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Course title: Accounting Fundamental

Subject Code: BHM 03

Submitted date: 7th August 2017

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**Executive Summary**

The purpose of this assignment is what I learned about the accounting fundamental. Firstly I will brief about the role of an accounting. Then I will explain the difference between account payable and account receivable. In addition I will talk about the balance sheet that appears company profit in credit. Finally I covered about the reconciling account.

**Introduction**

Today’s accountant are master of a varied art, with knowledge spanning finance, legislation and more. But how it all did began.

Accounting history can be traced back to book called *Summa de arithmethica, geometria, proportioni ET proportionalita* written by the Italian mathematician Luca Pacioli in A.D 2494. Luca Pacioli also known as The Father of Accounting.



Luca Pacioli. The Father of Accounting.

It includes the first printed work on algebra and also recorded for the very first time the system of the double entry accounting system. Luca Pacioli also described the use of journals and ledgers.

* **Double entry system**

Recording a business transaction in two equal parts called debit and credit entries. Debit refers to the left column and credits refers to right column in an accounting journal.

Accounting are very important in almost all function of business and government. It maintain financial records and make sure that financial records are accurate and prepared correctly. In addition make sure that tax reports are prepared correctly and paid when it due. Accounting is a backbones of business and it is the only way of knowing what is the budget is for the year, the profit and the loss. The preparation of statement concerning the assets, liabilities and operating results of a business.

**Assignment Questions**

**Question 1**

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

**Answer**

What is accounting? Accounting is an instrumental within organization as means of determining financial stability. Are responsible for determining wealth, profitability and liquidity. Is one of the oldest and most respected profession in the world and can be found in every industry from entertainment to medicine. It is a way of assessing the assets, liabilities and cash flow, for all current and future investors. All accounting or book keeping has a standard set of accounting principle. There is accounting for the day to day transactions and most important to the survival of a business. The accounting are includes:

* **Credit**
* **Debit**
* **Assets**
* **Liability**
* **Payable**
* **Receivable**

When day to day transactions are recorded this called book keeping. These transactions are recorded as debits and credits. And must always balance when it is called the accounting equation.

**History of accounting**

After some time the mathematical calculation involved in accounting made their way to practically every culture. The man who recognized as the creator of the basic accounting is Luca Pacioli. He is an Italian mathematician and writer. And also known as The Father of Accounting. On the subject of records keeping and double entry accounting. This was the first time that symbol of plus and minus appear in printed book.

**Double Entry System**

The double entry system of accounting means that every business transaction will involve two accounts or more.

* Firstly a credit entry in one account.
* Secondly at the same time an equal off setting debit entry in another account.

This means that every transaction must be recorded in two accounts. One account will be debited because it receives value and other account will be credited because it has given value.

Following are the process of double entry system:

1. **Journal**

Transaction are recorded in a book known as Journal.

1. **Ledger**

Transaction classified in a suitable manner and recorded in another book.

1. **Trial balance**

The arithmetical of the books of account tested.

1. **Final account**

The process the result of the full years working is determined through final accounts.

**Important of Accounting**

Why accounting is important? Accounting is the most important part of any successful business. It records all profits, losses, credits and debits. Need to understand how the business grows, make money, where the profit of business goes and what is cash flow is. Accounting help in making a number of short term and long term business decision which helps a firm to grow successfully.

Accounting system are as follows:

1. **Income statement**

Shows the net profit or net loss in current by an enterprise during a particular accounting period.

1. **Balance sheet**

Closing balance various assets and liabilities are reported in balance sheets. The excess of assets over liabilities is capital.

1. **Cash flow statement**

It show how change in balance sheet and income statement which affect cash. And shows cash inflows and outflows among operating, investing and financial activities.

Also various balance sheet profit or loss accounts which help financial statement to analyze. Proper accounting ensures timely recording the liabilities which needs to be paid. This includes sales, income tax and payment of liabilities helps enterprise to be statutory compliant. Accounting data which help an enterprise too prepare budget and forecast for future period.

**Question 2**

What is the difference between account payable and account receivable?

**Answer**

**Account payable**

Purchase goods or services on credits which needs to paid back in a short period of time. It is treated as a liability and comes under the head of current liabilities. Is a short term debt payment which needs to be paid to avoid default? Account payable are considered a source of cash, since they represent fund being borrowed from supplier. This is use of cash. Moreover is increased on credit side and debit is register in another account.

**Account receivable**

An amount that is owed to a company by a customer who purchased goods or services on credit. The credit period is short ranging from few days to months or some take a year. Account receivable are treated as current assets on the balance sheet. The amount of receivable is increased on the debit side and decreased on the credit.

|  |  |  |
| --- | --- | --- |
| Aspects | Account payable | Account receivable |
| **Refers** | Company owes to others. | Other owes to company. |
| **Recorded** | Liability | Assets |
| **Affect** | Will decrease company cash. | Will increase company cash. |
| **Transaction** | Purchasing | Selling |
| **Paid to who** | From supplier | To customer |

**Question 3**

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

**Answer**

**Balance sheet**

Is the financial statement of a company which includes assets, liability, equity capital, and total debit and so on? Balance sheet includes assets on one side and liabilities on the other side. Usually calculated after every quarter, six month or one year. Assets can be divided into two current assets and non-current assets. Assets which the firm owns and liabilities is the amount that the firm own to creditor. Liability also can be divided into two current liability and non-current liability.

|  |  |
| --- | --- |
| Non-current assets  Premise $$$  Land & building $$$  Vehicles $$$  Machinery $$$  Equipement $$$  Furniture $$$  $$$  Current assets  Inventory $$$  Stocks $$$  Cash $$$  Bank debitor $$$  $$$ | Equity capital  Opening capital $$$  Net profit $$$  Net loss $$$  $$$  Drawings $$$  $$$  Current liability  Creditor $$$  $$$  Non current liability  Bank loan $$$  $$$ |

**Account equation**

Assets = liability + equity

Describes that the total value of the assets of a business is always equal to its liabilities, plus owner’s equity. This equation is the foundation of modern double entry system of accounting. Every business owes some properties knows as assets. It divided into two type : the claims of creditor and the claims of owner. In accounting the claim of creditor are reffered to liabilities and the claims of owner are reffered to equity. The total dollar amount of two sides of accounting equation are always equal because it represent two different views of the same things.

**Trading account**

One of the financial statement prepared by the firm and show the result of buying and selling of goods or services during accounting period. It prepared the gross profit and gross loss made by the company. In the trading accounts the cost of goods sold is subtracted from the net sales for the period to calculated the gross profit.

|  |  |
| --- | --- |
| Opening stock $$  Purchaser $$  purchase return $$  $$$  carriage inwards $$$  $$$  Closing stocks $$$  $$$  Gross profit $$$  $$$ | Sales $$$  Sales return $$$  $$$  Cost of sales $$$  $$$ |

**Profit and Loss account**

An account in the books of an organization to which income and gains are credited and expenses and losses debited. So as to show the net profit or loss over a given period. A net profit is earned if total expenditure is less than the sales amd a net loss if it greater. The objective of a business is to make a profit. The profit and loss statement show the extent to which it has been successful in achieving. Moreover to the profit and loss statement the balance sheet is an important financial statement for an organization.

|  |  |
| --- | --- |
| Expenses  Rent paid $$$  Salaries $$$  Wages $$$  Ulitility expense $$$  $$$  Carriage outwards $$$  $$$  Discount given $$$  $$$  Net profit $$$  $$$ | Gross profit $$$  Income $$$  $$$  Rent received $$$  Commission $$$  Discount $$$  $$$  Net loss $$$  $$$ |

**Final account**

Financial records produced by a company at the end of its because year to show the profit and the loss. It has made during the year.

Trading, profit and loss account, and balance sheet all these three togather are called as final accounts. Final result of trading is known through profit and loss account. These are usually prepared at the close of the year. Purpose is to investigate the consequence of various income and expenses during the year and to show the result net profit and net loss. Preparation of final account is the last stage of the accounting cycle. Is to find to out the profit and loss of the firm at the end of the year.

**Question 4**

What is meant by reconciling an account?

**Answer**

Any business that is receiving and spending money will use banking and bank reconciliation procedure. Is a report which can be compares the bank balances as per company accounting records with balance stated in the bank statement. Such timing differences appears as reconciling items in the bank reconciling statement.

Following are the transaction will appear in company records not in the back statement :

1. Deposit in transit

Sent by the firm to the bank but have not recievd by the bank.

1. Cheque outstanding

Issued by firm but were not presented or cleared.

Following are transaction will appear in bank statement but not in the company cash account :

1. Services charges : deducted by the bank
2. Interest income : earned by the company on its bank account
3. NSF check : NFS stand for Not Sufficient Fund. Deposited by the company in bank account.

**Purpose of Bank Reconciliation Bank**

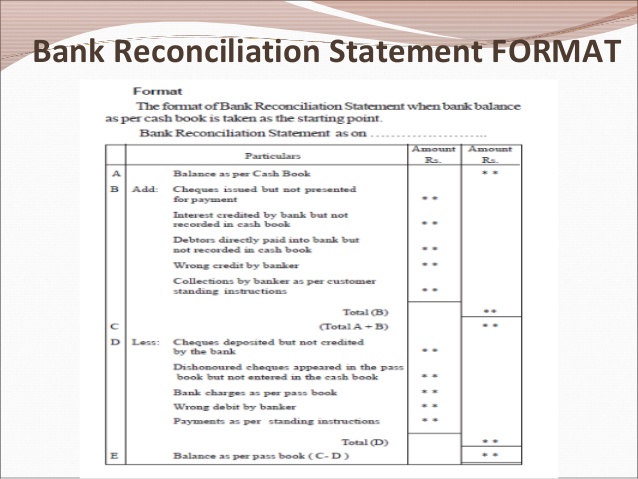
The purpose of BRS is to detetct any discrepencies between accounting records of the entity. The bank beside those due to normal timing differences. This statement prepared by the accountant in order to understand any difference between the balance in bank statement and the balance in accounting recored. It confirms the accurancy of the balance and provides the entries made in both th books and bank records, furthermore gives indication to update the books if some entries not recorede. Also help to check undue amount delay in the collection snd clearance of some cheques.

**Importance**

* Help to identify the errors in the accounting records of the company or the bank.
* Help to protect the valuable resource through uncovering irregularities such as unathorised bank withdrawal.
* It provided to added comfort that the bank transaction have been recorded correctly in the company records. And compares with the bank statement.
* Monthly preparation of the bank reconciliation assits in the regular monitoring of cash flow of a frim.

**Difference between cash book and bank statement**

|  |  |  |
| --- | --- | --- |
| Cash book | Aspects | Bank statement |
| Recorded by company in company cash book. | Definition | Recorded by the bank in bank records. |
| Deposit transit and outstanding cheques. | Transaction | Services charges, interest income and NSF. |
| Not include in the bank balance. | Nature | Not include in cash balance. |



**Conclusion**

In this part, finally I learned and covered about accounting fundamental. ? Accounting is an instrumental within organization as means of determining financial stability. Are responsible for determining wealth, profitability and liquidity. Is one of the oldest and most respected profession in the world and can be found in every industry from entertainment to medicine. It is a way of assessing the assets, liabilities and cash flow, for all current and future investors. Accounting history can be traced back to book called *Summa de arithmethica, geometria, proportioni ET proportionalita* written by the Italian mathematician Luca Pacioli in A.D 2494. Luca Pacioli also known as The Father of Accounting. Accounting is the most important part of any successful business. It records all profits, losses, credits and debits. Need to understand how the business grows, make money, where the profit of business goes and what is cash flow is. Account payable is purchase goods or services on credits which needs to paid back in a short period of time. It is treated as a liability and comes under the head of current liabilities. Account receivable is an amount that is owed to a company by a customer who purchased goods or services on credit. Balance sheet is the financial statement of a company which includes assets, liability, equity capital, and total debit and more. that the total value of the assets of a business is always equal to its liabilities, plus owner’s equity. Any business that is receiving and spending money will use banking and bank reconciliation procedure. Is a report which can be compares the bank balances as per company accounting records with balance stated in the bank statement.

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**Appendix**



Figure 1. Luca Pacioli. Wikipedia.

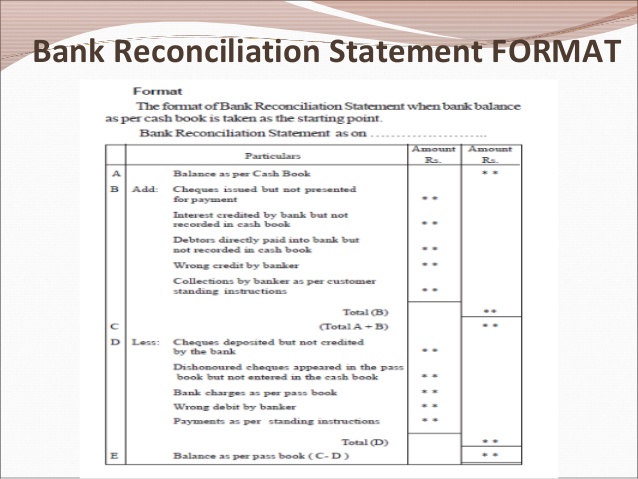


Figure 2. Bank reconciliation statement adapted from Sri Vidhya (2015, slides 8)

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