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ASIA PACIFIC UNIVERSITY
OF TECHNOLOGY & INNOVATION

ACCOUNTING ASSIGNMENT

GROUP ASSIGNMENT

TITLE: PRUDENCE CONCEPT, INCOME STATEMENT & BALANCE SHEET AND SHORT NOTES.

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1.0 QUESTION 1:

1. Yes, we do agree with the view mentioned in the question. The following argument below displays our points of view.

   Accounting ideas or principals (like of any other subject) now and again conflict with one another, the accruals concept expresses that incomes should be coordinated to the period in which they happened however the prudence concept expresses that benefit should just be demostrated when acknowledgemed, this however implies the concepts are not reliable with one another and this may get to be confusing to individuals who are not familiar with accounting. Going concern also conflicts with prudence concept which expresses that there shold be no over or under estimation of incomes and costs, depreeciation is based on an assumption or estimate and does not exactly reflect the actual or (real time) loss in value of an asset which is why wwhen assets are stated at historic costs they do not reflect loss in value over years in use. Devaluation under charged can make a bigger profit and an under chaarged deteriotion can do that opposite, so this can have a backhanded effect on the business overall.

2.0 QUESTION 2:

2.1 INCOME STATEMENT OF THE YEAR ENDING 30TH DEC 2009:

INCOME STATEMENT OF THE YEAR ENDING 30TH DECEMBER 2009			
	AMOUNT		
NAME OF ACCOUNTS	TOTAL	SUB TOTAL	FINAL TOTAL
Sales		391,400	
Less: Return Inwards		(2,110)	
			389,290
Less: Cost Of Goods Sold (C.O.G.S)			
Opening Inventory	72,410		
Add: Purchases	254,810		
Add: Carriage Inwards	760	327,980	
Less: Closing Stock		(89,404)	
Less: Return Outwards		(1,240)	(237,336)
Gross Profit			151,954
Less: Expenses			
Carriage Outwards	2,850		
Rent	8,200		
Salaries	39,600		
Motor Expenses	1,490		
Office Expenses	392		
Telephone Bill	680		
Insurance	745		
General Expenses	216	54,173	(54,173)
Net Profit			97,781

Figure 1: INCOME STATEMENT OF THE YEAR ENDING 30TH DEC 2009

2.2 BALANCE SHEET OF THE YEAR ENDING 30TH DEC 2009:

BALANCE SHEET OF THE YEAR ENDING 30TH DECEMBER 2015			
	AMOUNT		
NAMES OF ACCOUNTS	TOTAL	SUB TOTAL	FINAL TOTAL
NON-CURRENT ASSETS:			
Van		5,650	
Office Equipments		7,470	
			13,120
CURRENT ASSETS:			
Cash	112		
Bank	4,420		
Accounts Receivable	38,100		
Closing Stock	89,404	132,036	
LIABILITIES:			
Accounts Payable		(26,300)	
Net Current Assets			105,736
			118,856
OWNER'S EQUITY			
Capital	49,675		
Net Profit	97,781	147,456	
Less: Drawings		(28,600)	
			118,856

FIGURE 2: BALANCE SHEET OF THE YEAR ENDING 30TH DEC 2009

QUESTION 3:

a) The accounting equation states that, “ASSESTS = CAPITAL + LIABILITIES”

- **Assets** are all valuables that are owned by the company, from which they benefit from in use to generate income. Examples of assets are; properties such as buildings, machinery, office equipment, land and motor vehicles. They also include debts that are owed by customers of the business and cash in hand and bank.
- **Capital** is the company’s funds invested in the business by the owner of the business and any other profits reserved in the business minus any share of profits that were financed out by the business owner. It is often referred to as the owner’s “equity”.
- **Liabilities** are any amounts that are owed by the business for the goods and services that were supplied to the business and any other expenses that were incurred by the business which have yet to be paid for. Examples of liabilities are; loans, creditors and bank overdrafts.

b) The differences between a “cash transaction” and a “credit transaction” are as follows:

- A **cash transaction** involves buying or a good or service and paying for it instantly without leaving with a debt. In cash transaction, money or assets reduce on the instant of making the purchase. A cash transaction can exist in two ways which are, “payment by cash” or “payment by cheque”. Example of a cash transaction; buying a car and paying for it in full with either cash or cheque.
- A **credit transaction** involves buying a good or service on credit. Meaning, in the process of payment the customer is provided with the good without paying for it at the moment or they can pay a deposit and finish the rest of the payment later. In a cash transaction. The customer will have a liability with the provider of the good or service since he/she will be owing money to the business. Example of a credit transaction; paying a deposit when buying a car and competing the rest of the payment later or not paying for it at all and instead, pay for it later.

c) The differences between a “trade discount” and a “cash discount” are as follows:

- A **trade discount** is a discount provided by the business from an amount that is subtracted from the list price. It is the product of the discount rate and the list price that is determined by the producer or supplier and is recorded in their product catalogue. It is calculated with the following equation, "**Amount of discount = Rate of discount x List price**". After a trade discount has been, the actual price left to be paid is called a "net discount" which is the difference between the "list price" and the "amount of discount".

- A **cash discount** is the amount of the decrease from the sum to be paid by the buyer or customer. It is often provided to the buyer by the business once the business accepts a smaller total in full settlement if the payment is made within a certain period of time.

d) The following are the purposes and contents of an invoice, credit note and a debit note:

- An **invoice** is a document that is provided to the buyer from the business for a credit sale, showing all the details of the goods sold and the prices of those goods. To a buyer, an invoice is known as a "purchases invoice" while to a seller, it is known as a "sales invoice". In other words, an invoice is a document provided to the buyer from the seller as an invitation to make payment of the goods which the buyer has bought from the business.
- A **credit note** is a document that is provided to the buyer from the business showing the refunds or all the amount paid by the buyer once the business agrees to refund the amount paid the buyer when the goods were first sold to them. The customer's account will be credited with the amount of the payment in order to show the decrease the total owed, therefore it is called a "credit note". It consists of the name of the buyer (buyer's account), the trade discount that was provided, the date that the document was issued and the amount that is being credited from the customer's account.
- A **debit note** is a document that is sent by the buyer to the supplier or business in order to demand or claim for the credit against an invoice in respect of lost or spoiled goods or because the goods are being refunded back to the supplier. The details or information that is included in a debit note are; the amount of goods lost or spoiled, the name of each good, the date that the note was issued and the discounts if available.

e) The following are the purposes of the books of prime entry:

- **Books of prime entry** or **books of original entry** are books in which all transactions are first documented before being recorded in to the ledgers. The purpose of these books is to record down all business trades in order to know how the business has performed in terms of transactions for that day. Examples of books of prime entry are: sales journal or sales day book, purchases journal or purchases day book, return inwards journal, return outwards journal and general journal.

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