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**Executive Summary**

In this assignment, I learned about function of a basic accounting for a company especially in hospitality management. Accounting plays vital role in all sector by facilitating all forms of economic activity within the sector. The formal definition for accounting is a process of recognizing, recording and interacting economic information of a company.

Firstly, I’m not only defined the accounting but also gathered information of accounting, users of financial information, the accounting process and the role of financial vs. management accounting.

Next, it’s found there is two accounts in accounting which are payable account and receivable account. So, I differentiate the both accounts from different aspects with giving definition respectively.

In general, all the profit of a company will be written in credit side of a balance sheet but none of us don’t know why so. In this part, I explained why does the company profit appears as credit in balance sheet.

Finally, I studied on how an account reconciled in system and why it’s computerized.

**Introduction**

The first things that will comes to our mind when we talk about accounting is debit, credit and profit. The simple formulae of accounting are Income (money in) – Expenses (money out) = Profit. The **Father of Accounting**, Fra Luca Bartolomeo de Pacioli (Italian) was a specialist in mathematic who creates one important concept known as double entry system (involve of two accounts or more) in every business transaction. (Wikipedia, 1 August 2017)

The concepts that I learned with my lecturer about accounting is: -

Concept 1:

SELLER

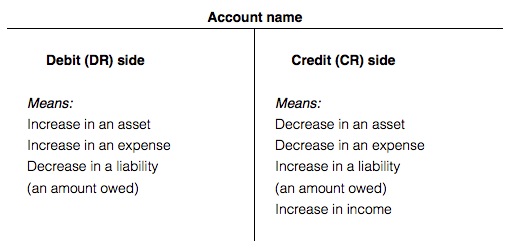
(BUY) (We) (SELL)

↓

SUPPLIER CUSTOMER

(CREDITOR) (DEBTOR)

Concept 2:



Examples for debit side - rent expenses, salaries, general expenses (utilities bills), discount given

Examples for credit side – rent paid, discount received, commission received

We can learn the ins and outs of fundamental accounting from the fundamental equation that defines every business’s success or failure.

Fundamental equation: Equity = Assets – Liabilities

Equity – Equity is the amount of money that we have in our business. Basically, the current amount of equity will be different than the money that we originally put into the business. Any loan application, emergency funds or making deals on business will be depend on the current equity of each month.

Assets – All the equipment, facilities, vehicles or company property which figure out the total of the current value including cash is called asset. Always use the current year’s asset value.

Liabilities – The money that we owe, debt from lenders, outstanding invoices and taxes are included in liabilities.

There are many objectives of accounting which can help the company to obtain. One of it’s a permanent record can be created using accounts. All the records of transaction that done by a firm can be a permanent record. These records could be required for internal purpose, for taxation purpose or any other purpose. A firm will have made a record whenever a transaction commits within the firm or outside of the firm where this permanent record can be hold for years and can be retrieved when need be. Next, using accounting a measurement of outcomes can calculated by a firm. Accounting will provide annual financial reports which helps the firm to adjust their programs and operations accordingly. This is because the firm can indulge in many transactions in a day and there will be profit and loss. It’s not necessary to only take note the profit, but losses in daily, weekly and monthly transaction also need to remember. Doing so, will provide how well their performance in business and what should they upgrade in their performance.

**Assignment Questions**

**Question 1**

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

What is accounting? An accounting is summarizing, analyzing and reporting about any transaction of money in a firm. The three main elements that consists in accounting are assets, liabilities and equity. In searching for concepts of accounting there are many of it. Some of the concepts that I learned is: -

\*business entity concepts

\*money measurement concept

\*going concern concept

\*cost concept

\*dual aspect concept

\*accounting period concept

\*matching concept

\*accrual concept

\*objective evidence concept

This accounting is created by the Father of Accounting, Luca Paccioli (Italian) in 1494. His first success is creating double entry system where all the financial deals in a firm will record in this system. There are two types of aspect in this system. They are receiving aspect, which known as “debit aspect” and giving aspect, which known as “credit aspect”. Due to of this dual aspect, accountants feel more convenient to prepare an account in a business.

|  |  |
| --- | --- |
| DEBIT | CREDIT |
| Expenses | Income |
| Assets | Liability |
|  |  |

\*the higher priority of the debit side is for expenses.

\*the higher priority of the credit side is for income.

Example:

1. Discount given $20 by cash (asset) → expenses

|  |  |
| --- | --- |
| Debit Discount given Credit | |
| $ | $ |
| Cash 20 |  |

|  |  |
| --- | --- |
| Debit Cash | Credit |
| $ | $ |
|  | Discount given 20 |

1. Rent received $800 by cash (asset) → income

|  |  |
| --- | --- |
| Debit Rent received Credit | |
| $ | $  Cash 800 |
|  |

|  |  |
| --- | --- |
| Debit Cash | Credit |
| $ | $ |
| Rent received 800 |  |

Accounting plays its vital role by providing financial information to internal and external stakeholders to make a better business decision. There is two type of accounting which are management accounting and financial accounting. The importance of management accounting is to supply relevant, accurate, timely information about financial to managers in a format that will aid them in making decisions. And, financial accounting is to provide information that helps with the assessment of a firm's financial history and current performance. This is the reason why people in business line called account as a language of business.

**Question 2**

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

|  |  |  |
| --- | --- | --- |
| **Account Payable** | **Aspects** | **Account Receivable** |
| Money that need to pay to suppliers or vendors for goods and service | **Refers to** | Money that receive from customer by sold goods and service |
| Liability | **Recorded as** | assets |
| Decrease in company’s cash | **Affects in business** | Increase in company’s cash |
| average number of days it takes to pay an invoice (Days Payable Outstanding or DPO) | **Analyzed by** | average number of days to collect payment (called Days Sales Outstanding or DSO) |
| Trade payable | **Also known as** | Trade receivable |
| Creditor | **In business term** | Debtor |

The role of these both accounts in companies are perform as support tasks and activities in payments to creditors and the money received to company. The accounts payable administrator responsible for processing invoices and issuing payments. The accounts receivable administrator responsible for posts customer payments by recording cash, checks, and credit card transactions.

**Question 3**

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

Balance Sheet

Debit Credit

|  |  |
| --- | --- |
| Non-current Asset $ | Equity and Capital $ |
|  | Opening capital xxx |
|  | (+) net profit @ |
|  | (−) net loss xx |
|  | xxx |
|  | (−) drawings (xx ) |
|  | xxx |
| Current Asset | Current Liability |
|  |  |
|  | Non-current Liability |
|  |  |
|  |  |

As we know, generally a balance sheet consists of two main parts which are assets and liability. A balance sheet is a financial statement that summarizes a company's assets, liabilities and shareholders' equity at a specific point in time.

The following equation is called as accounting equation which shows all assets are either funded by borrowing money or paying with the company's shareholders money.

Asset = Liability + Equity

Its balance sheet is a complex display of this equation, indicating that the company's total assets are equal to the total liabilities and shareholders' equity.

**Question 4**

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

A bank reconciliation is a process that describes the difference on a date between the bank balances shown in the organizational bank statement, as supplied by the bank, and the appropriate amount shown in the organization's own accounting records.

The purpose of reconciling an account is for compare the company’s records with bank, to see if there is any difference between the two records for company cash transactions. The final balance version of company cash records is known as the remainder of the book, while the bank version is called bank balance. It is very important for businesses and individuals to examine fraudulent activities and to avoid mistakes in financial statements.

The differences between cash book and bank statement are following:

|  |  |
| --- | --- |
| **Cash book** | **Bank statement** |
| A debit bank balance indicates an asset | A debit balance indicates a bank overdraft (we owe money to the bank – an asset for the bank) |
| A credit bank balance indicates a liability (overdraft) | A credit balance indicates a positive balance (the bank owes us money) |
| Cash book balance states the cash balance recorded by the company in company’s cash book. | Bank statement balance is the cash balance recorded by the bank in bank records |
| Cash book balance includes transactions that are not included in the bank balance | Bank statement balance includes transactions that are not included in the cash balance. |
| Deposits in transit and outstanding checks are examples of transactions entered in the cash balance, but not in the bank balance. | Examples of transactions included in the bank balance but not in the cash balance include service charges, interest income and NSF checks. |

**Conclusion**

In this assignment, the fundamental accounting is explained. When searching about this fundamental account, I’m able to learn more about accounts and what are the role and importance of accounts in business. In my opinion, all companies should have the basic knowledge of accounts because very transaction should monitor and report in company account, so that it will be safe and can refer on any time when needed.

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**Appendix**

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Description generated with very high confidence**

Figure 1: A bank reconciliation statement copy