

Accounting Fundamentals

Niya Papazova

Student number : 1813442

Module code: LCBB4001

Lecture's name : Gazi Arif

University of Wales Trinity Saint David

Table of Contents

Introduction	3
Accounting as a science is systematically registering and periodically presenting financial statements and transaction reports in a single entity in a cash measure.....	3
TASK 1	6
P1 Journal, posting of the journal in ledger, extracting trial balance from the journal and making the financial statements that is profit and loss account and the balance sheet.	6
TASK 2	10
P2 Journal, posting of the journal in ledger, extracting trial balance from the ledger and making the financial statements that is profit and loss account and the balance sheet.	10
TASK 3	14
P3 Journal, posting of the journal in ledger, extracting trial balance from the ledger accounts and making the financial statements that is profit and loss account and the balance sheet.	14
TASK 4	
P4 Journal, posting of the journal in ledger, extracting trial balance from the ledger accounts.	20
TASK 5	
P5 Difference between the capital expenditure and revenue expenditure	24
Conclusion	27
References	28
Bedford, N.M. and Ziegler, R.E., 2016. The contributions of AC Littleton to accounting thought and practice. <i>Memorial Articles for 20th Century American Accounting Leaders</i> , 49. p.219.	28

Introduction

Accounting as a science is systematically registering and periodically presenting financial statements and transaction reports in a single entity in a cash measure.

Accounting science examines the logic of the accounting information process, develops its methodology, enriches the ideas for organizing accounting processes and procedures and accounting activity in general.

The object of accounting is related to the planned organization of the business processes and the need for their reporting. In this sense, the objects under consideration as the objects of the accounting as a continuation of the planning process are an objective reality in the economic life. The production process in its four phases (investment or supply, production, exchange and distribution) is accepted as the subject of accounting.

The subject of the accounting is the dual manifestation of the assets and liabilities, the economic operations with them in the various phases of the reproduction process, their value at a given moment, their changes in time and space and the results obtained from them. From the so-defined subject of accounting it is understood that a fundamentally significant part of it is the economic assets represented as assets and liabilities, with their manifestations as consumer and exchange values in the different phases of the reproduction process.

However, at what stage in the reproduction process the assets and liabilities are located, they are always subject to accounting as statuses, changes, and results at a given point in time and space.

Assets are a specific statement of liabilities. Liabilities are a source of asset formation. It shows where the assets were received (for example: if a company starts its business with cash contributions to shareholders and its capital amounts to 10,000 £ it will be understood that the source is the share capital if the lean stock of the shareholding will be in the company's bank account, its assets will be 10,000 £.

Assuming that the assets are the consumer value and the liabilities exchange value, the equality between the two parties is objectively possible only at a given point in time of valuation of the consumer value.

In essence, revenue represents an increase in the value of economic benefits during the reporting period through the introduction or improvement of assets or a reduction in the value of liabilities, which increases equity, apart from the equity contributions of the capital investors.

Revenues are a source of funds. Revenue can be distinguished by types:

a) Revenues from core business - mainly from sales of goods, goods and services.

b) Financial income is interest income, currency revaluation, etc. They are reflected directly in the entity's financial result by increasing the amount of taxable profit.

c) Extraordinary income is from donations, written off debts, etc. They also directly affect taxable profit.

d) Income for future periods is called "deferred income". They have no impact on the financial result for the reporting period.

Essentially, costs are defined as a process to reduce the value of economic benefits during the reporting period in the form of out-of-stock and reduction of its assets or an increase in its liabilities, resulting in a reduction in the capital. Excess overhead is a loss for the enterprise and it reduces the amount of the capital.

Costs can be grouped as follows:

- a) Costs by cost elements - they are for salary, social security, depreciation of fixed assets, materials, etc.
- b) Functional expenditures - they are expenses for the main activity, the management, the realization, etc.
- c) Costs by origin - financial costs (fines, exchange differences, interest, etc.) ,

extraordinary expenses (written off receivables, future expenses, etc.)

The accounting for these costs is different.

The report will deals with some practical aspects of accounting. These aspects are like recording the transaction in journals. Posting them in ledger and then making trial balance out of the ledger accounts (Booth, 2018). At last preparing the financial statements which are profit and loss account and balance sheet with the help on trial balance. The balance sheet shows the value of a company's assets and liabilities at a particular time. Reflects the accounting equation (liability + capital) in the form.

The report will also discuss the differences between the two types of expenditure which are capital expenditure and revenue expenditure.

TASK 1

P1 Journal, posting of the journal in ledger, extracting trial balance from the journal and making the financial statements that is profit and loss account and the balance sheet.

DATE	DESCRIPTION	DEBIT £	CREDIT £
05.4.19	<i>Introduced cash into the business</i> Cash A/C To capital A/C	300.00	300.00
07.4.19	<i>Purchased goods</i> Purchase A/C To cash A/C	200.00	200.00
08.4.19	<i>Received loan from Tatiana</i> Cash A/C To loan A/C	250.00	250.00
15.4.19	<i>Purchased a motor van</i> Motor van A/C To cash A/C	150.00	150.00
20.4.19	<i>Sold goods</i> Cash A/C To sales A/C	350.00	350.00
28.4.19	<i>Rent paid</i> To cash A/C	50.00	50.00
29.4.19	<i>Repaid part of the loan</i> Loan A/C To cash A/C	200.00	200.00

30.4.19	<i>Drew cash from the business</i>		
	Drawing A/C	60.00	
	To cash A/C		60.00
	TOTAL	1560.00	1560.00

LEDGER A/C's					
CASH A/C					
DATE	DESCRIPTION	AMOUNT £	DATE	DESCRIPTION	AMOUNT £
5.4.2019	to capital A/C	300.00	7.4.2019	By purchase A/C	200.00
8.4.2019	to loan A/C	250.00	15.4.2019	by motor van	150.00
20.4.2019	to sales A/C	350.00	28.4.2019	by rent paid A/C	50.00
			29.4.2019	by loan paid	200.00
			30.4.2019	by drawings	60.00
			30.4.2019	by bal b/d	240.00
TOTAL		900.00			900.00
Capital a/c					
DATE	DESCRIPTION	AMOUNT £	DATE	DESCRIPTION	AMOUNT £
			5.4.2019	by cash A/C	300.00
30.4.2019	to bal b/d	300.00			
TOTAL		300.00			300.00
Purchase a/c					
DATE	DESCRIPTION	AMOUNT £	DATE	DESCRIPTION	AMOUNT £
7.4.2019	to cash A/C	200.00			
			30.4.2019	by bal b/d	200.00
TOTAL		200.00			200.00
Loan a/c					

DATE	DESCRIPTION	AMOUNT £	DATE	DESCRIPTION	AMOUNT £
29.4.2019	to cash A/C	200.00	8.4.2019	by cash A/C	250.00
30.4.2019	to bal b/d	50.00			
TOTAL		250.00			250.00
Motor van a/c					
DATE	DESCRIPTION	AMOUNT £	DATE	DESCRIPTION	AMOUNT £
15.4.2019	to cash A/C	150.00			
			30.4.2019	by bal b/d	150.00
TOTAL		150.00			150.00
Sales a/c					
DATE	DESCRIPTION	AMOUNT £	DATE	DESCRIPTION	AMOUNT £
			20.4.2019	by cash A/C	350.00
30.4.2019	to bal b/d	350.00			
TOTAL		350.00			350.00
Rent a/c					
DATE	DESCRIPTION	AMOUNT £	DATE	DESCRIPTION	AMOUNT £
28.4.2019	to cash A/C	50.00			
			30.4.2019	by bal b/d	50.00
TOTAL		50.00			50.00
Drawing A/C					
DATE	DESCRIPTION	AMOUNT £	DATE	DESCRIPTION	AMOUNT £
30.4.2019	to cash A/C	60.00			
			30.4.2019	by bal b/d	60.00
TOTAL		60.00			60.00

TRIAL BALANCE

DESCRIPTION	DEBIT £	CREDIT £
Cash A/C	240.00	
Capital A/C		300.00
Purchase A/C	200.00	
Loan A/C		50.00
Motor Van A/C	150.00	
Sales A/C		350.00
Rent A/C	50.00	
Drawing A/C	60.00	
TOTAL	700.00	700.00

PROFIT AND LOSS A/C			
DESCRIPTION	AMOUNT £	DESCRIPTION	AMOUNT £
to purchase A/C	200.00	by sales A/C	350.00
to rent A/C	50.00		
to profits	100.00		
TOTAL	350.00		350.00
BALANCE SHEET			
LIABILITIES	AMOUNT £	ASSET	AMOUNT £
Capital (WN)	340.00	Motor van a/c	150.00
Loan	50.00	Cash a/c	240.00
TOTAL	390.00		390.00

Working note

Capital 300.00

+Net profits	100.00
-Drawings	(60.00)
TOTAL	340.00

TASK 2

P2 Journal, posting of the journal in ledger, extracting trial balance from the ledger and making the financial statements that is profit and loss account and the balance sheet.

DATE	DESCRIPTION	DEBIT £	CREDIT £
01.1.19	<i>Paid into the business</i> Cash A/C to capital A/C	5000.00	5000.00
02.1.19	<i>Motor van</i> Motor van A/C to cash A/C	600.00	600.00
03.1.19	<i>Goods</i> Purchase A/C to cash A/C	1300.00	1300.00
04.1.19	<i>Ion from Sergei</i> Cash A/C to loan A/C	1000.00	1000.00
10.1.19	<i>Paid expenses on motor van</i> Motor van A/C	200.00	

	to cash A/C		200.00
13.1.19	<i>Sold goods</i> Cash A/C to sales A/C	300.00	300.00
20.1.19	<i>Sold goods</i> Cash A/C to sales A/C	500.00	500.00
24.1.19	<i>Storage expenses</i> Expenses A/C to Cash A/C	150.00	150.00
27.1.19	<i>Repaid Sergei part of Loan</i> Loan A/C to Cash A/C	350.00	350.00
30.1.19	<i>Withdrew cash from the business</i> Drawing A/C To Cash A/C	175.00	175.00
TOTAL		9575.00	9575.00

LEDGER A/C's					
Cash a/c					
DATE	DESCRIPTION	AMOUNT £	DATE	DESCRIPTION	AMOUNT £
1.1.2019	to capital A/C	5000.00	2.1.2019	by motor van	600.00
4.1.2019	to loan A/C	1000.00	3.1.2019	By purchase A/C	1300.00
13.1.2019	to sales A/C	300.00	10.1.2019	to motor van	200.00
20.1.2019	to sales A/C	500.00	24.1.2019	to expenses	150.00
			27.1.2019	by loan a/c	350.00
			30.1.2019	by drawings	175.00
			31.1.2019	by bal b/d	4025.00
TOTAL		6800.00			6800.00

Capital a/c					
DATE	DESCRIPTION	AMOUNT £	DATE	DESCRIPTION	AMOUNT £
			1.1.2019	by cash A/C	5000.00
31.1.2019	to bal b/d	5000.00			
TOTAL		5000.00			5000.00
Motor van a/c					
DATE	DESCRIPTION	AMOUNT £	DATE	DESCRIPTION	AMOUNT £
2.1.2019	to cash A/C	600.00			
10.1.2019	to cash A/C	200.00			
			31.1.2019	by bal b/d	800.00
TOTAL		800.00			800.00
Purchase a/c					
DATE	DESCRIPTION	AMOUNT £	DATE	DESCRIPTION	AMOUNT £
3.1.2019	to cash A/C	1300.00			
			31.1.2019	by bal b/d	1300.00
TOTAL		1300.00			1300.00
Loan a/c					
DATE	DESCRIPTION	AMOUNT £	DATE	DESCRIPTION	AMOUNT £
27.1.2019	to cash A/C	350.00	4.1.2019	by cash A/C	1000.00
31.1.2019	to bal b/d	650.00			
TOTAL		1000.00			1000.00
Sales a/c					
DATE	DESCRIPTION	AMOUNT £	DATE	DESCRIPTION	AMOUNT £
			13.1.2019	to cash a/c	300.00
31.1.2019	to bal b/d	800.00	20.1.2019	to cash a/c	500.00
TOTAL		800.00			800.00
Expense a/c					
DATE	DESCRIPTION	AMOUNT £	DATE	DESCRIPTION	AMOUNT £
24.1.2019	to cash A/C	150.00			

			31.1.2019	by bal b/d	150.00
TOTAL		150.00			150.00
Drawing a/c					
DATE	DESCRIPTION	AMOUNT £	DATE	DESCRIPTION	AMOUNT £
30.1.2019	to cash A/C	175.00	31.1.2019	by bal b/d	175.00
TOTAL		175.00			175.00

TRIAL BALANCE

DESCRIPTION	DEBIT £	CREDIT £
Cash A/C	4025.00	
Capital A/C		5000.00
Motor van A/C	800.00	
Purchase A/C	1300.00	
Loan A/C		650.00
Sales A/C		800.00
Expense A/C	150.00	
Drawings A/C	175.00	
TOTAL	6450.00	6450.00

PROFIT AND LOSS A/C			
DESCRIPTION	AMOUNT £	DESCRIPTION	AMOUNT £
to purchase A/C	1300.00	by sales A/C	800.00
to expenses	150.00	by loss	650.00

	1450.00		1450.00
BALANCE SHEET			
LIABILITIES	AMOUNT £	ASSET	AMOUNT £
Capital (WN)	4175.00	CASH A/C	4025.00
loan	650.00	MOTOR VAN A/C	800.00
TOTAL	4825.00		4825.00

Working note

Capital	5000.00
-Net loss	(650.00)
-Drawings	(175.00)
TOTAL	4175.00

TASK 3

P3 Journal, posting of the journal in ledger, extracting trial balance from the ledger accounts and making the financial statements that is profit and loss account and the balance sheet.

DATE	DESCRIPTION	DEBIT £	CREDIT £
02.1.19	<i>Goods sold to Harvey on credit</i> Harvey A/C to sales A/C	124.00	124.00
05.1.19	<i>Paid wages</i>		

	Wages A/C to cash A/C	12.00	12.00
	<i>Goods on credit from Rich</i> Purchase A/C to rich A/C	150.00	150.00
07.1.19	<i>Smith settled his account</i> Cash A/C to smith A/C	18.00	18.00
09.1.19	<i>The amount owing to Max</i> Max A/C to cash A/C	21.00	21.00
11.1.19	<i>Cash sales</i> Cash A/C to sales A/C	64.00	64.00
14.1.19	<i>Paid wages</i> Wages A/C to cash A/C	14.00	14.00
	<i>Goods for cash</i> Purchase A/C to cash A/C	75.00	75.00
15.1.19	<i>Paid Rich for balance owing on his account</i> Rich A/C to cash A/C	162.00	162.00
20.1.19	<i>Bought for cash a new office desk</i> Office expenses A/C	32.00	

	to cash		32.00
21.1.19	<i>Paid wages</i> Wages A/C to cash A/C	17.00	17.00
	<i>Cash sales</i> Cash A/C to sales A/C	110.00	110.00
23.1.19	<i>Office expenses A/C</i> to cash A/C	3.00	3.00
	<i>Harvey paid on account</i> Cash A/C to Harvey A/C	25.00	25.00
28.1.19	<i>Cash sales A/C</i> to sales	84.00	84.00
	Wages A/C to cash	15.00	15.00
31.1.19	Cash A/C to sales	30.00	30.00
TOTAL		956.00	956.00

LEDGER A/C's					
Harvey a/c					
DATE	DESCRIPTION	AMOUNT £	DATE	DESCRIPTION	AMOUNT £
1.1.2019	to bal b/d	39.00	23.1.2019	by cash A/C	25.00
2.1.2019	to sales A/C	124.00	31.1.2019	By bal b/d	138.00
	TOTAL	163.00			163.00
Sales a/c					
DATE	DESCRIPTION	AMOUNT £	DATE	DESCRIPTION	AMOUNT £
			2.1.2019	by harvey	124.00
			11.1.2019	by cash A/C	64.00
			21.1.2019	by cash A/C	110.00
			28.1.2019	by cash A/C	84.00
31.1.2019	to bal b/d	412.00	31.1.2019	by cash A/C	30.00
	TOTAL	412.00			412.00
Wages a/c					
DATE	DESCRIPTION	AMOUNT £	DATE	DESCRIPTION	AMOUNT £
5.1.2019	to cash A/C	12.00			
14.1.2019	to cash A/C	14.00			
21.1.2019	to cash A/C	17.00			
28.1.2019	to cash A/C	15.00	31.1.2019	by bal b/d	58.00
	TOTAL	58.00			58.00
Cash a/c					
DATE	DESCRIPTION	AMOUNT £	DATE	DESCRIPTION	AMOUNT £
7.1.2019	to smith a/c	18.00	5.1.2019	by wages	12.00
11.1.2019	to sales A/C	64.00	9.1.2019	by max	21.00
21.1.2019	to sales A/C	110.00	14.1.2019	by wages	14.00
23.1.2019	to harvey	25.00	14.1.2019	By purchase A/C	75.00
28.1.2019	to sales A/C	84.00	15.1.2019	by rich	162.00
31.1.2019	to sales A/C	30.00	20.1.2019	by office expense	32.00
			21.1.2019	by wages	17.00
			23.1.2019	by office expenses	3.00
31.1.2019	to bal b/d	20.00	28.1.2019	by wages	15.00
	TOTAL	351.00			351.00

Purchase a/c					
DATE	DESCRIPTION	AMOUNT £	DATE	DESCRIPTION	AMOUNT £
5.1.2019	to rich a/c	150.00			
14.1.2019	to cash A/C	75.00	31.1.2019	by bal b/d	225.00
	TOTAL	225.00			225.00
Rich a/c					
DATE	DESCRIPTION	AMOUNT £	DATE	DESCRIPTION	AMOUNT £
15.1.2019	to cash A/C	162.00	1.1.2019	by bal b/d	12.00
			5.1.2019	By purchase A/C	150.00
	TOTAL	162.00			162.00
Smith a/c					
DATE	DESCRIPTION	AMOUNT £	DATE	DESCRIPTION	AMOUNT £
1.1.2019	to bal b/d	18.00	7.1.2019	by cash A/C	18.00
	TOTAL	18.00			18.00
Max a/c					
DATE	DESCRIPTION	AMOUNT £	DATE	DESCRIPTION	AMOUNT £
9.1.2019	to cash A/C	21.00	1.1.2019	by bal b/d	21.00
	TOTAL	21.00			21.00
Office expense a/c					
DATE	DESCRIPTION	AMOUNT £	DATE	DESCRIPTION	AMOUNT £
20.1.2019	to cash A/C	32.00			
23.1.2019	to cash A/C	3.00	31.1.2019	by bal b/d	35.00
	TOTAL	35.00			35.00

TRIAL BALANCE

DESCRIPTION	DEBIT £	CREDIT £
Sales		412.00
wages	58.00	
cash		20.00
purchase	225.00	
Office expense	35.00	
Suspense A/C	114.00	
Total	432.00	432.00

PROFIT AND LOSS A/C			
DESCRIPTION	AMOUNT£	DESCRIPTION	AMOUNT £
to purchase A/C	225.00	by sales A/C	412.00
to wages	58.00		
to office expenses	35.00		
to net profit	94.00		
	412.00		412.00
BALANCE SHEET			
LIABILITIES	AMOUNT£	ASSET	AMOUNT £
Capital(WN)	1043.00	Harvey a/c	138.00
Suspense a/c	114.00	inventory	458.00
		furniture and fittings	198.00
		CASH A/C	20.00
		cash in hand	343.00
TOTAL	1157.00		1157.00

Working note

Since the capital was not given so it was calculated using a formula

Total assets – liabilities which is as follows

Harvey+ inventory+ furniture& fittings+ cash+ cash in hand- (suspense
a/c)

that is $138.00+458.00+198.00+20.00+343.00-(114.00)= 1043.00$

TASK 4

P4 Journal, posting of the journal in ledger, extracting trial balance from the ledger accounts.

DATE	DESCRIPTION	DEBIT £	CREDIT £
02.6.19	<i>Sold goods to Claire on credit</i> Claire A/C to sales	8075.00	8075.00
13.6.19	<i>Bought goods from Georgina on credit</i> Purchase A/C to Georgina	11160.00	11160.00
14.6.19	<i>Sold goods to Hywel</i> Hywel A/C to sales A/C	8550.00	8550.00
20.6.19	<i>Sold goods to Jane</i> Cash A/C to sales	6000.00	6000.00
21.6.19	<i>Bought goods on credit</i>		

	Purchase A/C to Andrew	4410.00	4410.00
22.6.19	<i>Claire returned goods sold</i> Sales return A/C to Claire	1000.00	1000.00
24.6.19	<i>Mandy bought goods</i> Cash A/C to sales	4850.00	4850.00
	Cash A/C to Claire	7075.00	7075.00
25.6.19	<i>Hywel settled the amount due in full</i> Cash A/C to Hywel	8550.00	8550.00
	<i>Ricardo paid Georgina the amount due after deducting the discount offered</i> Georgina A/C to cash	11160.00	11160.00
27.6.19	<i>Ricardo paid Andrew in full, after deducting the discount offered</i> Andrew A/C to cash	4410.00	4410.00
	TOTAL	75240.00	75240.00

LEDGER					
CASH A/C					
DATE	DESCRIPTION	AMOUNT £	DATE	DESCRIPTION	AMOUNT £

20.6.2019	to sales A/C	6000.00	25.6.2019	by Georgina	11160.00
24.6.2019	to sales A/C	4850.00	27.6.2019	by Andrew	4410.00
24.6.2019	to Claire	7075.00			
25.6.2019	To Hywel	8550.00	27.6.2019	by bal b/d	10905.00
	TOTAL	26475.00			26475.00
SALES A/C					
DATE	DESCRIPTION	AMOUNT £	DATE	DESCRIPTION	AMOUNT £
			2.6.2019	by Claire	8075.00
			14.6.2019	by cash A/C	6000.00
27.6.2019	to bal b/d	18925.00	24.6.2019	by cash A/C	4850.00
	TOTAL	18925.00			18925.00
PURCHASE A/C					
DATE	DESCRIPTION	AMOUNT £	DATE	DESCRIPTION	AMOUNT £
13.6.2019	to Goergina	11160.00			
21.6.2019	to Andrew	4410.00	27.6.2019	by bal b/d	15570.00
	TOTAL	15570.00			15570.00
Claire a/c					
DATE	DESCRIPTION	AMOUNT £	DATE	DESCRIPTION	AMOUNT £
2.6.2019	to sales A/C	8075.00	22.6.2019	by sales return	1000.00
			24.6.2019	by cash A/C	7075.00
	TOTAL	8075.00			8075.00
Georgina a/c					
DATE	DESCRIPTION	AMOUNT £	DATE	DESCRIPTION	AMOUNT £
25.6.2019	to cash A/C	11160.00	13.6.2019	By purchase A/C	11160.00
	TOTAL	11160.00			11160.00
Hywel a/c					
DATE	DESCRIPTION	AMOUNT £	DATE	DESCRIPTION	AMOUNT £
14.6.2019	to sales A/C	8550.00	25.6.2019	by cash A/C	8550.00
	TOTAL	8550.00			8550.00
Andrew a/c					

DATE	DESCRIPTION	AMOUNT £	DATE	DESCRIPTION	AMOUNT £
27.6.2019	to cash A/C	4410.00	21.6.2019	By purchase A/C	4410.00
	TOTAL	4410.00			4410.00
Sales return a/c					
DATE	DESCRIPTION	AMOUNT £	DATE	DESCRIPTION	AMOUNT £
22.6.2019	to Claire	1000.00	27.6.2019	by bal b/d	1000.00
	TOTAL	1000.00			1000.00

TRIAL BALANCE

DESCRIPTION	DEBIT £	CREDIT £
cash	10905.00	
sales		18925.00
purchase	15570.00	
Sales return	1000.00	
Suspense a/c		8550.00
TOTAL	27475.00	27475.00

TASK 5

P5 Difference between the capital expenditure and revenue expenditure

There is a lot of difference between capital and revenue expenditure (Mio, 2016). The difference between them is as follows:

Basis	Capital expenditure	Revenue expenditure
Meaning	It is the amount spend on the goods and services which are used for a longer duration like more than one year (Collis, Holt and Hussey, 2017).	It is that amount which is spend on goods and services which is consumed for a shorter period of time that is within a year.
Nature	It is non recurring in nature.	It is recurring in nature.
Need	The need is to improve the capacity of the business and to grow the business.	Here the need is to run the existing business capacity properly.
Duration	It covers those expenditure which are for more than a year.	This covers expenditure which are incurred for within a year (Bui, Arena, and McCutcheon, 2015).
Impact in financial statement	It will be shown in the balance sheet.	It will be shown in the trading A/C and profit and loss A/C.
Capitalization	All these expenditure are capitalized.	These types of expenditure are not

		capitalized.
Benefits	These expenditures gives benefits in the current year as well as in the future also (Smith, and Smith, 2014).	This type expenditure drives benefits only for current year.
Purpose	The purpose of incurring these expenditure is to purchase asset with a useful life beyond the current year	The purpose of incurring this expenditure is to meet on going cost of running a business (Burritt, and Christ, 2016).
Tax treatment	It is deducted over time as the assets depreciates.	It is deducted in the current year tax only.
Earning capacity	It results in increase of earning capacity of the business.	It does not increase the earning capacity but it helps in maintaining the existing capacity of the business.
Assets	This expenditure results in the acquisition of the assets and are used for earning profits (Churyk, and Stenka, 2014).	The revenue expenditure does not result in the acquisition of the asset and regarded as expenses.
Physical existence	It has a physical existence except for intangible assets.	These expenditure does not have any traces of physical existence.
Amount shown	A portion of capital	Whereas the revenue

	expenditure is usually shown in the trading and profit and loss account and in the balance sheet on the asset side.	expenditure is shown as the whole amount in the income statement or profit and loss account.
Revenue	This expenditure does not reduce the revenue of the business.	This type of revenue impacts the revenue of the organisation and leads to a reduction in the level of the revenue (Bedford and Ziegler, 2016).
Example	Purchasing of plant and machinery, IT items, electric power equipments, office equipments, software, vehicles for the company, land, intangible assets like patent, copyrights, trademarks etc.	It includes direct and indirect expenses like salaries, depreciation, electricity and water bill fuel cost, rent, commission, packaging charges, shipping cost, legal expenses etc.

Conclusion

The report analysed the importance and relevance of the accounting process in the business. It is important because it performs many function like recording the transaction in journals. Financial statements showing revenue, cost, and balance sheet. Practical examples outline the whole process of accounting - an interesting science.

References

- Bedford, N.M. and Ziegler, R.E., 2016. The contributions of AC Littleton to accounting thought and practice. *Memorial Articles for 20th Century American Accounting Leaders*, 49. p.219.
- Booth, P., 2018. Management control in a voluntary organization: accounting and accountants in organizational context. Routledge.
- Bui, N.N., Arena, J.T. and McCutcheon, J.R., 2015. Proper accounting of mass transfer resistances in forward osmosis: Improving the accuracy of model predictions of structural parameter. *Journal of membrane science*. 492. pp.289-302.
- Burritt, R. and Christ, K., 2016. Industry 4.0 and environmental accounting: a new revolution?. *Asian Journal of Sustainability and Social Responsibility*. 1(1). p.23.
- Churyk, N.T. and Stenka, R., 2014. Accounting for complex investment transactions. *Journal of Accounting Education*. 32(4). pp.58-70.
- Collis, J., Holt, A. and Hussey, R., 2017. *Business accounting*. Palgrave.
- Kahan, B.C., 2014. Accounting for centre-effects in multicentre trials with a binary outcome—when, why, and how?. *BMC medical research methodology*. 14(1). p.20.
- Krahel, J.P. and Titera, W.R., 2015. Consequences of Big Data and formalization on accounting and auditing standards. *Accounting Horizons*. 29(2). pp.409-422.
- Leung, D., 2016. Inside accounting: the sociology of financial reporting and auditing. Routledge.

- Mio, C. ed., 2016. Integrated reporting: A new accounting disclosure. Springer.
- Pijper, T., 2016. Creative accounting: The effectiveness of financial reporting in the UK. Springer.
- Smith, S.R. and Smith, K.R., 2014. The journey from historical cost accounting to fair value accounting: the case of acquisition costs. *Journal of Business & Accounting*. 7(1). pp.3-10.
- Trucco, S., 2015. Financial accounting: development paths and alignment to management accounting in the Italian context. Springer.