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**Executive Summary**

Through this assignment, I studied about accounting fundamental. I had better understanding on how the accounting activities have been done, users of the financial information that will be provided, and also the process involved in the activities. The first aspect in this assignment is a better understanding about accounting. Secondly, I will explain about the difference between account payable and account receivable. In addition to that, I will give some explanation on double entry system and its history, and the role of accounting in the process of debtor and creditor. The third part of this assignment will cover the brief explanation and elaboration about balance sheet and the process of credit in the balance sheet. Furthermore, I will explain about the computerized accounting system which is known as reconciliation. The last part will be the importance and valuation of bank reconciliation statement and the difference between cashbook balance and bank statement balance.

**Introduction**

Accounting is famously known as the “language of business”. Through the financial statements, the end-product reports in accounting, it delivers information to different users. Accounting is a means through which information about a business operation is communicated. Accounting is helping to answer various questions while running a business such as how much is the profit that the business made and also how much money still is in the account to run the business. Without accounting to answer these question, can be considered impossible thing to do. Accounting is also proof that provides the figures for the organization to analyze the performance and the efficiency of the operations. And there is more than proofs and figures in accounting. Accounting is also considered a science because it is a body of knowledge. However, accounting is not an exact science since the rules and principles are constantly changing and the changes is manipulative.

**Assignment Questions**

**Question 1**

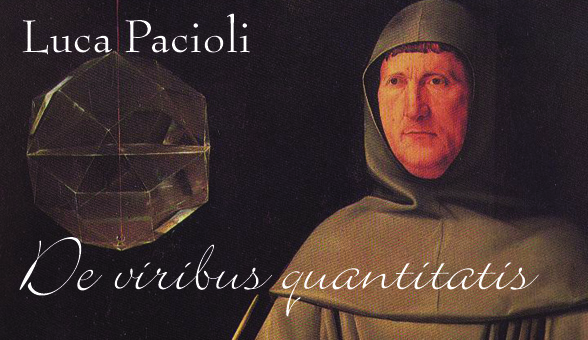
In a brief but comprehensive response, define the role of accounting. (20 Marks)

**What is a accounting**

Accounting is a measurement, processing or communication of financial information of a business or regarding a corporation. Accounting the financial activities of a organization and conveys the information to variety of users such as creditors and investors. The one who are practicing accounts is known as accountant. Accounting can be divide into several fields such as financial accounting, management accounting, tax accounting and cost accounting. Financial accounting is a reporting of an organization financial information which includes the preparation if financial statement and will be provided to the external user such as creditors and investors. Management accounting is solely focused on measuring, analyzing, reporting of information for the organization internal use only.

**History of accounting**

History of accounts is as old as ancient civilizations and thousand years old. Early from of accounts is closely related to writing, counting and money only. As times goes by, the government on ancient civilizations had access to detailed financial information. The double entry system which splits accounting into two fields such as financial accounting and management was first developed in Europe. The first work of double entry system was published by an Italian mathematician, Luca Pacioli. It was the modern pattern of accounting which is still in use in current accounting world.



**Double entry system**

Double entry system of accounting or bookkeeping means that every business financial transactions will be recorded in two accounts or possibly more. Double entry system is a scientific way of presenting an organization’s accounts I’s used to satisfy the equation, Assets = Liabilities + Equity, in which each and every entries will be recorded to maintain the balance. The transaction will be recorded in terms of debits and credits. Debits is receiving aspects whereas credits s giving aspects.



A debit is either increase an asset or expense account, or decreases a liability or equity account. Debits are always in let column of an accounting entry. Meanwhile the credit is an entry either increases a liability or equity account, or decreases an asset or expense account. Credits are always on the right column of an accounting entry. There are no upper limits to the numbers of accounts that are involved in transaction but the minimum number should be at least two account. The total for the debit and credit accounts for any transaction should always be equal, so that the accounting transaction always in-balance. If the transaction were not in balance, it is not possible to create a financial statements of the transaction. So, the use of debits and credits in a two-column transaction recording format is the most important of all controls over accounting accuracy. Assets account is where a debit increases the balance and a credit decreases the balance. Liability accounts is where a debit increases the balance and credit increases the balance. Equity accounts is where a debit decreases the balance and a credit increases the balance.

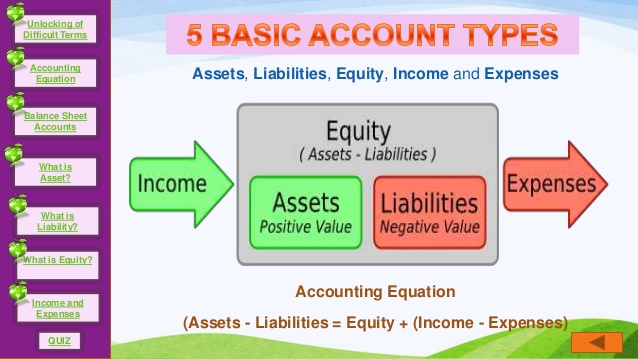
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Figure 1: example picture of asset liability and equity

**Role of accounting and importance of accounting**

Accounting is often called “language of business” because it communicates so much of the information that owners, managers, and investors need to assess a company’s financial performance. Those people who are in need of the information are stakeholders in the business. They are interested in the financial activities because they are one who will directly affected. The purpose of accounting is to provide essential information of financial information that will help the stakeholders able to make a better decision. Accountants make sure that stakeholders understand the meaning of financial information and they work with both individuals and organization to help them use financial information to deal with business problems.

Accounting is so much important for a business or any business. Accounting usually communicates all the essential information that owners, managers, and investors need to analyze a company’s financial performance. Accountants typically work in one of two fields. The first one is management accounting which helps you keep your business running. The second field is financial accounting which tells you how well you are running it. The purpose of management accounting is to provide relevant, accurate, timely information to managers in a format that will guide them in making decisions. The purpose of financial accounting is to provide information that helps with the assessment of a organization’s financial history and current performance

**Question 2**

What is the difference between accounts payable and accounts receivable? (20 Marks)

**Difference between accounts payable and accounts receivable**

|  |  |
| --- | --- |
| Account payable | Account receivable |
| Money that company owes to others | Money that others owe to company |
| Liability | Asset |
| Decrease company’s cash | Increase company’s cash |
| Purchasing goods | Selling goods |
| Supplier or vendor | customers |

Account payable is money that company or an organization owes to others such as supplies or vendors. An accounts payable is recorded in the Account Payable sub-ledger at the time an invoice is vouched for payment. Vouched means the invoice for payment has been issued and been approved but still recorded as outstanding in General Ledger or AP sub ledger because the money has not been paid. Payable account often categorized as trade payable and expense payable.

Trade payable is payable for purchase of physical goods that are recorded in inventory. Expense payable is payable for the purchase of goods or service that are expense. Liability is defined as the state of being legally responsible for something. This is also means the customers who received goods or expensed service from suppliers, vendors or service providers are merely responsible for the payment because the payment has not been mad and still they an outstanding balance.

Accounts payable are considered a source of cash, since they represent funds being borrowed from supplies. When accounts payable re paid, there is a use of cash in the business. Given these cash flow considerations, supplies have a natural inclination to push for shorter payment terms, while creditors want to lengthen the payment terms. It is important to have accurate accounts payable records, so that supplies have been paid on time and thee liabilities were recorded fully and also within correct time periods. Account payable also an be considered as short term debt form the purchasers point of view.

Account receivable is the money others owe to a company. The company have all the rights to receive the money because the customers already have been provided with goods and or services. Account receivable is basically other party’s account payable. Receivables essentially represent a line of credit extended by a company and due within a relatively short time period, ranging from a few days to a year. Account receivable is often recorded as assets because there is a legal obligation for the customer to remit cash for the debt. If a company have account receivable it means the company is made the sale but yet to receive the cash amounts from their clients. Most of the companies are allowing to operate some portion of their sale to be on credit. They only offer this type of transaction to their special clients or frequent clients. The practice allows customers to avoid the hassle of physically making payment as each transaction occurs. Companies can use their accounts receivable as collateral when obtaining a loan. Account receivable also affect your cash flow. It’s good to have account receivable because you made the sale which is the very first important thing in any business. The second thing is to make the collection which is the suppliers must collect the debt from their clients within a short period. Then only it will be a profit for their company. Account receivable can have varying payment terms and cycles.

**Double Entry Example Question**

**Example payable question**

1. Sales $4000 to debt

DR sales CR DR debt CR

$ $ $ $

Debt sales

1. 4000

1. Debtor payed cash $890 for debt settlement

DR debtor CR DR cash CR

$ $ $ $

cash debtor

890 890

**Example receivable question**

1. Bout goods from creditor $ 600

DR bout goods CR DR creditor CR

$ $ $ $

creditor bout good

600 600

1. Pay cheqk of $790 to creditor

DR bank CR DR creditor CR

$ $ $ $

creditor bank

790 790

**Role of accounting in business**

While running a business, organization’s people will came across various business functions. Manufacturing the products, provide services, conducting economic forecasts, creating marking strategies, and accounting for financial information are just a few responsibilities that they will surely come across. Accounting plays an important role in business management. Some of the function are to help tracking financial information for business functions.

The very first role of accounting is t provides facts that are essential for business structure. A successful organization requires a very strong accounting system. Strong accounting system is known to be the difference between creating a successful small business and filing for bankruptcy. Some of the newly found business organization easily facing bankruptcy or forced to close down are because of poor capital structure, overspending when starting a business, lack of cash reserves, and poor accounting controls.

Other than that, the feature of accounting that helps to have a efficient management system that are considered a strong rooting for an organization. Business usually use a mx of management or financial accounting with business operations. The management accounting primarily focuses on the allocation of business coats to products or service, creating budgets for business functions, and preparing financial information for business decisions within internal management. While financial accounting focuses on financial statement listing sales revenues, expense, assets, liabilities, and cash flow for the business. Both methods are used to secure external financing or report financial performance to business to business stakeholders.

Furthermore, accounting helps to measure the performance of the business and also the efficiency of the business operations that are created by the organization people. Accounting information allow business owners to assess the efficiency and effectiveness of their business operations. The financial statement is prepared as a comparison to industry standards or to a leading competitor to determine how the business is going. Organization use their previous statement to analyze trends and forecasting.

Organization can purchase accounting software computer programs to track, record, and report financial information. While they also can use spreadsheets or other basic programs to track financial information. The specialized accounting software helps organization maintain accurate financial records. Computerized accounting systems can compute payroll taxes for employees, too.

**Question 3**

Why does a company’s profit appear as a credit on its balance sheet? (20 Marks)

**Balance sheet**

Balance sheet is defined as the financial statement of a company which includes assets, liabilities, equity capital, total debt at a point in time. Balance sheet is more like a clear picture the financial position of a company at a specified time. It is usually calculated after every quarter, six months or one year according to their organization’s preference. Balance sheet has two main heads. Balance sheet helps the creditor to analyze the financial position of the organization and get to know the assets and also what the company owes to others. These information will be valuable if they want to apply for bank loan. Those heads are assets and liabilities respectively. Assets are the resource or things which the company owes. The assets can be divided into different categories such as current, non-current assets as well as long term assets.

Liabilities are debts or obligations of a company that are the organization mainly responsible for. Liabilities are the debts that the company owes to their creditor. Liabilities can divided into two which is current liability and long term liability respectively. Another head which is equally important as asset and liability is equity. Assets are equal to total liabilities and owner’s equity. Owner’s equity is used when the company is a sole partnership. The shareholders equity is used when the company is a corporation. It is also known as book value of the company.

**Example of balance sheet**

DR CR

$ **Equity and capital** $

**Opening capital xxx**

**+net profit @**

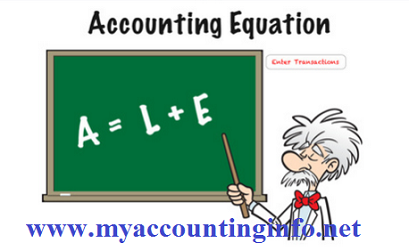
**- net profit xxx**

**xxxx**

* **Drawings (xxx)**

**xxx**

**Accounting equation**



The accounting equation is the primary foundation for the double entry system. The accounting equation displays that all assets are either financed by borrowing money or paying with the money of the company’s shareholders. Thus the equation of the accounting will be asset equals to liability and equity. The balance sheet is a complete and complex display of this equation, showing that the total assets of a company are equal to the total of liabilities and shareholder equity.

Any purchase or sales via an accounting equity has an equal effect on bout sides of the equation, or offsetting effects on the same side of the equation. The equation can be also written in another two different variations. One is total of liability is the different between assets and equity. The, another one is total of equity is equals to the different between assets and liability. The basic equation shows that can make the payment for an asset using asset or fund it with liabilities or equity. Taking on more liability or equity will be the case of increasing debts.

The total liabilities indicates the amount of money that the company owes to their creditor and also long term creditor. Liabilities can divided into two which is current liability and long term liability respectively. The short term liability has to be paid off within short time period, for example within one year. The long term liability has to be paid off over a long term period but must be included all the debt. The debt has to be cleared along with the liability. The time period can be considered by referring the balance sheet date, usually will be over a year from the date.

The shareholder’s equity portion of the accounting equation could be calculated by summing the amount of share capital and retained earnings. The second step is by subtracting the amount in treasury shares from the sum. The equity can be either positive or negative to the company. If the figure is positive, it means the company has more than enough asset value to cover its liabilities. If the figure is negative, the company has debts that outweigh its assets. Generally the company with negative figures of shareholder’s equity cannot be considered as safe investment unit because either its asset total is too low or its liability total is too high. The company which has more debts than their current asset is likely to be bankrupt easily.

**Trading and profit and loss accounts**

A trading account is very similar to the normal bank. It holding the cash and securities of the person who banked the money in. this account is administrated by an investment dealer. The account is held at a financial institution and administered by an investment dealer that the account holder uses to employ a trading strategy rather than a buy-and-hold investment strategy. In short, the trading account shows the income from sales and the direct costs of making those sales. The traditional function of the trading account is to hold a stock, but this account also can hold cash, foreign cash, securities and other type of investments. Anyone can open trading account, be it an individual or an organization, in order to execute the trading transaction involving buying and selling financial instruments, such as stocks, option, commodities, derivatives and futures. Individual who are qualified as non-professionals can open retail trading accounts. Trading accounts are usually associated with day trading. This kind of trading carries the risk of loss of investment and so on. To double check the maintenance margin requirements on the stocks that they are trading in the account, it has been a very important task for the trader.

A profit and loss account is called as which annual net profit or loss of a business is ascertained. Gross profit or loss of a business is ascertained through trading account and net profit is determined by deducting all indirect expense. The analysis of a profit and loss account starts with the information provided by a trading account. The results of trading account will act as reference in staring a profit and loss account. Gross profit is shown on the credit side of the profit and loss account and gross loss is shown on the debit side of this account. Gross profit is shown on the credit side of the profit and loss account and gross loss is shown on the debit side of this account. The indirect expense will be transferred to debit side and all the revenues will be transferred to the credit side. The total of the credit side exceeds the total of the debit side will be the net profit while the total of debit side exceeds the total of the credit side will be the net loss in a business term.

**Question 4**

What is meant by reconciling an account? (20 Marks)

**Bank Reconciliation Statement**

The bank reconciliation statement is the process that explains the difference on a specified date between the bank balance shown in an organization’s bank statement, as supplied by the bank, and the corresponding amount shown in the organization’s own accounting records. In a company’s general Ledger, there will be information of cash contains a record of the transactions. When the company receives its bank statement, the company should verify that he amounts on the bank statement are consistent or compatible with the amounts in the company’s cash account in its general ledger and vice versa is what refers as the bank reconciliation statement. This statement is very much important to analyze the consistency with the amount of cash shown in the bank’s records. The necessary adjustment should then be made in the cash book, or reported to the bank if necessary, or any timing difference recorded to assist with future reconciliations. To prevent the feeling of over worked on this statement, a frequent analysis should be done on bank reconciliation statement to ensure the state of financial strength of a company.

**Purpose and Important of bank Reconciliation statement**

Reconciling the bank account transactions with the monthly bank statement is called as a bank reconciliation statement. This process particularly requires to compare the bank statement with the record of withdrawals check payments, deposits and financial transfers. Bank reconciliation statement helps an organization to determine whether the balance shown is correct and consistent. This process also helps us to determine the outstanding payment and clearance, and also establish any inconsistency.

The bank reconciliation statement helps a company to determine their account balance. The true bank account balance only will be established when the withdrawals, checks and cash deposit activities have been reconciled. The bank statement may not reflected the payment that have been made but it won’t be deducted from the posted account balance. It is essential to know the actual account balance because it prevent from overdrawing the money from the account and also ensure that the account holder have the sufficient fund to cover needed withdrawals for bill payment or spending money.

The second purpose or important is to uncover the problem that the account holder facing either directly or indirectly. Uncover the problem also means to disclose or identify the problem. You can frequently disclose the problem if you make a routine review. Bank automation and human error can cause transposed numbers, incorrect deposit allocations and other errors that can affect your checking account total. A monthly reconciliation statement make sure the problem discover in real quick and also the rountine checks on the statement ensures little time taken to analyze the account.

The third one is bank reconciliation statement helps us to identify the uncashed cheques. Cheques can go uncashed if they get lost in the mail, or got separated from the bill payment or forgotten. The management should identify the outstanding cheques in order to ensure the payment to their creditor is current one. Uncashed cheqeues usually will lead to overdrawn account. This scenario is due to the management forget about the outstanding obligations and rely solely on checking account statement balance.

The fourth purpose or important is bank reconciliation statement improve the collection action of the bank towards an organization. Bank reconciliation statement allows a company to manage it’s account receivable in a effective manner. If a customer tend to clear the payment, the receivable is no longer an outstanding. Therefor no further will be taken by the bank. But if the client’s cheques doesn’t clear the outstanding, that allows the management to be more aggressive by taking further actions.

**Differences between cash book and bank statement**

Cash book balance indicates the balance that were recorded by a company in the company’s own cash book. The transactions that comes following the recording of cash book will be notified in the cash book but not in the bank statement, thus resulting in a discrepancy. Bank statement balance is the balance that were recorded by the bank in the bank records. Service charges and interest income are a from of discrepancy since those are recorded in the bank statement but not included in the cash book. There are some differences between cash book balance and bank statement balance.

The difference between cash book balance and bank statement balance is the derived term of debit and credit. Usually a debit means an asset and a credit means liability respectively. Thus, in the cash book balance, the debit bank balance can be considered as an asset for the holder. Meanwhile, company owes money to the bank and it’s an asset for the bank. On the credit side, the situation is in reverse. For the cash book balance, the credit balance will be notified as liability while in the bank statement balance, the credit balance will be an asset for the company since bank owes the company some money.

The second difference between a cash book balance and bank statement balance is the bill will be collected by the bank. The bank on behalf of is customers can collect the amount due on bills as and when the payment becomes due. The company record this transaction only on receiving intimation from the bank regarding the issue. The balance of cash book and bank statement that has been shown by the bank in the intervening period will have some difference. In short, the has balance shown by the bank column of cash book would be lower than the balance shown by the bank statement to the extent of amount of bills collected by the bank.

The third difference between a cash book balance and bank statement balance is the errors and omissions that will take place. There will be some difference sometimes in balance that shown by both cashbook and bank statement. These situation arise due to error or omission either on the part of the customer or the bank. The difference can’t be eliminated until the reason for the errors or omissions identified and got the solution to settle things up.

The difference between cash book balance and bank statement balance are caused by certain transactions been recorded by either the company or the bank. Such discrepancies are regularly noted due to time lags in processing transactions and lack of knowledge of certain charges debited to the company account by the bank. These discrepancies have to be reconciled through preparing a bank statement.

**Format of Bank Reconciliation Statement**

**Bank Reconciliation Statement as at XXXX**

**$ $**

Corrected balance in hand as per cash book  **x**

Add Unpresented cheques x

wrong credits by the bank x x

x

less bank deposits not yet entered on bank statement x

wrong debits by the bank x x

x

**Conclusion**

In this assignment, there are various things regarding accounting fundamentals. Based on this assignment, I learned and understanding what is accounting and also history of accounting. Accounting is one of the most important things to running any business. Throughout this assignment, I study difference of between cash book and bank statement. By this assignment I got better understanding how, can accounting help organization to running successfully and how, they are applied accounting concept, in this business world and how they handle the double entry system, and make a successful business.

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**Appendix**

Example:

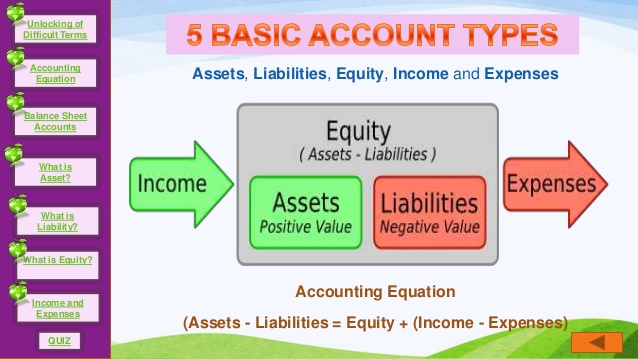


Figure 1: expel picture of asset liability and equit