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Accounting Fundamentals

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INTRODUCTION

Accounting is defined as the process of correctly recording, posting, communicating and reviewing the overall information related with business financial transaction within a specific time frame (*Accounting, 2019*). This include the preparation of valuable financial documents such as income statements, balance sheet and cash flow statement which support in making better decision for future profitability. Accounting is mainly depended upon the fundamental that help in making a successful business by keeping authentic and reliable reports.

In this report, ledger accounts, statement of P&L, trail balance and statement of financial position are prepared for different traders. In addition, difference between capital and revenue expenditure are discussed in this report.

TASK 1

Journal entries

Date	Particulars	Debit (£)	Credit (£)
April, 5	Cash A/c	300.00	
	To Capital a/c		300.00
April, 7	Purchase a/c	200.00	
	To cash a/c		200.00
April, 8	Cash a/c	250.00	
	To Loan from Tatiana		250.00
April, 15	Motor van a/c	150.00	
	To cash a/c		150.00
April, 20	Cash A/c	350.00	
	To sales a/c		350.00
April, 28	Rent a/c	50.00	
	To cash a/c		50.00
April, 29	Loan a/c	200.00	
	To Cash A/c		200
April, 30	Drawings a/c	60.00	
	To cash a/c		60.00

(a) Ledger accounts of Maxim

Cash a/c					
Date	Particular	Amount (£)	Date	Particular	Amount (£)
April,5	To Capital a/c	300	April,7	By Purchase a/c	200
April,8	To Loan a/c	250	April,15	By Motor van a/c	150
April,20	To Sales a/c	350	April,28	By rent a/c	50
			April,29	By Loan a/c	200
			April,30	By Drawings a/c	60
				By Balance c/d	240
	Total	900		Total	900
May,1	To Balance b/d	240			
Capital a/c					
Date	Particular	Amount (£)	Date	Particular	Amount (£)
April, 30	To balance c/d	300	April,5	By Cash a/c	300
			May, 1	By Balance c/d	300
Purchase a/c					
Date	Particular	Amount (£)	Date	Particular	Amount (£)
April,7	To Cash a/c	200	April,30	By Trading a/c	200
Loan a/c					
Date	Particular	Amount (£)	Date	Particular	Amount (£)
April,29	To Cash a/c	200	April,8	By Cash a/c	250
April,30	To balance c/d	50			
		250			250
			May, 1	By Balance c/d	50
Motor Van a/c					
Date	Particular	Amount (£)	Date	Particular	Amount (£)
April,15	To Cash a/c	150	April,30	By Balance c/d	150
May,1	To Balance b/d	150			

Rent a/c					
Date	Particular	Amount (£)	Date	Particular	Amount (£)
				By profit & loss	
April,28	To cash a/c	50	April,30	a/c	50

Drawings a/c					
Date	Particular	Amount (£)	Date	Particular	Amount (£)
April, 30	To Cash a/c	60			

Sales a/c					
Date	Particular	Amount (£)	Date	Particular	Amount (£)
April,30	By Trading a/c	350	April,20	To cash a/c	350

(b) Trial balance of Maxim

Trail balances at April,30

Particulars	Debit (£)	Credit (£)
Cash A/c		240
Capital a/c		300
Purchase a/c	200	
Loan a/c		50
Motor van a/c	150	
Rent a/c	50	
Sales a/c		350
Drawings a/c	60	
Total	700	700

(c) Final Statements of Maxim

Statement of profit & loss a/c	
Particulars	Amount
Sales a/c	350.00
Less – Cost of goods sold	100.00
Gross Profit	250.00
Less – Expenses	
Rent a/c	50.00
Net Profit	200.00

Statement of Financial position as at April, 30

	Amount
Non Current assets	
Motor van	150.00
Current Assets	
Cash A/c	240.00
Inventory	100.00
	340.00

Total Assets		490.00
Capital a/c	300.00	
Add – Net Profit	200.00	
Less – Drawings	60.00	440.00
Current Liabilities		
Short term loan		50.00
Total Liabilities		490.00

TASK 2

Journal entries

Date	Particulars	Debit (£)	Credit (£)
January, 1	Cash a/c	5000.00	
	To capital a/c		5000.00
January, 2	Motor van a/c	600.00	
	To cash a/c		600.00
January, 3	Purchase a/c	1300.00	
	To cash a/c		1300
January, 4	Cash a/c	1000.00	
	To loan from Sergei		1000.00
January, 10	Motor van expenses a/c	200.00	
	To cash a/c		200.00
January, 13	Cash a/c	300.00	
	To sales a/c		300.00
January, 20	Cash a/c	500.00	
	To sales a/c		500.00
January, 24	Storage expenses a/c	150.00	
	To cash a/c		150.00
January, 27	Loan a/c	350.00	
	To Cash a/c		350.00

January, 30	Drawings a/c	175.00	
	To Cash a/c		175

(a) Ledgers accounts of Pendo

Cash a/c					
Date	Particular	Amount (£)	Date	Particular	Amount (£)
Jan,1	To capital a/c	5000	Jan,2	By Motor Van a/c	600
Jan,4	To loan from <u>Sergei</u>	1000	Jan,3	By Purchase a/c	1300
Jan,13	To Sales a/c	300	Jan,10	By Motor Expenses a/c	200
Jan,20	To Sales a/c	500	Jan,24	By Storage expenses	150
				a/c	
			Jan,27	By Loan a/c	350
			Jan,30	By Drawings a/c	175
			Jan,31	By Balance c/d	4025
		6800			6800
	To Balance c/d	4025			
Capital a/c					
Date	Particular	Amount (£)	Date	Particular	Amount (£)
January,31	To Balance c/d	5000	January,31	By cash a/c	5000
			February,1	By Balance b/d	5000
Motor Van a/c					
Date	Particular	Amount (£)	Date	Particular	Amount (£)
Jan,2	To cash a/c	600	Jan,31	By Balance c/d	600
Feb, 1	To Balance b/d	600			
Purchase a/c					
Date	Particular	Amount (£)	Date	Particular	Amount (£)
Jan, 3	To cash a/c	1300	Jan, 31	By Balance c/d	1300
May, 1	To Balance b/d	1300			

Loan from Sergei a/c

Date	Particular	Amount (£)	Date	Particular	Amount (£)
Jan, 27	To cash a/c	350	Jan, 4	By cash a/c	1000
Jan, 31	To Balance c/d	650			
		1000			1000
			Feb, 1	By Balance b/d	650

Motor Van expenses a/c					
Date	Particular	Amount (£)	Date	Particular	Amount (£)
Jan, 10	To cash a/c	200	Jan, 31	By Balance c/d	200
Feb, 1	To Balance b/d	200			
Sales a/c					
Date	Particular	Amount (£)	Date	Particular	Amount (£)
Jan, 31	To Balance c/d	800	Jan, 13	By cash a/c	300
			Jan, 20	By cash a/c	500
		800			800
			Feb, 1	By Balance b/d	800
Storage Expenses a/c					
Date	Particular	Amount (£)	Date	Particular	Amount (£)
Jan, 24	To cash a/c	150	Jan, 31	By Balance c/d	150
Feb, 1	To Balance b/d	150			
Drawings a/c					
Date	Particular	Amount (£)	Date	Particular	Amount (£)
Jan, 30	To cash a/c	175	Jan, 31	By Balance c/d	175
Feb, 1	To Balance b/d	175			

(b) Trial balance of Pendo

Trial Balance at 31 January

Particulars	Debit (£)	Credit (£)
Cash a/c		4025
Capital a/c		5000
Motor van a/c		600
Purchase a/c		1300
Loan from Sergei a/c		650
Motor van expenses a/c		200
Sales a/c		800
Storage expenses a/c		150
Drawings a/c		175
	6450	6450

(c) Income statement of Pendo

**Statement of Profit and Loss
for the month ended 31 January**

Particulars	Amount (£)	Amount (£)
Sales a/c		800.00
Less – Cost of Goods sold		500.00
Gross Profit		300.00
Less- Expenses		
Motor van expenses	200.00	
Storage expenses	150.00	350.00
Net Loss		50.00

Statement of financial position at January, 31

Particulars	Amount (£)	Amount (£)
Non Current assets		
Motor Van		600.00
Current assets		
Cash	4025.00	
Closing Stock	800.00	4825.00
Total assets		5425.00
Capital account	5000.00	
Less- Net loss	50.00	
Less – Drawings	175.00	4775.00
Current liabilities		
Short term loan		650.00
Total Liabilities		5425.00

Working Notes: Cost Of goods sold = Purchase – Closing inventories

$$= 1300.00 - 800.00 = 500.00$$

TASK 3

(a) Ledger accounts of Mafuta

Cash a/c					
Date	Particular	Amount (£)	Date	Particular	Amount (£)
Jan, 1	To Balance b/d	343	Jan, 5	By Wages a/c	12
Jan, 7	To Smith's a/c	18	Jan, 9	By Max's a/c	21
Jan, 11	To Sales a/c	64	Jan, 14	By Wages a/c	14
Jan, 21	To Sales a/c	110	Jan, 14	By Purchases a/c	75
Jan, 23	To Harvey's a/c	25	Jan, 15	By Rich's a/c	162
				By Fixtures and	
Jan, 28	To Sales a/c	84	Jan, 20	fittings a/c	32
Jan, 31	To Sales a/c	31	Jan, 21	By Wages a/c	17
			Jan, 23	By office expenses a/c	3
			Jan, 28	By Wages a/c	15
			Jan, 31	By Balance c/d	323
		674			674
Feb, 1	To Balance b/d	323			

Capital a/c					
Date	Particular	Amount (£)	Date	Particular	Amount (£)
Jan, 1	To Payables	33	Jan, 1	By Cash in hand a/c	343
Jan, 31	To balance c/d	1049		By Inventory	458
				By Furniture and	
				fittings	198
				By Receivables	83
		1082			1082

Fixtures and fittings a/c					
Date	Particular	Amount (£)	Date	Particular	Amount (£)
Jan, 1	To Balance b/d	198	Jan, 31	By Balance c/d	230
Jan, 20	To cash a/c	32			
		230			230

Feb, 1	To Balance b/d	230
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Sales a/c

Date	Particular	Amount (£)	Date	Particular	Amount (£)
Jan, 31	To Trading a/c	412	Jan, 2	By Harvey's a/c	124
			Jan, 11	By Cash a/c	64
			Jan, 21	By Cash a/c	110
			Jan, 28	By Cash a/c	84
			Jan, 31	By Cash a/c	30
		412			412

Wages a/c

Date	Particular	Amount (£)	Date	Particular	Amount (£)
Jan, 5	To cash a/c	12	Jan, 31	Profit and loss a/c	58
Jan, 14	To cash a/c	14			
Jan, 21	To cash a/c	17			
Jan, 28	To cash a/c	15			
		58			58

Purchase a/c

Date	Particular	Amount (£)	Date	Particular	Amount (£)
Jan, 5	To Rich's a/c	150	Jan, 31	By Trading a/c	225
Jan, 14	To cash a/c	75			
		225			225

Office Expenses a/c

Date	Particular	Amount (£)	Date	Particular	Amount (£)
Jan, 23	To cash a/c	3	Jan, 31	Profit and loss a/c	3

Receivables from Smith's a/c

Date	Particular	Amount (£)	Date	Particular	Amount (£)
Jan, 1	To Balance b/d	18	Jan, 7	By Cash a/c	18

Receivables from Harvey's a/c

Date	Particular	Amount (£)	Date	Particular	Amount (£)
Jan, 1	To Balance b/d	39	Jan, 23	By Cash a/c	25
Jan, 2	To Sales a/c	124	Jan, 31	By Balance c/d	138

		163	163
Feb, 1	To Balance b/d	138	

Receivables from Moon's a/c

Date	Particular	Amount (£)	Date	Particular	Amount (£)
Jan, 1	To Balance b/d		26 Jan, 31	By Balance c/d	26

Feb, 1	To Balance b/d	26
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Payable to Rich's a/c

Date	Particular	Amount (£)	Date	Particular	Amount (£)
Jan, 15	To cash a/c	162	Jan, 1	By Balance b/d	12
			Jan, 5	By purchase a/c	150
		162			162

Payable to Max's a/c

Date	Particular	Amount (£)	Date	Particular	Amount (£)
Jan, 9	To cash a/c		21 Jan, 1	By Balance b/d	21

Inventory a/c

Date	Particular	Amount (£)	Date	Particular	Amount (£)
Jan, 1	To Balance b/d	458	Jan, 31	By Trading a/c	458
Jan, 31	To Trading a/c	374	Jan, 31	By Balance c/d	374
Feb, 1	To Balance b/d	374			

(b) Trial balance of Mafuta

Trial Balance at 31 January

Particulars	Debit (£)	Credit (£)
Cash in hand a/c		323
Capital a/c		1049
Fixtures and fittings a/c		230
Sales a/c		412
Wages a/c		58
Purchase a/c		225

Office expenses a/c	3	
Receivables a/c		
Harvey	138	
Moon	26	
Inventory a/c	458	
	1461	1461

(c) Financial position statement of Mafuta

Statement of Profit and Loss
For the month ended 31 January

Particulars	Amount (£)	
Sales		412
Less- Cost of goods sold		309
Gross profit		103
Less – Expenses		
Wages	58	
Office Expenses	3	61
Net Profit		42

Statement of Financial position at 31 January

Particulars	Amount (£)	
Non current assets		
Fixtures and fittings		230
Current assets		
Inventory	374	
Trade receivables (138+26)	164	
Cash	323	861
Total Assets		1091
Capital account	1049	
Add – Net Profit	42	1091
Total Liabilities		1091

Working Note: Cost of goods sold = Opening inventories + Purchase – Closing stock
= 458 + 225 – 374 = 309

TASK 4

(a) Ledger accounts of Ricardo

Sales a/c

						Amount
Date	Particular	Amount (£)	Date	Particular		(£)
Jun, 27	To Trading a/c	28500	Jun, 2	By Claire – Receivable a/c		8500
				By Hywel – Receivable		
			Jun, 14	a/c		9000
			Jun, 20	By Cash a/c		6000
				By Mandy – Receivable		
			Jun, 24	a/c		5000
		28500				28500

Sales Returns a/c

						Amount
Date	Particular	Amount (£)	Date	Particular		(£)
	To Claire –					
Jun, 22	Receivables	1000	Jun, 27	By Trading a/c		1000

Purchase a/c

						Amount
Date	Particular	Amount (£)	Date	Particular		(£)
	To Georgina –					
Jun, 13	Payable a/c	12000	Jun, 27	By Trading a/c		16500
	To Andrew – Payable					
Jun, 21	a/c	4500				
		16500				16500

Cash a/c

Date	Particular	Amount	Date	Particular	Amount
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		(£)			(£)
				By Georgina – Payable	
Jun, 20	To Sales a/c	6000	Jun, 25	a/c	11160
	To Claire –			By Andrew – Payable	
Jun, 24	Receivable	7125	Jun, 27	a/c	4410
	To Hywel –				
Jun, 25	Receivables	9000	Jun, 27	By Balance c/d	6555
		22125			22125

To Balance b/d 6555

Discount allowed a/c

		Amount			Amount
Date	Particular	(£)	Date	Particular	(£)
	To Claire –				
Jun,24	Receivable	375	Jun, 27	By Profit and loss a/c	375

Discount received a/c

		Amount			Amount
Date	Particular	(£)	Date	Particular	(£)
				By Georgina – Payable	
Jun, 27	To Profit & loss a/c	930	Jun, 25	a/c	840
				By Andrew – Payable	
			Jun, 27	a/c	90
		930			930

Claire – receivable a/c

		Amount			Amount
Date	Particular	(£)	Date	Particular	(£)
Jun, 2	To Sales a/c	8500	Jun, 22	By Sales return a/c	1000
			Jun, 24	By Cash a/c	7125
			Jun, 24	By Discount allowed a/c	375
		8500			8500

Hywel – receivable a/c					
Amount			Amount		
Date	Particular	(£)	Date	Particular	(£)
Jun, 14	To Sales a/c		9000 Jun, 25	By Cash a/c	9000

Mandy – receivables a/c					
Amount			Amount		
Date	Particular	(£)	Date	Particular	(£)
Jun, 24	To Sales a/c		5000 Jun, 27	By Balance c/d	5000
	To Balance b/d	5000			

Georgina – payable a/c					
Amount			Amount		
Date	Particular	(£)	Date	Particular	(£)
Jun, 25	To Cash a/c	11160	Jun, 13	By Purchase a/c	12000
	To Discount received				
Jun, 25	a/c	840			
		12000			12000

Andrew – payable a/c					
Amount			Amount		
Date	Particular	(£)	Date	Particular	(£)
Jun, 27	To Cash a/c	4410	Jun, 21	By Purchase a/c	4500
	To Discount received				
Jun, 27	a/c	90			
		4500			4500

(b) Trial balance of Ricardo

Trial balance at 27 June of Ricardo

Particulars	Debit	Credit
Sales a/c		28500
Purchase a/c		16500
Cash a/c		6555

Sales return a/c	1000	
Mandy – Receivable	5000	
Discount allowed a/c		930
Discount Received a/c	375	
	29430	29430

TASK 5

Differentiate between revenue expenditure and capital expenditure

Revenue expenditure: In accounting term, the cost that have been charged to the expenditure when actual expenses incurred (Flagan and Seinfeld, 2012). It is observed that revenue expenses are regarded within the context of fixed assets such as when an assets is used to provide a services so that income can be generated for company. Thus, business incurred revenue expenditure in order to make a fixed assets working which help in generating the revenues within the same accounting year. There are mainly two types of revenue expenses such as:

- **Maintenance of fixed assets:** It mainly involves expenditure on maintenance and repair of fixed assets used in a company which would directly help in making operation more profitable. At the same time it does not extend the life of assets (Al-Hubaity and Hamdoon, 2012).
- **Growing income:** Revenue expenses are related to day to day spending which are required to make business operation more effective and efficient like salaries for sales persons, offices equipments, rents and utilities.

Capital expenditure: It is related to the spending of company on acquiring of assets such as building, land, machine, tool and equipments and most importantly investment within appropriate shares (Halpin, Lucko and Senior, 2017). In accounting term, the money incurred on rearing, buying, updating and improving the fixed assets of an organisation are known as capital expenditure. These are expenses which are made by organisation on renovating any kind obsolete or non functioning of assets so that they become usable and generate more income. It is noticed that high capital spending generally means further investment to improve infrastructure as well as other resources which are critical for growth.

Difference between capital and revenue expenditure

Basis	Capital Expenditure	Revenue Expenditure
Meaning	According to the International Accounting Framework Capital Expenditure, these investments are invested to change company assets and provide long-term advantages (Miles, 2019).	Revenue spending is the normal routine-based spending that is deducted from the corresponding income of company. It will actually keep business activities running.
Based on	It is not focused on regular spending on a daily basis. It will buy and accumulate long-term fixed assets	This is based on the day-to-day business spending such as depreciation, marketing costs.
Earning capacity	Using capital expenditure to increase the business's earning power of company.	With the aid of non-increasing revenue expenditure, thus retaining the companies' earning capacity (Mitra, 2016).
Physical presence	It has a physicality that does not include current assets.	Revenue spending are mainly lacking in physicality as used in business operations.
Benefits	For many years, it is providing advantages, further than one year of financial reporting.	It is provide benefit related accounting year, short term time period (Ragland and Ramachandran, 2014). It gives advantage to the company short term in the same accounting year.
Term period	Capital expenditure connected to a significant period of time, thus having a great-term impact on the company (Mushahir Mohamed,	Revenue spending attributable to short amount of time due to the acquisition of its advantages, in specific reporting period.

	2012).	
Balance shown	A small portion is paid as depreciation for profit and loss report. The capital structure indicates less outstanding amount after the payment.	There is a full amount paid to the statement of profits. But the statement of final position does not reveal the information about revenue expenses.
Frequency	It does not includes frequency as expenses can be different.	It includes frequency in expenses as these are related with day to day expenses (Simkin, Norman and Rose, 2014).
Appearance	These are majorly shown on the balance sheet as an increment within the total assets value.	This will show as a subtract interest from earnings in the cash account as well as in the income statement.
Examples	Amount used in purchase of equipment, land, building, extension on assets, machinery are treated as capital expenses.	Purchase of resale Stock, depreciation, production cost like rent, tax as well as commission

CONCLUSION

In conclusion, it has been stated that accounting fundamental are the main component of a business that support in posting, assorting, assessing and analysing the financial document prepared within a reporting year. Trail balance are mainly prepared to to figure out the difference between the debit and credit amount, income statements shows the net profit or loss within a year. Balance sheet describe the overall financial position of company as well as cash statements shows the total amount of cash inflows and outflows within different activities. These financial statements are compiled in compliance with the international financial norm as they should take care of all accounting standards and criteria such as the market and accumulation basis. Capital and revenue spending are essential for the company's performance and the generation of financial gain in the long term.

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