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**Executive Summary**

In this assignment I learn about the Accounting Fundamentals. I able to define explain about the Accounting Fundamentals. In introduction part, I will explain about Accounting Fundamentals, and also giving an image to understanding. From the first part I learn about comprehensive response and define the role of accounting. Second part I learn about what is the difference between accounts payable and accounts receivable. Third part I learn about is why a company profit appears as a credit on its balance sheet. And last part I learn about is what is meant by reconciling an account.

**Introduction**

In this assignment, you will be able to know that some basic accounting terms include income, expenses, assets, liabilities, income statement, and balance sheet and cash flow statement. Introduce how to record a transaction when you are familiar with accounting debits and credits. It will also understand why two basic accounting principles, revenue recognition principles and matching principles ensure that the company's profit statement reports the company's profitability. Accounting seems to be a daunting discipline for small business owners. When you discuss accounting, you will hear a lot of complicated terms. It helps to start basic accounting. All advanced accounting relies on defining the basic equations of success or failure for each business. Understand the contents of basic accounting in order to master the main financial functions of small businesses.



Figure 01 (LinkedIn Corporation, 2017)

Assets

Assets are everything in your business including the value of all equipment, facilities, vehicles and any other company's property. Your asset number is the sum of the current value of all your company's property, including cash. Please note that as your annual depreciation, the value of physical assets will change. Always use annual asset value.

Liabilities

Debt includes all the money you owe. This includes the lender's debt, opening invoices and taxes. Summarize all your debts to complete your understanding of the basic accounting concepts.

Equity = assets - liabilities

Your current interest depends on the value of your assets and liabilities. Pay your debt (debt) from what you have (assets). This number is your current share capital. This basic accounting equation can always tell you the value of our business.

**Assignment Questions**

**Question 1**

In a brief but comprehensive response, define the role of accounting.

Good accounting is as vital to your business as good sales. The role of accounting is to provide financial information about the company to any other stakeholder, such as sales revenue, benefit costs and the amount of the supplier. Without the information of the accountant, it will not be able to make good financial decisions for the business. Management accounting provides company executives with information about corporate performance. When selling large quantities of goods, the company feels likely to have made money, but in fact the accounting may show a different story. If the high cost of sales, then the company will reduce the profits. Also if all sales are credit cards, the company may not have enough cash to pay to suppliers or utilities. The accountant provides detailed information about the company's finances in order to know when funds are burned and when to spend caution when spending. Tax is part of business life. The company must pay taxes on its business income, social security to employees' salaries, sales taxes and possibly several other tax bills. If the amount of the company is wrong, the IRS or the IRS may impose fines and penalties. A good accountant will tell the company how much to pay, and what forms need to be filled to fulfill the obligations. If the company must provide financial information to the government regulator, the accountant will be able to provide the company with the data. If the company branch too much, it may be difficult to find tracking funds. This makes an enterprising but unethical employee more likely to deceive the company, especially if he has the opportunity to visit the company account. A good accountant can find a warning signal error - for example, suspicious mode of extracting or paying for non-existent employees. Accountants can also help companies develop policies to reduce fraud opportunities. No one will put the money into the company and want to lose it. Investors want to profit. Interested banks want their loans back. Accountants can convert the basic facts and data from the ledger into a cash flow statement and a balance sheet so that outsiders can summarize the current corporate financial situation at a glance. If the company invests well, the numbers in the accounting statements will persuade investors will be more important than any words. Small businesses often require owners to have a variety of business functions. Commodity or service production, economic forecasting, marketing strategy and financial information accounting development is just a small business owner some responsibility. Most importantly, accounting plays an important role in small business management to help track the business functions of financial information. The first thing in the role is fact. A powerful accounting system may be the difference between creating a successful small business and applying for bankruptcy. The Small Business Administration (SBA) reported that two-thirds of new businesses survived for at least two years, only 44 percent over the past four years. The main reason for the failure of small businesses was poor capital structure, overruns at the time of opening, lack of cash reserves, poor accounting control. Second role is feature. Small businesses use business or financial accounting and business operations. Financial accounting preparation business functions financial statements, the preparation of financial accounts matters. Financial accounting prepares the financial statements, expenses, assets, liabilities and cash flows of small businesses. Both types are used to ensure external financing or to report financial performance to business stakeholders. Third role is function. Accounting information allows business owners to assess the efficiency and effectiveness of their business operations. The prepared financial statements can be compared with industry standards and can also be compared with leading competitors to determine the business status of small businesses. Owners can also use historical financial accounting statements to create trend analysis and forecast future sales. Fourth role is precautions. Small business owners can purchase budget software to track record and report financial information. Managing small businesses can use a spreadsheet or other basic program to track financial information Computerized accounting systems can also calculate payroll taxes for employees. Last role is expert insight. The business administration may consider hiring a public accountant or a certified public accountant (CPA) to create or review a company's accounting system. Engaging public accountants is often expensive for many small businesses. However, the experience and expertise of the accountants back to the analysis of small business accounting may be a valuable resource for the business. Small business owners can also use these external accountants to prepare business returns.

**Question 2**

What is the difference between accounts payable and accounts receivable?

Accounts Payable (AP) is recorded in the AP sub-ledger when an invoice is approved for a company to pay a transaction to the supplier for the purchase of the service or the goods. On the one hand, accounts receivable (AR) records any Amount owed by the company for the sale of its goods or services. In the company's balance sheet, accounts receivable is recorded as liabilities and receivables recorded as assets Accounts receivable and accounts payable are temporary accounts held by the company for the purpose of managing and recording their unpaid transactions for accounting purposes. Maintain financial policies, practices, industry standards and guidelines. These two accounts are interrelated and cannot be separated from each other. They refer to both sides of the transaction. They are used to record the cash flows received and outflows to ensure that financial transactions and the company's assets and liabilities are accurately recorded.

|  |  |
| --- | --- |
| **Accounts Payable** | **Accounts Receivable** |
| This account is maintained  The amount used for recording  The company owes the creditor or supplier of the goods or services purchased.  It includes short-term and long-term debt commitments.  Including bills payable and bonds payable. | The account is used to record the total amount owed by other people (such as the buyer) to the company.  This is a short-term account that needs to be received in a short period of time. |
| A/P or Accounts Payable (AP) | A/R or Accounts Receivable (AR) |
| This is the liability in the balance sheet. Liabilities include current and long-term liabilities. | This is the asset in the balance sheet because it is a commitment to the company. |
| decreases the company net cash | Increases the company cash flow |
| Lower accounts payable (AP) is better for business. | Higher accounts receivable (AR) show good signs of financial status. |
| A company accounts payable (AP) may be another company Accounts Receivable (AR) | A company accounts receivable (AR) may be another company Accounts Payable (AP) |
| This means that the company's debt must be repaid within a certain period of time to avoid default. | This is the amount that the company must receive due to the sale of the product or the services provided. |
| The procedure for keeping accounts payable is simpler. | The procedure for keeping accounts receivable is more complex. |
| These accounts are created according to a series of terms and are operated within a specified period of time, which is deemed to have to be made or received during the period of receipt. The term of the payment may affect the ability to repay the debt. Company Accounts Payable (AP) collection period is too short to be difficult to pay off debts. | Take too long may lead to cash recovery difficulties. |

Accounts payable and accounts receivable are necessary for proper management of the company's finances. Ensuring that accounts receivable (AR) collection is made in a timely manner is critical to the company's profitability if the company's role is to provide credit to customers. Balanced Payables (AP) / Accounts Receivable (AR) represent a strong financial position. Efficient accounts receivable (AR) and payables (AP) service providers enable organizations to effectively manage cash flow.

**Question 3**

Why does a company's profit appear as a credit on its balance sheet?

The accounting equation and the two-entry system provide an explanation of why the company's profit is shown as credit on its balance sheet. Asset accounts usually have debit balances, liabilities and owners or shareholders' equity usually have a credit balance. When the company provides cash services, its assets are increased by the borrower and the owner's equity increases. The credit is initially recorded in the income account, but the income account is the temporary account that resulted in an increase in the owner's equity. If the owner withdraws some cash for personal use, the asset cash will be reduced by credit, and the owner's equity will be reduced by the debit portion of the account. The debit may be initially recorded in the draft account of the sole proprietor, but the account is also a temporary account, which will result in a reduction in the owner's equity. In general, the credit balance recorded in the balance sheet owner's equity or shareholders' equity reflects the amount of investment and profit earned by the owner of the company minus the amount allocated to the owner since the start of the company.

As an example you are an employee of the company, so you work for your employer and earn profits for him or her. When you earn some profit, you will get the employer's salary, regardless of the amount of profit you generate. It is your responsibility Now talk about the company and its owner, the company becomes an employee, the owner becomes an employer. As a result, the company's profits are attributable to the owner, and therefore the responsibility for the company shown in the balance sheet. A company is separated from its owners. That is, the company is a different man-made, is the owner. This concept in accounting is called a separate entity concept.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Non-Current Assets** | $ | $(Total) | **Equity and Capital** | $ | $(Total) |
| Land and Building | 30000 |  | Opening Capital | 43500 |  |
| Vehicles | 4000 |  | Net Profit | 8500 |  |
| Machinery | 7500 |  |  | 52000 |  |
| Equipment | 7500 | 49000 | Drawing | (7600) | 44400 |
| **Current Assets** |  |  | **Current** **Liabilities** |  |  |
| Stocks | 3400 |  | Creditor |  | 10000 |
| Cash | 2000 |  | **Non- Current Liabilities** |  |  |
| Bank Debtor | 2300 | 7700 | Bank loan |  | 2300 |
|  |  | 56700 |  |  | 56700 |

In the chart is how the balance sheet works in the company.

**Question 4**

What is meant by reconciling an account?

Reconciling an account usually means that the proof or record of the account balance is correct. For example, adjust the cash balance in the general ledger account to the balance shown on the bank statement. The purpose is to report the correct amount in the general ledger account. It is often necessary to adjust the general ledger account balance on the bank statement that is not entered in the general ledger account.

If requested to adjust the general ledger account freight. What the company needs to do is to provide the appropriate balance of freight payable balance. You can also continue to view the recently sold goods, and then determine the company has the obligation to pay the sales of these freight. The company then adjusts the balance of the currency payment to the company's record amount. This reconciliation is intended to have the correct account balance and to provide the External Auditor with a document that can be easily reviewed.

The company also adjusts the balance of public utility accounts payable by calculating the daily cost of each utility company used by the company. And then multiply the daily cost by the number of days after the last meter reading date that has been displayed on the tariff bill that has been entered in the company's accounting system. Then, the company adjusted the amount of public utility accounts payable equal to the amount recorded

Why should we reconcile account? It is worthwhile to spend time comparing transactions and balances as it helps to avoid overdraft cash accounts or more than your credit card restrictions. This will save you from paying very high overrun and overdraft expenses. Adjusting accounts and comparing deals can also help you find trade errors, repeat charges and fraudulent activities. Credit card companies will not let you be responsible for fraudulent charges, but those who skip coordination or at least view each account statement may lose a lot of money when criminals often commit small amounts of unauthorized charges. If someone steals your check and you quickly report the activity, most banks will forgive the amount on your account, but that's not always the case.

**Conclusion**

In this assignment I learn about the first thing is defining the role of accounting. The role of accounting is to provide financial information about the company to any other stakeholder, such as sales revenue, benefit costs and the amount of the supplier. Without the information of the accountant, it will not be able to make good financial decisions for the business. Second thing I learn about is difference between Accounts payable and Accounts receivable. Accounts Payable (AP) is recorded in the AP sub-ledger when an invoice is approved for a company to pay a transaction to the supplier for the purchase of the service or the goods. On the one hand, accounts receivable (AR) records any Amount owed by the company for the sale of its goods or services. Third thing I learn about is why a company’s profit appears as a credit on its balance sheet. The accounting equation and the two-entry system provide an explanation of why the company's profit is shown as credit on its balance sheet. Asset accounts usually have debit balances, liabilities and owners or shareholders' equity usually have a credit balance. The last thing I learn about is what is meant by reconciling an account. Reconciling an account usually means that the proof or record of the account balance is correct. For example, adjust the cash balance in the general ledger account to the balance shown on the bank statement. The purpose is to report the correct amount in the general ledger account. It is often necessary to adjust the general ledger account balance on the bank statement that is not entered in the general ledger account.

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