

Accounting Fundamentals

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INTRODUCTION

According to Booth (2018), accounting refers to the recording of financial transactions, along with organizing, sorting, retrieving, summarising, and presenting the outcome in different types of reports like profit and loss or account and balance sheets. This report will show some practical examples of accounting, like recording transactions in journals, then posting them in the ledger and making a trial balance sheet out of the ledger accounts. After an example preparing the financial statements which are profit and loss account and balance sheet with the help of trial balance. This report will also discuss the differences between 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

In the books of:

Journal

DATE	PARTICULARS	DEBIT	CREDIT
05/04/19	Cash A/C To capital A/C	300	300
07/04/19	Purchase A/C To cash A/C	200	200
08/04/19	Cash A/C To loan A/C	250	250
15/04/19	Motor van A/C To cash A/C	150	150
20/04/19	Cash A/C To sales A/C	350	350
28/04/19	Rent paid To cash A/C	50	50

29/04/19	Loan A/C To cash A/C	200	200
30/04/19	Drawing A/C To cash A/C	60	60
	TOTAL	1560	1560

LEDGER A/C's

CASH A/C

DATE	PARTICULAR	AMOUNT	DATE	PARTICULAR	AMOUNT
05/04/19	to capital A/C	300	07/04/19	By purchase A/C	200
08/04/19	to loan A/C	250	15/04/19	by motor van	150
20/04/19	to sales A/C	350	28/04/19	by rent paid A/C	50
			29/04/19	by loan paid	200
			30/04/19	by drawings	60
			30/04/19	by bal b/d	240
TOTAL		900			900

Capital a/c

DATE	PARTICULAR	AMOUNT	DATE	PARTICULAR	AMOUNT
			05/04/19	by cash A/C	300
30/04/19	to bal b/d	300			
TOTAL		300			300

Purchase a/c

DATE	PARTICULAR	AMOUNT	DATE	PARTICULAR	AMOUNT
07/04/19	to cash A/C	200			
			30/04/19	by bal b/d	200
TOTAL		200			200

Loan a/c

DATE	PARTICULAR	AMOUNT	DATE	PARTICULAR	AMOUNT
	29/04/19 to cash A/C	200		08/04/19 by cash A/C	250
	30/04/19 to bal b/d	50			
TOTAL		250			250

Motor van a/c

DATE	PARTICULAR	AMOUNT	DATE	PARTICULAR	AMOUNT
	15/04/19 to cash A/C	150			
				30/04/19 by bal b/d	150
TOTAL		150			150

Sales a/c

DATE	PARTICULAR	AMOUNT	DATE	PARTICULAR	AMOUNT
				20/04/19 by cash A/C	350
	30/04/19 to bal b/d	350			
TOTAL		350			350

Rent a/c

DATE	PARTICULAR	AMOUNT	DATE	PARTICULAR	AMOUNT
	28/04/19 to cash A/C	50			
				30/04/19 by bal b/d	50
TOTAL		50			50

Drawing A/C

DATE	PARTICULAR	AMOUNT	DATE	PARTICULAR	AMOUNT
	30/04/19 to cash A/C	60			
				30/04/19 by bal b/d	60
TOTAL		60			60

TRIAL BALANCE

PARTICULARS	DEBIT	CREDIT
Cash A/C	240	
Capital A/C		300
Purchase A/C	200	
Loan A/C		50
Motor Van A/C	150	
Sales A/C		350
Rent A/C	50	
Drawing A/C	60	
TOTAL	700	700

PROFIT AND LOSS A/C

PARTICULAR	AMOUNT	PARTICULAR	AMOUNT
to purchase A/C	200	by sales A/C	350
to rent A/C	50		
to profits	100		
TOTAL	350		350

BALANCE SHEET

LIABILITIES	AMOUNT	ASSET	AMOUNT
Capital (WN)	340	Motor van a/c	150
Loan	50	Cash a/c	240
TOTAL	390		390

Working note

Capital 300
+Net profits 100
-Drawings (60)

TOTAL 340

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

In the books of:

Journal

DATE	PARTICULARS	DEBIT	CREDIT
01/01/19	Cash A/C to capital A/C	5000	5000
02/01/19	Motor van A/C to cash A/C	600	600
03/01/19	Purchase A/C to cash A/C	1300	1300
04/01/19	Cash A/C to loan A/C	1000	1000
10/01/19	Motor van A/C to cash A/C	200	200
13/01/19	Cash A/C to sales A/C	300	300
20/01/19	Cash A/C to sales A/C	500	500
24/01/19	Expenses A/C to Cash A/C	150	150
27/01/19	Loan A/C to Cash A/C	350	350
30/01/19	Drawing A/C To Cash A/C	175	175

TOTAL		9575	9575
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LEDGER A/C's

Cash a/c

DATE	PARTICULAR	AMOUNT	DATE	PARTICULAR	AMOUNT
	01/01/19 to capital A/C	5000		02/01/19 by motor van	600
	04/01/19 to loan A/C	1000		03/01/19 By purchase A/C	1300
	13/01/19 to sales A/C	300		10/01/19 to motor van	200
	20/01/19 to sales A/C	500		24/01/19 to expenses	150
				27/01/19 by loan a/c	350
				30/01/19 by drawings	175
				31/01/19 by bal b/d	4025
TOTAL		6800			6800

Capital a/c

DATE	PARTICULAR	AMOUNT	DATE	PARTICULAR	AMOUNT
				01/01/19 by cash A/C	5000
	31/01/19 to bal b/d	5000			
TOTAL		5000			5000

Motor van a/c

DATE	PARTICULAR	AMOUNT	DATE	PARTICULAR	AMOUNT
	02/01/19 to cash A/C	600			
	10/01/19 to cash A/C	200			
				31/01/19 by bal b/d	800
TOTAL		800			800

Purchase a/c

DATE	PARTICULAR	AMOUNT	DATE	PARTICULAR	AMOUNT
	03/01/19 to cash A/C	1300			
				31/01/19 by bal b/d	1300

TOTAL	1300	1300
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Loan a/c

DATE	PARTICULAR	AMOUNT	DATE	PARTICULAR	AMOUNT
27/01/19	to cash A/C	350	04/01/19	by cash A/C	1000
31/01/19	to bal b/d	650			
TOTAL		1000			1000

Sales a/c

DATE	PARTICULAR	AMOUNT	DATE	PARTICULAR	AMOUNT
			13/01/19	to cash a/c	300
31/01/19	to bal b/d	800	20/01/19	to cash a/c	500
TOTAL		800			800

Expense a/c

DATE	PARTICULAR	AMOUNT	DATE	PARTICULAR	AMOUNT
24/01/19	to cash A/C	150			
			31/01/19	by bal b/d	150
TOTAL		150			150

Drawing a/c

DATE	PARTICULAR	AMOUNT	DATE	PARTICULAR	AMOUNT
30/01/19	to cash A/C	175	31/01/19	by bal b/d	175
TOTAL		175			175

TRIAL BALANCE

PARTICULARS	DEBIT	CREDIT
Cash a/c	4025	
Capital a/c		5000

Motor van a/c	800	
Purchase a/c	1300	
Loan a/c		650
Sales a/c		800
Expense a/c	150	
Drawings a/c	175	
total	6450	6450

PROFIT AND LOSS A/C

PARTICULAR	AMOUNT	PARTICULAR	AMOUNT
to purchase A/C	1300	by sales A/C	800
to expenses	150	by loss	650
	1450		1450

BALANCE SHEET

LIABILITIES	AMOUNT	ASSET	AMOUNT
Capital (WN)	4175	CASH A/C	4025
loan		650 MOTOR VAN A/C	800
	4825		4825

Working note

Capital	5000
-Net loss	(650)
-Drawings	(175)
TOTAL	4175

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

In the books of:

Journal

DATE	PARTICULAR	DEBIT	CREDIT
02/01/19	Harvey a/c to sales a/c	124	124
05/01/19	Wages a/c to cash a/c	12	12
	Purchase a/c to rich a/c	150	150
07/01/19	Cash a/c to smith a/c	18	18
09/01/19	Max a/c to cash a/c	21	21
11/01/19	Cash a/c to sales a/c	64	64
14/01/19	Wages a/c to cash a/c	14	14
	Purchase a/c to cash a/c	75	75
15/01/19	Rich a/c to cash a/c	162	162
20/01/19	Office expenses a/c to cash	32	32
21/01/19	Wages a/c	17	

	to cash a/c		17
	Cash a/c to sales a/c	110	110
23/01/19	Office expenses a/c to cash a/c	3	3
	Cash a/c to Harvey a/c	25	25
28/01/19	Cash a/c to sales	84	84
	Wages a/c to cash	15	15
31/01/19	Cash a/c to sales	30	30
Total		956	956

LEDGER A/C's

Harvey a/c

DATE	PARTICULAR	AMOUNT	DATE	PARTICULAR	AMOUNT
01/01/19	to bal b/d	39	23/01/19	by cash A/C	25
02/01/19	to sales A/C	124	31/01/19	By bal b/d	138
	Total	163			163

Sales a/c

DATE	PARTICULAR	AMOUNT	DATE	PARTICULAR	AMOUNT
			02/01/19	by harvey	124
			11/01/19	by cash A/C	64
			21/01/19	by cash A/C	110
			28/01/19	by cash A/C	84
31/01/19	to bal b/d	412	31/01/19	by cash A/C	30

Total	412	412
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Wages a/c

DATE	PARTICULAR	AMOUNT	DATE	PARTICULAR	AMOUNT
05/01/19	to cash A/C	12			
14/01/19	to cash A/C	14			
21/01/19	to cash A/C	17			
28/01/19	to cash A/C	15	31/01/19	by bal b/d	58
Total		58			58

Cash a/c

DATE	PARTICULAR	AMOUNT	DATE	PARTICULAR	AMOUNT
07/01/19	to smith a/c	18	05/01/19	by wages	12
11/01/19	to sales A/C	64	09/01/19	by max	21
21/01/19	to sales A/C	110	14/01/19	by wages	14
23/01/19	to harvey	25	14/01/19	By purchase A/C	75
28/01/19	to sales A/C	84	15/01/19	by rich	162
31/01/19	to sales A/C	30	20/01/19	by office expense	32
			21/01/19	by wages	17
			23/01/19	by office expenses	3
31/01/19	to bal b/d	20	28/01/19	by wages	15
Total		351			351

Purchase a/c

DATE	PARTICULAR	AMOUNT	DATE	PARTICULAR	AMOUNT
05/01/19	to rich a/c	150			
14/01/19	to cash A/C	75	31/01/19	by bal b/d	225
Total		225			225

Rich a/c

DATE	PARTICULAR	AMOUNT	DATE	PARTICULAR	AMOUNT
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15/01/19 to cash A/C	162	01/01/19 by bal b/d	12
		05/01/19 By purchase A/C	150
Total	162		162

Smith a/c

DATE	PARTICULAR	AMOUNT	DATE	PARTICULAR	AMOUNT
	01/01/19 to bal b/d	18		07/01/19 by cash A/C	18
	Total	18			18

Max a/c

DATE	PARTICULAR	AMOUNT	DATE	PARTICULAR	AMOUNT
	09/01/19 to cash A/C	21		01/01/19 by bal b/d	21
	Total	21			21

Office expense a/c

DATE	PARTICULAR	AMOUNT	DATE	PARTICULAR	AMOUNT
	20/01/19 to cash A/C	32			
	23/01/19 to cash A/C	3		31/01/19 by bal b/d	35
	Total	35			35

TRIAL BALANCE

PARTICULARS	DEBIT	CREDIT
Sales		412
wages	58	
cash		20
purchase	225	
Office expense	35	

Suspense A/C	114	
Total	432	432

PROFIT AND LOSS A/C

PARTICULAR	AMOUNT	PARTICULAR	AMOUNT
to purchase A/C	225	by sales A/C	412
to wages	58		
to office expenses	35		
to net profit	94		
	412		412

BALANCE SHEET

LIABILITIES	AMOUNT	ASSET	AMOUNT
Capital(WN)	1043	Harvey a/c	138
Suspense a/c	114	inventory	458
		furniture and fittings	198
		CASH A/C	20
		cash in hand	343
Total	1157		1157

Working note

Since the capital was not give 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 $138+458+198+20+343-(114)= 1043$

TASK 4

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

DATE	PARTICULAR	DEBIT	CREDIT
02/06/19	Claire a/c to sales	8075	8075
13/06/19	Purchase a/c to Georgina	11160	11160
14/06/19	Hywel a/c to sales a/c	8550	8550
20/06/19	Cash a/c to sales	6000	6000
21/06/19	Purchase a/c to Andrew	4410	4410
22/06/19	Sales return a/c to Claire	1000	1000
24/06/19	Cash a/c to sales	4850	4850
	Cash a/c to Claire	7075	7075
25/06/19	Cash a/c to Hywel	8550	8550
	Georgina a/c to cash	11160	11160
27/06/19	Andrew a/c to cash	4410	4410
	TOTAL	75240	75240

LEDGER

CASH A/C

DATE	PARTICULAR	AMOUNT	DATE	PARTICULAR	AMOUNT
20/06/19	to sales A/C	6000	25/06/19	by Georgina	11160
24/06/19	to sales A/C	4850	27/06/19	by Andrew	4410
24/06/19	to Claire	7075			
25/06/19	To Hywel	8550	27/06/19	by bal b/d	10905
	TOTAL	26475			26475

SALES A/C

DATE	PARTICULAR	AMOUNT	DATE	PARTICULAR	AMOUNT
			02/06/19	by Claire	8075
			14/06/19	by cash A/C	6000
27/06/19	to bal b/d	18925	24/06/19	by cash A/C	4850
	TOTAL	18925			18925

PURCHASE A/C

DATE	PARTICULAR	AMOUNT	DATE	PARTICULAR	AMOUNT
13/06/19	to Goergina	11160			
21/06/19	to Andrew	4410	27/06/19	by bal b/d	15570
	TOTAL	15570			15570

Claire a/c

DATE	PARTICULAR	AMOUNT	DATE	PARTICULAR	AMOUNT
02/06/19	to sales A/C	8075	22/06/19	by sales return	1000
			24/06/19	by cash A/C	7075
	TOTAL	8075			8075

Georgina a/c

DATE	PARTICULAR	AMOUNT	DATE	PARTICULAR	AMOUNT
25/06/19	to cash A/C	11160	13/06/19	By purchase A/C	11160

TOTAL	11160	11160
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Hywel a/c

DATE	PARTICULAR	AMOUNT	DATE	PARTICULAR	AMOUNT
14/06/19	to sales A/C	8550	25/06/19	by cash A/C	8550
	TOTAL	8550			8550

Andrew a/c

DATE	PARTICULAR	AMOUNT	DATE	PARTICULAR	AMOUNT
27/06/19	to cash A/C	4410	21/06/19	By purchase A/C	4410
	TOTAL	4410			4410

Sales return a/c

DATE	PARTICULAR	AMOUNT	DATE	PARTICULAR	AMOUNT
22/06/19	to Claire	1000	27/06/19	by bal b/d	1000
	TOTAL	1000			1000

TRIAL BALANCE

PARTICULAR	DEBIT	CREDIT
cash	10905	
sales		18925
purchase	15570	
Sales return	1000	
Suspense a/c		8550
Total	27475	27475

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:

According to Collis, Hold, and Hussey (2017), capital expenditure is the amount spent on goods and services which are used for a duration usually longer than 1 year. While on the other hand revenue expenditure is the amount spent on goods and services which are consumed for a shorter period, usually within 1 year. Capital expenditure are non-recurring, while revenue expenditure is recurring in nature. Capital expenditure is needed to improve the capacity of the business and drive and grow the business and covers the expenditure which lasts longer than 1 year and will be shown in the balance sheet as so. According to Smith (2014), capital expenditure can not only show benefits in the current year, but also the future. Capital expenditure does not reduce the revenue of a business an includes purchases of items including machinery, IT, electric equipment, office equipment, vehicles, land, intangible assets like patents and trademarks.

Revenue expenditure is the amount which is spent on goods and services which are consumed for a shorter period of time, that is usually within 1 year. Revenue expenditure is important and needed to run the existing business capacity properly. According to Bui (2015), it covers expenditure which are incurred only within a year, and it is recurring in nature. According to Arena (2015), this type of expenditure are not capitalized and drive benefits only for the current year. Burritt and Christ (2016) argue that the purpose of incurring this expense is to meet the on going demand of running a business. This type of revenue impacts the organisation and leads to a reduction in the revenue (Bradford, 2016). This can include direct and indirect expenses, some examples being salaries, depreciation, electricity, water and fuel, rent, commission, packaging an shipping, and legal.

CONCLUSION

Accounting is referred to the process which helps an organisation in collecting, analysing, recording, summarizing, and reporting the data relevant to the organisation for recording and processing the financial transactions. This report looked at the importance and significance of accounting for businesses in the contemporary business world. The importance and power of accounting is shown in this report with examples illustrating the process of preparing the financial statement, by recording transactions in the journals, posting them in the ledger, making the trial balance out of the ledger accounts. At last is preparing the financial statement, which

includes a profit and loss account and balance sheet with the help of trial balance. This report with the help of a practical example outlined the whole process of accounting. And at last for task 3, highlighted and compared the difference between capital expenditure and revenue expenditure.

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