that is discussed above.

It is necessary to understand both revenue and capital expenditures. Both expenditures have a vital connection to the business, how it will grow and how much profit will make. Both of them help the industry. The capital expenditure company use to buy an asset, which is connected with revenue in the future. The opposite, no one asset can be done with revenue expenditure, but support maintain business routine (Nderitu, 2018).

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