

**Assessment 1**  
**Accounting Fundamental**

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## **Table of Contents**

|                                    |    |
|------------------------------------|----|
| Introduction.....                  | 3  |
| 1. Concept of Cost Accounting..... | 3  |
| 2. Principle of Accounting.....    | 8  |
| 3. Tasks.....                      | 10 |
| Task 1.....                        | 10 |
| Task 2.....                        | 13 |
| Task 3.....                        | 16 |
| Task 4.....                        | 20 |
| Task 5.....                        | 23 |
| Conclusion.....                    | 25 |
| References.....                    | 26 |

## **Introduction**

In this assignment, we describe about the accounting fundamental concepts which are useful to know the accurate view of the firm. If the organization has not knowledge about the principles, nature, behavior of cost and techniques, so they cannot run their business effectively to accomplished the goals and objective of the organization. We the management of company is known about these fundamentals concepts, they easily solve all the company problems easily. To become successful in the competitive market accounting fundamental concepts plays vital role for company. On the basis of financial knowledge company prepare their entire documents of the company known with its profit and loss account. When the firms record all the daily transaction in the books of records, at the end of the company they prepare their financial statement to achieve their pre-define goals or no (Gordon, 2016). If they cannot achieve the pre-defined goals, they develop new strategies for accomplishment of that goal. This assignment explains about the nature, behavior, purpose and techniques and methods of cost accounting.

### **1. Concept of Cost Accounting**

It is the face of management accounting, which helps to identify the actual cost related with production of product and providing of services to consumer and all expenses incurred for this process. The main purpose of cost accounting is to prepare a budget and analyze the profit of the company. It also provides information and accurate data regarding product and department for most profit and need improvement. It is most important concepts for top management of company. It involves accurate data for interpretation and also analyzes the current problems of management. It helps for the preparation of several budget of company, set standard, finds and compares it with previous data.

According to Chartered Institute of Management Accountant, London (CIMA), “It define establishment of budgeting, standard cost and the actual cost of activities, processing, product and analysis of variance, profit and funds used for social use”.

### 1.1. Nature and Scope of Cost Accounting

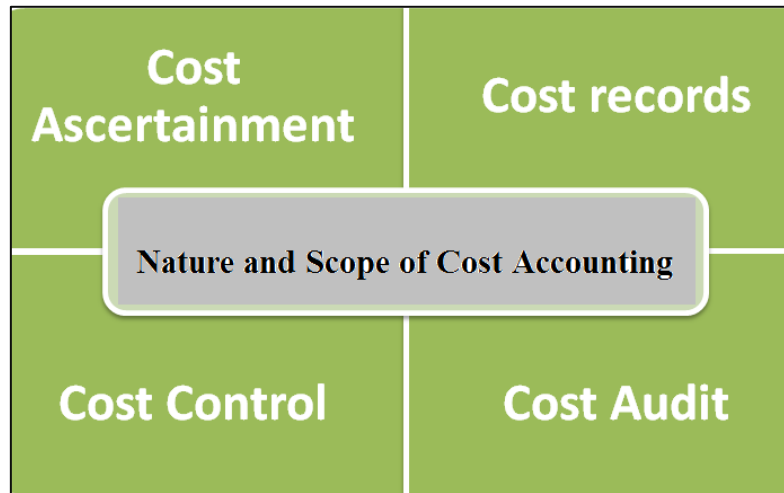


Fig 1. Components of Nature and Scope of Cost Accounting

**Ascertainment of Cost:** They deal with the collection and analysis of the all expenses of manufacturing cost of various products at various stage of production process. All the expenses cost is based on the historical cost, estimated, actual and standard cost.

**Cost Records:** When the preparation of statistical data ends, then they process of recording of all expenditure. It is the formal process which helps in ascertainment of cost of product and services. They easily determined the cost of product on the basis of historical cost and predefined costing system. To check the accuracy of the books of account they maintain both books i.e. cost accounting and financial accounting.

**Cost Control:** Executive of the company operating the cost by proper guidelines and regulation related to cost control. Management guidelines help to target cost with controlling the actual performance of the company employee and workers. When the executive seen that actual performance is unfavorable then they take action against it. Mostly coat of the product is controlled by standard cost and budgetary control process.

**Cost Audit:** It is verification of costs accounts and checks cost accounting plan of the company. The purpose of cost audit checks the arithmetical accuracy by correctly applies all the principles and rules.

## **1.2. Behaviors of Cost**

Cost behavior related between the total cost and activity levels. Management understands variation between the operating costs of organization at all level of production. Management performance the behavioral cost functions mathematically (Dalla Via, 2014). Business activities changes also influenced the expenses of the product. End of the financial period annual budget prepared which provides information about the behavior of cost. Fixed, variable and mixed cost is division of cost behavior.

### ***Fixed cost***

It is always constant, when the businesses operations are varied. It is same at a certain level of production. When the company cannot produce the good, at that time the fixed cost is incurred. Fixed cost per unit is reducing, if the company production level is high. This cost is not dependent on the activities of business, rather associated with particular period of time.

### ***Variable cost***

The total amount of the variable cost is changes proportionately with volume or operation. Direct materials are considered as variable cost. It is constant per unit of product. It is used as interchangeable cost of the sales.

### ***Mixed cost***

It is also known as semi-variable cost, which considered both cost fixed and variable. The fixed cost cannot changes with changes in the operations and variable cost changes proportionality with operations. Mixed cost is bifurcated into fixed and variable components by using of various methods such as high-low method, scatter-graph and least-square regression.

## **1.3. Purpose of Cost Accounting**

- Cost of ascertainment is essential for determination of the cost of the product and services.

- Cost control is important for decreasing costs without impairing the quality and quantity of the products.
- It provides assistance for a managerial decision such as pricing decision, make or buy and profitable mix decision.
- It also helpful for an evaluation of performance of all department, activities and operations.
- It also helps to identify the areas where the working capacity is low or below the standard.
- It provides timely reports to top management.
- It also helps to determine the cost and profit of financial year.
- Preparing data and information for prevention in the control, reduction and improvement of cost of product.
- They also participating of the creation and execution of budget reports.
- It also generates inventory values for cost and pricing on time for control the physical quantities of the product.

#### **1.4. Techniques of Cost Accounting**

**Uniform costing:** This techniques is not distinct method of costing, when various companies begin using the similar costing method principles and practices then it is known as uniform costing. Mostly this costing method is used in for apply same principle and techniques, so they easily compare for better cos (Innes, 1990)t. In similar industry, the principle for complete analysis, apportioned and overheads which is different from one firm to another. It also helps in control the cost and reduces the cost.

**Marginal costing:** It's used for ascertainment of the cost of marginal cost and effect the profit of changes in volume by differentiates between the fixed and variable cost of the product. This technique is based on the behavior of cost that varies with production volume. It is also known as

variable cost. It consists of material cost, labor and a portion of fixed and administration cost of the product.

**Standard costing:** The estimated and pre-defined cost of the product for performing an operation or production of goods and services done in normal conditions is known as standard costing. Mostly it is developed from historical analysis of data time to time, which is used for achieve the target cost. But it is almost vary from the actual cost because the situation is unpredictable. It is also known as Normal cost.

**Historical costing:** It is also referred as conventional account where all records of transactions appeared in the both profit and loss and balance sheet at monetary cost which reflect the historical cost. The principle historical cost for requiring accounting records to maintain the transactions at their original cost for values are present in the financial statement. It is realization principle which helps for recognition of revenue when the cost is realized.

**Direct costing:** When the expenses directly related to the operation of the projects and department of the company. Manager analyzes the direct cost to know that project is profitable or not. They analyze the cost of each and every internal cost, which is necessary to trim or cut the cost.

### **1.5 .Method of Cost Accounting**

**Multiple Costing:** It helps to find the cost of product at each level of good is important for increasing the profitability of the business. It is also known as composite cost. It is the accounting, method used for product sold in market, which contain various cost processed and parts are cost differently. The final cost is associated with cost, so each part is created for other processes.

**Job Costing:** It is the method used for costing of specific job needed for product is materials, labor and overheads cost. It is well known types of cost used for graphic design, marketing and

information technology. Job costing is the total amount of materials, labor and overheads needed for framing, engine and lawn tractor.

**Departmental Costing:** When the method used for projecting of income and expenses of particular department in order to accomplish the monetary goals of the company. They analyze the budget of department of cost and expenses for specific department whether the firms have accurate funds to meet the departmental expenses or not. It also helps to analyze the performance of the financial analysis.

**Unit Costing:** In simple word, the cost incurred for the product of per unit is known as unit cost. Factory produces a product then they build units for anticipation of high demand of the products.

**Process Costing:** It is the production process moves from one department of the company to another until the product is finalized. They produce an identical production on continuous basis through series of production process. Various industries applied such as chemical, oil refined, food and paint and plastic company.

## 2. Principle of Accounting

There is large number of accounting principle for common purpose of accounting. Before explain them, it is a necessity to consider following three pints regarding to accounting principle.

**Accrual principle.** This principle define that all accounting transactions are recorded for a financial periods whenever it occurred, except that periods when it includes in cash out flows. Basically it is based on the accrual accounting and constructed form financial statements in an accounting period.

**Conservatism principle.** It recognized all the expense and liabilities related with the uncertain output they know that received the revenue and assets. Probabilities of outcomes will also influence the value of the assets recognized the assets for valuation.

**Consistency principle.** This principle accepted an accounting principle for continue use till principle works better with another methods comes with them. The consistency principle not followed by company, a business transaction fluctuates different between treatments of account and develop a long-term financial output which are easily handle to manage and solve.

**Principle of going concern.** This principle for a company remains in operation for future and justified deferred identify expenses, as depreciation, for future time periods and it has to identify all the expenses only at a time and it cannot differ from them.

**Matching Principle.** It defines the principle records revenue and all expenses related to it at a time. Such as Cost of the product sold at the similar time and they also maintain record revenue from the sale of items stocked in company.

**Principle of Monetary unit.** This principle applicable when record of business transactions are currency unit. For recording purchase of a fixed asset, at fixed price. The control system of company is not recorded the value but it maintains estimation business from engage derive the cost of assets and liabilities.

**Revenue Recognition Principle:** It recognizes revenue of business which has substantially finished the earnings process. This principle use for reporting fraud of variety of standard-setting bodies and need to develop massive information about constitutes for proper recognition of revenue.

### 3. Tasks

#### Task 1

#### Journal of entries in the books of Maxim LTD.

| <b>Date</b>  | <b>Transaction</b>                                                                | <b>DR</b>   | <b>CR</b>   |
|--------------|-----------------------------------------------------------------------------------|-------------|-------------|
| 5 Apr        | Cash A/C<br>To Capital A/C<br>(cash introduced into the business)                 | £300        | £300        |
| 7 Apr        | Purchase A/C<br>To Cash A/C<br>(goods purchased for £200)                         | £200        | £200        |
| 8 Apr        | Bank A/C<br>To Tatiana A/C<br>(loan received from Tatiana)                        | £250        | £250        |
| 15 Apr       | Motor van A/C<br>To Bank A/C<br>(motor van purchased)                             | £150        | £150        |
| 20 Apr       | Bank A/C<br>To Sales A/C<br>(sold goods)                                          | £350        | £350        |
| 28 Apr       | Rent A/C<br>To Cash A/C<br>(rent paid)                                            | £50         | £50         |
| 29 Apr       | Tatiana loan A/C<br>To Bank A/C<br>(repaid the loan)                              | £200        | £200        |
| 30 Apr       | Drawing A/C<br>To Cash A/C<br>(cash drew from business)                           | £60         | £60         |
| 30 Apr       | Closing stocks A/C<br>To Trading A/C<br>(stocks in hands at the end of the month) | £100        | £100        |
| <b>Total</b> |                                                                                   | <b>1660</b> | <b>1660</b> |

### Cash A/C

| DR                   |            | CR                    |            |
|----------------------|------------|-----------------------|------------|
| To Capital A/C       | 300        | By motor van purchase | 150        |
| To Loan from Tatiana | 250        | By goods brought      | 200        |
| To goods sold        | 350        | By rent paid          | 50         |
|                      |            | By drawing            | 60         |
|                      |            | By loan repaid        | 200        |
|                      |            | By balance B/D        | 240        |
|                      | <b>900</b> |                       | <b>900</b> |

### Purchase A/C

| DR          |            | CR             |            |
|-------------|------------|----------------|------------|
| To Cash A/C | 200        | By balance B/D | 200        |
|             | <b>200</b> |                | <b>200</b> |

### Tatiana A/C

| DR             |            | CR          |            |
|----------------|------------|-------------|------------|
| To Cash A/C    | 200        | By Cash A/C | 250        |
| To Balance B/D | 50         |             |            |
|                | <b>250</b> |             | <b>250</b> |

### Motor Van A/C

| DR          |            | CR             |            |
|-------------|------------|----------------|------------|
| To Cash A/C | 150        | By Balance B/D | 150        |
|             | <b>150</b> |                | <b>150</b> |

### Rent A/C

| DR          |           | CR             |           |
|-------------|-----------|----------------|-----------|
| To Cash A/C | 50        | By Balance B/D | 50        |
|             | <b>50</b> |                | <b>50</b> |

### Drawings A/C

| DR          |           | CR             |           |
|-------------|-----------|----------------|-----------|
| To Cash A/C | 60        | By Balance A/C | 60        |
|             | <b>60</b> |                | <b>60</b> |

### Trial Balance on 30 April

| Transaction      | DR          | CR          |
|------------------|-------------|-------------|
| Capital A/C      |             | £300        |
| Drawing A/C      | £60         |             |
| Tatiana loan A/C |             | £50         |
| Sold goods       |             | £350        |
| Brought goods    | £200        |             |
| Rent paid        | £50         |             |
| Motor van A/C    | £150        |             |
| Cash A/C         | £240        |             |
| <b>Total</b>     | <b>£700</b> | <b>£700</b> |

### Profit and Loss Account for the month of 30 April

| Transaction          | DR          | Transaction          | CR          |
|----------------------|-------------|----------------------|-------------|
| To Opening Inventory |             | By Sold goods        | £350        |
| To Brought goods     | £200        | By Closing Inventory | £100        |
| To Gross profit      | £250        |                      |             |
|                      | <b>£450</b> |                      | <b>£450</b> |
| To Rent paid         | £50         | By Gross profit      | £250        |
| To Net profit        | £200        | By Net loss          |             |
| <b>Total</b>         | <b>£250</b> | <b>Total</b>         | <b>£250</b> |

### Balance Sheet on 30 April

| Liabilities           | DR          | Assets                    | CR          |
|-----------------------|-------------|---------------------------|-------------|
| <u>Capital</u>        | £300        | <u>Non-Current Assets</u> |             |
| Addition: Net Profit  | £200        | Motor van                 | £150        |
|                       | <b>£500</b> |                           |             |
| Less: Drawing         | £60         |                           |             |
|                       | <b>£440</b> |                           |             |
| <u>Unsecured Loan</u> |             | <u>Current Assets</u>     |             |
| Loan from Tatiana     | £50         | Closing Inventory         | £100        |
|                       |             | Cash A/C                  | £240        |
| <b>Total</b>          | <b>£490</b> | <b>Total</b>              | <b>£490</b> |

## Task 2

### Cash A/C

| Date   | Entry              | DR           | Date   | Entry                 | CR           |
|--------|--------------------|--------------|--------|-----------------------|--------------|
| 1 Jan  | To Capital A/C     | £5000        | 2 Jan  | By Motor van A/C      | £600         |
| 4 Jan  | To Sergei loan A/C | £1000        | 3 Jan  | By Goods purchase     | £1300        |
| 13 Jan | To Sales A/C       | £300         | 10 Jan | By Motor van          |              |
| 14 Jan | To Sales A/C       | £500         |        | Expen.paid A/C        | £200         |
|        |                    |              | 24 Jan | By Storage Expen.paid | £150         |
|        |                    |              | 27 Jan | by Sergei loan repaid | £350         |
|        |                    |              | 30 Jan | By Drawing A/C        | £175         |
|        |                    |              | 31 Jan | By Balance C/d        | <b>£4025</b> |
|        | <b>Total</b>       | <b>£6800</b> |        | <b>Total</b>          | <b>£6800</b> |

### Capital A/C

| Date   | Entry          | DR           | Date  | Entry        | CR           |
|--------|----------------|--------------|-------|--------------|--------------|
| 31 Jan | To Balance C/d | £5000        | 1 Jan | By cash      | £5000        |
|        | <b>Total</b>   | <b>£5000</b> |       | <b>Total</b> | <b>£5000</b> |

### Goods Brought A/C

| Date  | Entry        | DR           | Date   | Entry        | CR           |
|-------|--------------|--------------|--------|--------------|--------------|
| 3 Jan | To Cash      | £1300        | 31 Jan | By Balance   | £1300        |
|       | <b>Total</b> | <b>£1300</b> |        | <b>Total</b> | <b>£1300</b> |

### Sold Goods A/C

| Date   | Entry        | DR          | Date   | Entry        | CR          |
|--------|--------------|-------------|--------|--------------|-------------|
| 31 Jan | To Balance   | £800        | 13 Jan | Cash a/c     | £300        |
|        |              |             | 14 Jan | Cash a/c     | £500        |
|        | <b>Total</b> | <b>£800</b> |        | <b>Total</b> | <b>£800</b> |

### Sergei Loan A/C

| Date   | Entry        | DR           | Date  | Entry        | CR           |
|--------|--------------|--------------|-------|--------------|--------------|
| 27 Jan | To cash      | £350         | 4 Jan | By cash      | £1000        |
| 31 Jan | To balance   | <b>£650</b>  |       |              |              |
|        | <b>Total</b> | <b>£1000</b> |       | <b>Total</b> | <b>£1000</b> |

### Motor Van A/C

| Date  | Entry        | DR          | Date   | Entry          | CR          |
|-------|--------------|-------------|--------|----------------|-------------|
| 2 Jan | To cash      | £600        | 31 Jan | By Balance b/d | £600        |
|       | <b>Total</b> | <b>£600</b> |        | <b>Total</b>   | <b>£600</b> |

### Storage Expenses A/C

| Date   | Entry        | DR          | Date   | Entry        | CR          |
|--------|--------------|-------------|--------|--------------|-------------|
| 24 Jan | To cash      | £150        | 31 Jan | By balance   | £150        |
|        | <b>Total</b> | <b>£150</b> |        | <b>Total</b> | <b>£150</b> |

### Motor Van Expenses A/C

| Date   | Entry        | DR          | Date   | Entry        | CR          |
|--------|--------------|-------------|--------|--------------|-------------|
| 10 Jan | To cash      | £200        | 31 Jan | By balance   | £200        |
|        | <b>Total</b> | <b>£200</b> |        | <b>Total</b> | <b>£200</b> |

### Drawings A/C

| Date   | Entry        | Dr          | Date   | Entry        | Cr          |
|--------|--------------|-------------|--------|--------------|-------------|
| 31 Jan | To cash      | £175        | 31 Jan | By Balance   | £175        |
|        | <b>Total</b> | <b>£175</b> |        | <b>Total</b> | <b>£175</b> |

### Trial Balance on 31 January

| Entry              | DR           | CR           |
|--------------------|--------------|--------------|
| Capital a/c        |              | £5000        |
| Drawing a/c        | £175         |              |
| Sergei loan a/c    |              | £650         |
| Sold goods         |              | £800         |
| Brought goods      | £1300        |              |
| Motor van expenses | £200         |              |
| Storage expenses   | £150         |              |
| Motor van a/c      | £600         |              |
| Cash a/c           | £4025        |              |
| <b>Total</b>       | <b>£6450</b> | <b>£6450</b> |

### Profit and Loss Account for the month of 31 January

| Entry                 | DR           | Entry                | CR           |
|-----------------------|--------------|----------------------|--------------|
| To Opening inventory  |              | By Sold goods        | £800         |
| To Brought goods      | £1300        | By Closing inventory | £800         |
| To Gross Profit       | £300         |                      |              |
|                       | <b>£1600</b> |                      | <b>£1600</b> |
| To Motor van expenses | £200         | By Gross profit      | £300         |
| To Storage expenses   | £150         | By Net loss          | £50          |
| <b>Total</b>          | <b>£350</b>  | <b>Total</b>         | <b>£350</b>  |

### Balance Sheet on 31 January

| Liabilities           | DR           | Assets                    | CR           |
|-----------------------|--------------|---------------------------|--------------|
| <u>Capital</u>        | £5000        | <u>Non-Current Assets</u> |              |
| Less: Net loss        | £50          | Motor van                 | £600         |
|                       | <b>£4950</b> |                           |              |
| Less: Drawing         | £175         |                           |              |
|                       | <b>£4775</b> |                           |              |
| <u>Unsecured Loan</u> |              | <u>Current Assets</u>     |              |
| Loan from Sergei      | £650         | Closing Inventory         | £800         |
|                       |              | Cash A/C                  | £4025        |
| <b>Total</b>          | <b>£5425</b> | <b>Total</b>              | <b>£5425</b> |

### Task 3

#### Cash A/C

| Entry          | DR          | Entry                 | CR          |
|----------------|-------------|-----------------------|-------------|
| To Balance c/d | £343        | By Wages a/c          | £12         |
| To Sales a/c   | £64         | By Wages a/c          | £14         |
| To Sales a/c   | £110        | By Purchase goods a/c | £75         |
| To Sales a/c   | £84         | By Rich               | £162        |
| To Sales a/c   | £30         | By New office desk    | £32         |
| To Smith       | £18         | By Wages a/c          | £17         |
| To Harvey      | £25         | By Office expenses    | £3          |
| To Moon        | £26         | By Max                | £21         |
|                |             | By Wages a/c          | £15         |
|                |             | By Balance b/d        | £349        |
|                | <b>£700</b> |                       | <b>£700</b> |

#### Furniture and Fittings

| Entry          | DR          | Entry          | CR          |
|----------------|-------------|----------------|-------------|
| To Balance c/d | £198        | By balance b/d | £230        |
| To cash a/c    | £32         |                |             |
|                | <b>£230</b> |                | <b>£230</b> |

#### Smith

| Entry          | DR         | Entry   | CR         |
|----------------|------------|---------|------------|
| To Balance c/d | £18        | By Cash | £18        |
|                | <b>£18</b> |         | <b>£18</b> |

#### Rich

| Entry   | DR          | Entry           | CR          |
|---------|-------------|-----------------|-------------|
| To Cash | £162        | By balance c/d  | £12         |
|         |             | By Purchase a/c | £150        |
|         | <b>£162</b> |                 | <b>£162</b> |

### Wages A/C

| Entry       | DR         | Entry          | CR         |
|-------------|------------|----------------|------------|
| To Cash a/c | £12        | By Balance b/d | £58        |
| To Cash a/c | £14        |                |            |
| To Cash a/c | £17        |                |            |
| To Cash a/c | £15        |                |            |
|             | <b>£58</b> |                | <b>£58</b> |

### Sales

| Entry      | DR          | Entry       | CR          |
|------------|-------------|-------------|-------------|
| To Balance | £412        | By cash a/c | £64         |
|            |             | By cash a/c | £110        |
|            |             | By cash a/c | £84         |
|            |             | By cash a/c | £30         |
|            |             | By Harvey   | £124        |
|            | <b>£412</b> |             | <b>£412</b> |

### Harvey`s A/C

| Entry          | DR          | Entry          | CR          |
|----------------|-------------|----------------|-------------|
| To balance b/d | £39         | By cash        | £25         |
| To sales       | £124        | By balance c/d | £138        |
|                | <b>£163</b> |                | <b>£163</b> |

### Purchase

| Entry   | DR          | Entry          | CR          |
|---------|-------------|----------------|-------------|
| To Rich | £150        | By Balance c/d | £225        |
| To Cash | £75         |                |             |
|         | <b>£225</b> |                | <b>£225</b> |

### Max

| Entry          | DR         | Entry   | CR         |
|----------------|------------|---------|------------|
| To Balance b/d | £26        | By Cash | £26        |
|                | <b>£26</b> |         | <b>£26</b> |

### Trial Balance as on 31 January

| Entry                  | DR           | CR           |
|------------------------|--------------|--------------|
| Office expenses        | £3           |              |
| Opening inventory      | £458         |              |
| Harvey`s a/c           | £138         |              |
| Sales a/c              |              | £412         |
| Wages a/c              | £58          |              |
| Cash a/c               | £349         |              |
| Furniture and Fittings | £230         |              |
| Purchase               | £225         |              |
| Capital                |              | £1049        |
|                        | <b>£1461</b> | <b>£1461</b> |

### Opening Balance sheet

| Liabilities                       | DR           | Assets                       | CR           |
|-----------------------------------|--------------|------------------------------|--------------|
| Capital (Balancing Figure)        | £1049        | <b><u>Fixed Assets</u></b>   |              |
|                                   |              | Furniture and Fittings       | £198         |
| <b><u>Current Liabilities</u></b> |              | <b><u>Current Assets</u></b> |              |
| Trade payable                     | £12          | Inventory                    | £458         |
| Rich                              | £21          | Cash in hand                 | £343         |
| Max                               |              | Debitors:                    |              |
|                                   |              | Smith                        | £18          |
|                                   |              | Harvey                       | £39          |
|                                   |              | Moon                         | £26          |
|                                   | <b>£1082</b> |                              | <b>£1082</b> |

### Profit and Loss Account for the month of 31 January

| Entry                | DR          | Entry                | CR          |
|----------------------|-------------|----------------------|-------------|
| To Opening inventory |             | By Sold goods        | £58         |
| To Brought goods     | £225        | By Closing inventory |             |
|                      | <b>£225</b> |                      | <b>£638</b> |
| To Gross loss        | £271        | By Net loss          | £332        |
| To Wages             | £58         |                      |             |
| To Office expenses   | £3          |                      |             |
|                      | <b>£332</b> |                      | <b>£332</b> |

### Balance Sheet as on 31 January

| <b>Liabilities</b>                | <b>Amount</b>      | <b>Assets</b>                    | <b>Amount</b> |
|-----------------------------------|--------------------|----------------------------------|---------------|
| <b><u>Capital</u></b>             |                    | <b><u>Non Current Assets</u></b> |               |
| Opening Balance                   | £1049              | Furniture and Fitting            | £230          |
| Less Net loss                     | £332               |                                  |               |
| Less : Drawing                    |                    |                                  |               |
|                                   | <b><u>£717</u></b> |                                  |               |
| <b><u>Current Liabilities</u></b> |                    | <b><u>Current Assets</u></b>     |               |
| Trade payable                     |                    | Closing Inventory                |               |
|                                   |                    | <b>Debitors</b>                  |               |
|                                   |                    | Harvey                           | £138          |
|                                   |                    | Cash                             | £349          |
|                                   | <b>£717</b>        |                                  | <b>£717</b>   |

## **Task 4**

### **Journal entries in the book of Ricardo Traders**

| <b>Date</b>  | <b>Entry</b>                                                                                   | <b>DR</b>     | <b>CR</b>      |
|--------------|------------------------------------------------------------------------------------------------|---------------|----------------|
| 02 Jun       | Claire a/c<br>To Sales a/c<br>(goods sold to Claire)                                           | £8500         | £8500          |
| 13 Jun       | Purchase a/c<br>To Georgina a/c<br>(goods purchases from Georgina)                             | £12000        | £12000         |
| 14 Jun       | Hywell a/c<br>To Sales a/c<br>(goods sold to Hywell)                                           | £9000         | £9000          |
| 20 Jun       | Cash a/c<br>To Sales a/c<br>(goods sold for cash)                                              | £6000         | £6000          |
| 21 Jun       | Purchase a/c<br>To Andrew<br>(goods purchased from Andrew)                                     | £4500         | £4500          |
| 22 Jun       | Sales return a/c<br>To Claire`s a/c<br>(goods returned by Claire)                              | £1000         | £1000          |
| 24 Jun       | Purchase a/c<br>To Mandy`s a/c<br>(goods purchased from Mandy)                                 | £5000         | £5000          |
| 24 Jun       | Cash a/c<br>5% Discount a/c<br>To Claire`s a/c<br>(payment made after availing 5% discount)    | £7125<br>£375 | £7500          |
| 25 Jun       | Cash a/c<br>To Hywell`s a/c<br>(payment made by Hywell)                                        | £9000         | £9000          |
| 25 Jun       | Georgina a/c<br>To Cash a/c<br>To Discount a/c<br>(payment made to Georgina after 7% discount) | £12000        | £11160<br>£840 |
| 27 Jun       | Andrew`s a/c<br>To Cash a/c<br>To 2% discount a/c                                              | £4500         | £4410<br>£90   |
| <b>Total</b> |                                                                                                | <b>£79000</b> | <b>£79000</b>  |

**Claire`s A/C**

| <b>Date</b> | <b>Entry</b> | <b>DR</b>    | <b>Date</b> | <b>Entry</b>        | <b>CR</b>    |
|-------------|--------------|--------------|-------------|---------------------|--------------|
| 02 Jun      | To Sales a/c | £8500        | 22 Jun      | By Sales return a/c | £1000        |
|             |              |              | 24 Jun      | By Cash a/c         | £7125        |
|             |              |              |             | By Discount a/c     | £375         |
|             |              | <b>£8500</b> |             |                     | <b>£8500</b> |

**Georgina A/C**

| <b>Date</b> | <b>Entry</b>    | <b>DR</b>     | <b>Date</b> | <b>Entry</b>    | <b>CR</b>     |
|-------------|-----------------|---------------|-------------|-----------------|---------------|
| 25 Jun      | To Cash a/c     | £11160        | 13 Jun      | By Purchase a/c | £12000        |
|             | To Discount a/c | £840          |             |                 |               |
|             |                 | <b>£12000</b> |             |                 | <b>£12000</b> |

**Hywell's A/C**

| <b>Date</b> | <b>Entry</b> | <b>DR</b>    | <b>Date</b> | <b>Entry</b> | <b>CR</b>    |
|-------------|--------------|--------------|-------------|--------------|--------------|
| 14 Jun      | To Sales a/c | £9000        | 25 Jun      | By Cash a/c  | £9000        |
|             |              | <b>£9000</b> |             |              | <b>£9000</b> |

**Andrew's A/C**

| <b>Date</b> | <b>Entry</b>    | <b>DR</b>    | <b>Date</b> | <b>Entry</b> | <b>CR</b>    |
|-------------|-----------------|--------------|-------------|--------------|--------------|
| 27 Jun      | To Cash a/c     | £4410        | 21 Jun      | By Cash a/c  | £4500        |
|             | To Discount a/c | £90          |             |              |              |
|             |                 | <b>£4500</b> |             |              | <b>£4500</b> |

**Cash A/C**

| <b>Date</b> | <b>Entry</b>    | <b>DR</b>     | <b>Date</b> | <b>Entry</b>      | <b>CR</b>     |
|-------------|-----------------|---------------|-------------|-------------------|---------------|
| 02 Jun      | To Claire's a/c | £7125         | 27 Jun      | By Andrew's a/c   | £4410         |
| 25 Jun      | To Hywell's a/c | £9000         | 25 Jun      | By Georgina's a/c | £11160        |
| 20 Jun      | To Sales        | £6000         |             | By Balance b/d    | £6555         |
|             |                 | <b>£22125</b> |             |                   | <b>£22125</b> |

### CASH A/C

| Date   | PARTICULAR      | AMOUNT | Date   | PARTICULAR        | AMOUNT |
|--------|-----------------|--------|--------|-------------------|--------|
| 02-Jun | TO CLAIRE'S A/C | 7125   | 27-Jun | BY ANDREW'S A/C   | 4410   |
| 25-Jun | TO HYWEL'S A/C  | 9000   | 25-Jun | BY GEORGINA'S A/C | 11160  |
| 20-Jun | TO SALES        | 6000   |        | BY BALANCE B/D    | 6555   |
|        |                 |        |        |                   |        |
|        |                 |        |        |                   |        |
|        |                 | 22125  |        |                   | 22125  |

### SALES A/C

| Date   | PARTICULAR      | AMOUNT | Date   | PARTICULAR      | AMOUNT |
|--------|-----------------|--------|--------|-----------------|--------|
| 22-Jun | To CLAIRE'S A/C | 1000   | 02-Jun | BY CLAIRE'S A/C | 8500   |
| 27-Jun | To BALANCE B/D  | 27500  | 14-Jun | BY HYWEL'S A/C  | 9000   |
|        |                 |        | 25-Jun | BY MANDY        | 5000   |
|        |                 |        | 20-Jun | BY CASH         | 6000   |
|        |                 | 28500  |        |                 | 28500  |

| Date   | Entry           | DR            | Date   | Entry           | CR            |
|--------|-----------------|---------------|--------|-----------------|---------------|
| 22 Jun | To Claire`s a/c | £1000         | 02 Jun | By Claire`s a/c | £8500         |
| 27 Jun | To Balance b/d  | £27500        | 14 Jun | By Hywell`s a/c | £9000£        |
|        |                 |               | 25 Jun | By Mandy        | £5000         |
|        |                 |               | 20 Jun | By Cash         | £6000         |
|        |                 | <b>£28500</b> |        |                 | <b>£28500</b> |

### Purchase A/C

| Date   | Entry             | DR            | Date   | Entry          | CR            |
|--------|-------------------|---------------|--------|----------------|---------------|
| 13 Jun | To Georgina`s a/c | £12000        | 27 Jun | By Balance B/D | £16500        |
| 21 Jun | To Andrew`s a/c   | £4500         |        |                |               |
|        |                   | <b>£16500</b> |        |                | <b>£16500</b> |

### Discount Given A/C

| Date   | Entry           | DR          | Date   | Entry          | CR          |
|--------|-----------------|-------------|--------|----------------|-------------|
| 02 Jun | To Claire`s a/c | £375        | 27 Jun | By Balance B/d | £375        |
|        |                 | <b>£375</b> |        |                | <b>£375</b> |

### Discount Receive A/C

| Date   | Entry          | DR          | Date   | Entry             | CR          |
|--------|----------------|-------------|--------|-------------------|-------------|
| 27 Jun | To Balance b/d | £930        | 13 Jun | By Georgina`s a/c | £840        |
|        |                |             | 21 Jun | By Andrew`s a/c   | £90         |
|        |                | <b>£930</b> |        |                   | <b>£930</b> |

### Mandy A/C

| Date   | Entry        | DR           | Date   | Entry          | CR           |
|--------|--------------|--------------|--------|----------------|--------------|
| 24 Jun | To Sales a/c | £5000        | 27 Jun | By Balance b/d | £5000        |
|        |              | <b>£5000</b> |        |                | <b>£5000</b> |

## Task 5

### Revenue Expenditure

Cost will take place in expenditure, incurred from expense operation within period of time. It includes sum of the generated revenue from business activities such as manufacturing of product and services of the company for a specific period (Brief, 1995). Revenue expenditure also known as income statement expenditure because cost is not capitalized and also not provides any future profits. These are the extra expenses from an asset and no any additional value for increases productivity and also not added into the asset book. Example Such as piece of machinery of revenue expenditure an additional cost attached to a fixed asset and need to be cleaned and lubricated continue used. It is only necessity for equipment working. Painting is a non-value adding cost managers usually arrange be disassembled, sandblasted, repainted, and assembled machines like lathes and drill presses tend to rust and corrode to keep them operational and process not have not any addition of extra value for machine.

## Capital Expenditure

For improving efficiency and capacity company required funds known as capital expenditure. These funds are used for long term operation as fixed and non-consumable assets like property and infrastructure. It is also known as Capex or capital expenditure for more than one year of accounting period. Company has substantial effect of capital expenditure on short term but long-term financial standing of business. So, it's required for manager to take wise decision on capital expenditure for a fruitful finance of company. There are two forms of capital expenditure (1) expenses for the maintenance of levels of operation (2) An increase in future growth. it to be consider that funds spent on repairing continuing, and normal maintenance on assets is not capital expenditure so it's clear expense on the income statement whenever it is occurred known as capital expenditure.

## Revenue Expenditure and Capital Expenditure

| Basis                          | Revenue Expenditure                                              | Capital Expenditure                                         |
|--------------------------------|------------------------------------------------------------------|-------------------------------------------------------------|
| <b>Objectives and Purpose</b>  | The expense incurred from running the operation of the business. | The expense incurred for acquisition from the fixed assets. |
| <b>Efficiency and Capacity</b> | Enhances the profit earning.                                     | Increases the earning capacity of the company.              |
| <b>Duration</b>                | Within one year                                                  | Up to one year                                              |
| <b>Account Nature</b>          | Recorded in Expense account.                                     | Recorded in Assets account.                                 |
| <b>Presentation</b>            | Profit and Loss Statement                                        | Balance Sheet                                               |
| <b>Consumption.</b>            | consumed for short period of time                                | useful life                                                 |
| <b>Size and structure</b>      | Smaller monetary amounts                                         | larger monetary amounts                                     |
| <b>Timing</b>                  | expense for the current period,                                  | charged for expense gradually from depreciation             |
| <b>Use</b>                     | Depreciation on furniture, salaries and rent.                    | Building, land and machinery.                               |

## **Conclusion**

With this report we identify that every business organization have business concepts of cost accounting as principles, nature, cost behavior and techniques ,which are mandatory for smooth running of the company operations (Loughran, 2011). Practical part assignment provides evaluate, analyze and monitor all the financial statement for current period, company present status in market

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