

ACCOUNTING FUNDAMENTALS

COMPONENT 1

LCBB 4001 – BIRM.

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1. Introduction

The area of accounting and financial management is rather complicated and complicated, but at the same time, it functions as a bridge in the establishment of different practices in practice that are crucial to business function effectiveness. This introduction outlines three primary processes, one for each of which an arena of accounting attributes is made evident to reveal the nature as fluid within financial analysis and management.

In Task 1, the author analyses the financial statements of the Company starting on December 31, 2023 with an emphasis on the earnings statement and equitable sheet. The analysis includes cash flow analysis, cost determination ability to settle bad debts, and financial standing assessment.

While task 2 focuses more specifically on the process of applying accounting principles in practice, we will continue to look at "T". The examination of that given task is aimed at the reality-based business transactions and the effects they have on their financial statements. It incorporates capital write-off assessment, assets transactions, money stream organisation, receivables and payable homeworking of everyday activities. This assignment provides a micro-level perspective on the effect of daily transactions on business's financial position at the level of minimum unit, highlighting transactional accounting as an essential means to maintain or improve financial performance and support further development (Anthony, 1999).

In turn, task 3 addresses arguably one of the essential "going concern" principles in accounting, assuring that a business will continue to function for an unlimited period. From this notion, it

works on the basis of balance sheet valuations as well as in liability and revenue recognition with the confidence of stakeholders.

Activities provided, shed light upon fundamentals of the accounting and financial management whose primary goal is to maintain accurate records for reporting. The sense and sensibility in making financial decisions and scaling quality services/products depends on planning, predicting, and all matters of precision.

2.Task 1

Description	Amount (£)
Sales	160,000
Less: Sales Returns	-4,000
Net Sales	156,000
Opening Inventory	3,000
Plus: Purchases	95,000
Less: Purchase Returns	-5,000
Less: Closing Inventory	-5,000

Net Cost of Goods Sold	88,000
Gross Profit	68,000
Expenses	
Salaries	28,000
Plus: Salaries Accrued	3,000
Rent	2,500
Less: Rent Prepaid	-300
Discounts Allowed	700
Vehicle Maintenance	800
Plus: Vehicle Maintenance Owing	150
Electricity and Gas Expense	1,500

Total Operating Expenses	36,350
Depreciation	
Depreciation on Furniture	1,800
Depreciation on Vehicles	4,275
Total Depreciation	6,075
Bad Debts	
Specific Bad Debt Written Off	800
Increase in Provision for Doubtful Debts	850

Less: Opening Provision	-500
Net Bad Debts	1,150
Net Profit	24,425

Assets	Amount (£)	Liabilities and Equity	Amount (£)
Bank Balance	5,000	Trade Payables	2,300
Trade Receivables	17,000	Loan (five years)	10,000
Less: Provision for Doubtful Debts	-850	Salaries Accrued	3,000
Net Trade Receivables	16,150	Vehicle Maintenance Owing	150

Closing Inventory	5,000	Total Liabilities	15,450
Furniture	15,000	Capital	25,000
Less: Accumulated Depreciation on Furniture	-6,800	Add: Net Profit	24,425
Net Furniture	8,200	Less: Drawings	-13,000
Vehicle at Cost	28,500	Total Equity	36,425
Less: Accumulated Depreciation on Vehicles	-11,275	Total Liabilities and Equity	51,875
Net Vehicles	17,225		
Prepaid Rent	300		
Total Assets	51,875		

As of 31st December 2023, the company can boast of a healthy financial health evident from its book's Report; The firm has an enviable net sales figure of £156,000 with gross profit of £68, 00 which can show that the company is in effective control over direct costs as reflected by it. Construction issues are sprinkled liberally throughout the essay body and conclusion and further still into glossary entries themselves; concrete terms have been This is one the main ideas of maximisation that has developed this margin by which levels helps in determining the

company's efficiency rate at which she manages her production or service delivery cost. The net profit of £ 24,425 reflects the potential of the company to manage its revenue and expenses appropriately with high probability.

In the balance sheet, assets totaling £51,875 show that the Company is in a sound position. The liquidity position seems to be in the mid-level range since the entirety is balanced by spending £ 5,000 from a bank and net trade receivables for £16, 150. However, a thorough analysis by means of liquidity ratios would reveal an insightful degree of short-term financial health. The investment cost in the fixed assets such as furniture and vehicles, is quite high and this set of accumulated depreciation goes to show that there will need consistent replacement due to depreciation so as to maintain the quality of these assets directly contributing to efficiency in operating (Berishvili, 2020).

The liabilities sum up to £15.450, with a good part of which is represented by long-term loan at a set amount of 10.000£s. This degree of debt requires strict control to achieve a long-term sustainable and solvent state of affairs. The equity section, as in this case with £36425 balance having deducted capital, net profit and drawings represents the company's future earning power which it requires going forward.

To sum up, the analysis of the company shows a successful business to operate and reasonable shareholder concern between assets usage and capital requirements. The current status of its financial position provides a starting point for growth but vigilance is needed to restrain emphasis on conditions of assets and management liability (Deegan,2013).

2. Task 2

	Capital Account			Van Account			Bank Account		
	Debit(£)	Credit(£)		Debit(£)	Credit(£)		Debit(£)	Credit(£)	

[illegible]

[illegible]

Account Name	Debit (£)	Credit (£)
Capital		30,700
Van	7,000	
Bank	17,000	2,000
Cash	4,050	
Receivables	7,400	3,000
Payables		3,200
Purchases	1,900	
Insurance	450	
Advertisement	500	
Wages	800	

Depreciation		1,000
Profit/Loss on Sale of Van		6,000

- **Capital Increase:** Maria expanded her capital from £ 30,000 by adding £700 and brought the total amount to £ 30,75£. This shows investment towards business growth particularly the need to buy a computer in such a short time.
- **Van Transaction:** The balance to be seen on the van account is a substantial debit balance attributable to original cost, (£15,000), depreciation £ 1,000 and loss of sale £6, 9. Against its book value i.e., being taken off in the books £14, 9 The loss of £6,000 is the depreciation cost and selling value of the van in shire (Jennergren,2018).
- **Bank Activities:** These transactions were made in the bank account. However, the balance was matched because of the receivables collection (£3000) and the deposit outflow relating to van disposal (lb6. Personal drawdown and supplier fee payments amounting to £2,000 limited this growth.
- **Cash Movements:** The cash account worked with several inflows including extra capital and receivables collection charges, as well as outflows for computer purchases, petrol amount wages and advertising expenses. This shows the liquidity and operational cash flows of the operating business.
- **Receivables and Payables:** The ability of Maria to collect the payments is a reflection on her effective receivables management. It is mostly due to the fact that this payables account has a balance, which means its supplier relationships continue and credit purchase activities are ongoing (Pratt,2010).
- **Purchases and Expenses:** The entry in the purchases account is restocking for resale (£1,900) which should spell out as fresh requirements while running Maria's business. The

insurance (£450), advertising (£500), and wages are common business expenses under I&l, t&io and E&i&i accounts (Pontoh,2020).

- **Depreciation and Asset Disposal:** The depreciation account reflects the loss of value owing to the output capacity that does not concern with expenses and revenues which is generated from profit and losses. We can then go ahead and see that the liability affecting overall value and profit standing is – Profit/Loss on Sale of Van Liabilities according to this statement account Van sale – loss 1230.

Payables and receivable management form core businesses under active capital management, which Maria's cleaning service embraces due to the efficient way of handling receivables and payables. The selling of a van, despite the negative value it incurs to society, represents strategic asset management. Current assets, which include cash flows and bank balances are significant factors in ensuring the strength of liquidity of the business as well as operational continuity.

3. Task 3: Going Concern

The principle of “going concern,” which is a vital tenet to the accounting profession and one necessary for preparing financial statements, also pertains to critical analysis towards determining the currency or sustainability of a firm financially. Under the state of going concern, it is assumed that a business will continue its successful activities for some time to come without being intended to be liquidated or in significant disruption. In this simple essay, the concept will be discussed and examined for its type of relevance for accounting (Nguyen,2021).

Concept of Going Concern

In the backdrop of going concern is the assumption that a business entity survives as a living organism indefinitely or for a period in which it can be defined. Under this assumption, accountants take stock of financial statements on the presumption that a company will go about its normal business life- affecting customers, fulfilling obligations, and realising utilities out of assets.

Going concern assumption has deep roots in the logic that most businesses are formed with a profit-making mentality and creating value in the long run for the owners and stakeholders. This is the assumption that serves as a source basis on which financial accounts are prepared and determines both asset values, liability inscriptions, and classification of company performance (Sabastian,2021).

Application of Going Concern

Whilst the concept seems to be supplementary in the accounting profession, its application is quite pervasive. With the accounting involved in the preparation of financial statements, it is rather obvious that decisions have to be made by accountants in terms of judgements and estimates based on assumption that business will remain as a going concern (Tkhagapso,2020).

- **Asset Valuation:** However, under the going concern assumption, assets are valued like their historical cost and also fair market value rather than liquidation price. This states that assets based on the depreciation concept are presumed to have continuing utility and may produce cash flows over a period of time.
- **Liability Recognition:** Valuable assumptions are made there who assumes the liabilities' side of the balance sheet, that is, when due become the company will pay. This includes the identification of liabilities incurred, such as interest on long-term loans, contingent liabilities, and other debts (Saputri,2024).
- **Depreciation and Amortisation:** Thus, depreciation and amortisation expenses-which are calculated based on expected life of the assets and respective income streams to be considered attributed to assets-are justified by their contribution in operations.
- **Income Recognition:** Revenue is recognized whenever it earns and becomes realisable through the execution that cash payment may be delayed to another time. This implicit with the hope that company revenues will accrue in future (Weygandt, 2018).

Importance of Going Concern

The significance of the concept of going concern in accounting cannot be underestimated because it brings about such ramifications as a financial report, decision-making, evaluation of the company's economic conditions due to capitalization.

- **Credible Financial Statements:** The going concern concept provides a strong ground upon which to base the preparation of financial statements that reflect financial activities in a company. The seizure of assets by anxious trade creditors is so acute that the technology sector faces high initial hurdles during this liquidation (Anthony, 1999).
- **Investor Confidence:** The finance statements guide investors and shareholders in decision-making. The going concern conception gives them the stability of their investments and continuity of operations that is dependent on how much will come back to come from any form investment in terms of ROIs (Berishvili, 2020).
- **Creditors' Confidence:** Lenders and other creditors compute the actual status of a company's indebtedness from statements that analyses such. With the given going concern assumption, then they are able to measure whether this company will be in a position to meet its loan obligations which reduce the chances of default.
- **Long-Term Planning:** Management makes use of the going concern assumption as its planning vantage. It enables them to make rational decisions regarding future investments, growth attempts and strategic objectives considering that there are guaranteed smooth operations (Deegan,2013).
- **Legal and Regulatory Compliance:** However much criticism it may receive, there is also much legislation and bylaws that require IFRS and GAAP statements to be premised on the going concern principle. Adherence to such standards is obligatory where transparency and accountability are necessary (Jennergren,2018).

Still, the going concern concept serves as a fundamental principle in accounting that guarantees prediction not to alter financial statement reliability and usefulness. It enables the stakeholders to appraise financial performance of a firm, and determine whether it is recommended or not based on the decision-making process for them to be comfortable with sustainability factors.

The absence of this assumption would mean that, without the appropriate information needed within an organised and stimulating context to make meaningful analysis, financial reporting would be impossible in the business world (Pratt,2010).

4. Conclusion

Task 1 digs deeper into the financial statements of a company for the year ending 31 December in the process giving detailed breakup of finances. This involves sales, cost of goods sold, operating costs, depreciation on capital and bad debts to give a net profit figure representing all other expenses recorded in the trading account amounting to £ 24,425. The balance sheet is also analysed where asset, liability and equity are included to give an all-around view of what the organisation owns as compared with its outstanding obligations. From this analysis, there is a notable surface strength with creditable net sales that has resulted in £156,000 and gross profit of £ 68,00. This suggests that the management is in a position to control direct costs closely while enjoying relatively healthy profitability. The balance sheet reports a total of £51,875 in assets; specifically the balance figure is calculated according to the current situation reflected by a strongly positive liquidity position as well as fixed assets. An equity balance in the amount of £15,450 demonstrates that it is capable of imitating both a generation and retention of earnings.

Task 2 focuses on Maria's business T' accounts for February 2024 looking into financial operations such as the capital increase on debit and credit of van transactions, bank activities, vans account cash movements. Van sell was worth mentioning as the loss occurred, which impacted on performance, yet the business is stable, effective in receivables/payables and has cash flow generated from operations.

Task three explores the Going Concern principle, foundational for financial statements. It assumes a company will continue operations, influencing asset valuation, liability recognition, and revenue recording. Crucial for investor trust and legal compliance, it ensures accurate and useful financial statements, aiding stakeholders in informed decision-making about the company's state.

All in all, these assignments constitute a fairly comprehensive immersion into financial statement analysis; transactional accounting, as well as major tenets of fundamental accounting standards. They highlight the significance of effective financial control, consequences that

result from some business deals in terms of its health issues and the accounting assumption helping to organise a story behind the business.

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