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**Executive Summary**

In the module, I covered the topic about Accounting fundamentals. In starting part, we can see the introduction of accounting . What is the accounting fundamentals.In first part, I describe define a accounting concept meaning with more details ,double entry and role of accounting. In the second part, i explain the difference between accounts payable and accounts receivable. Third part, i will explain why does a company profit appear as a credit on its balance sheet. Finally, I will explain topic what is meant by reconciling an account.

INTRODUCTION ACCOUNTING

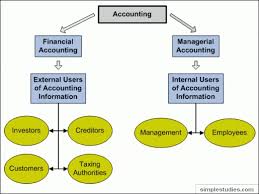
The name that looms largest in early accounting history is Luca Pacioli, who in 1494 first described the system of double-entry bookkeeping used by Venetian merchants in his “Summa de Arithmetica, Geometria, Proportioni et Proportionalita.” Of course, businesses and governments had been recording business information long before the Venetians. But it was Pacioli who was the first to describe the system of [debits](http://www.investopedia.com/terms/d/debit.asp) and [credits](http://www.investopedia.com/terms/c/credit.asp) in [journals](http://www.investopedia.com/terms/j/journal.asp) and [ledgers](http://www.investopedia.com/terms/g/generalledger.asp) that is still the basis of today's accounting systems.

The [industrial revolution](http://www.investopedia.com/terms/i/industrial-revolution.asp) spurred the need for more advanced [cost accounting](http://www.investopedia.com/terms/c/cost-accounting.asp) systems, and the development of corporations created large groups who were not part of a firm’s management but had a vested interest in the company’s results—namely, shareowners and bondholders who provided external financing. The rising public status of accountants helped to transform accounting into a profession, first in the United Kingdom and then in the United States. In 1887, thirty-one accountants joined together to create the American Association of Public Accountants. The first standardized test for accountants was given a decade later, and the [first CPAs were licensed in 1896](http://www.h-net.org/~business/bhcweb/publications/BEHprint/v025n1/p0252-p0266.pdf" \t "_blank).

The [Great Depression](http://www.investopedia.com/terms/g/great_depression.asp) led to the creation of the [Securities and Exchange Commission](http://sec.gov/" \t "_blank) (SEC) in 1934. All publicly-traded companies were required to file periodic reports with the Commission which had been? certified by members of the accounting profession. The [American Institute of Certified Public Accountants](http://aicpa.org/" \t "_blank) (AICPA) and its predecessors had responsibility for setting accounting standards until 1973, when the [Financial Accounting Standards Board](http://www.fasb.org/" \t "_blank) (FASB) was established. In WHEN TK, the AICPA and the FASB began to establish the Generally Accepted Accounting Principles (GAAP) standards for the U.S. The accounting industry thrived in the late 20th century, as the large accounting firms expanded their services beyond the traditional [auditing](http://www.investopedia.com/terms/a/audit.asp) function to many forms of consulting. However, as their responsibilities expanded beyond that of financial watchdog, accounting firms also began to get embroiled in corporate scandals.

The [Enron](http://www.investopedia.com/terms/e/enron.asp) scandal in 2001 had broad repercussions for the accounting industry. One of the top accounting firms, Arthur Andersen, went out of business and, under the [Sarbanes-Oxley Act](http://www.investopedia.com/terms/s/sarbanesoxleyact.asp), accountants faced tougher restrictions on their consulting engagements. One of the paradoxes of the profession, however, is that accounting scandals generate more work for accountants, and demand for their services continued to boom throughout the early part of the 21st century.





**Assignment Questions**

**Question 1**

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

Accounting concepts are those basis assumptions upon which basic process of accounting is based. Following are the basic accounting concepts:  
  
1) Business Entity Concept  
  
2) Dual Aspect Concept  
  
3) Going Concern Concept  
  
4) Accounting Period   
  
5) Concept Cost Concept   
  
6) Money Measurement Concept  
  
7) Matching Concept  
  
**Explain the following:**  
  
**a) Business Entity Concept:**  
  
According to this concept, the business has a separate legal identity than the person who owns the business. The accounting process is carried out for the business and not for the person who is carrying out the business. This concept is applicable to both, corporate and non corporate organizations.  
  
**b) Dual Aspect Concept:**  
  
According to this concept, every transaction has two affects. This basic relationship between assets and liabilities which means that the assets are equal to the liabilities remains the same.  
  
**c) Going Concern Concept:**  
  
According to this concept, the organization is going to be in existence for an indefinite period of time and is not likely to close down the business in the shorter period of time. This affects the valuation of assets and liabilities.  
  
**d) Accounting Period Concept:**  
  
According to this concept, the indefinite period of time is divided into shorter time periods, each one being in the form of Accounting period, in order to facilitate the preparation of financial statements on periodical basis. Selection of accounting period depends on characteristics like business organization, statutory requirements etc.  
  
**e) Cost Concept:**  
  
According to this concept, an asset is recorded at the cost at which it is acquired instead of taking current market prices of various assets.  
  
**f) Money Measurement Concept:**  
  
According to this concept, only those transactions find place in the accounting records, which can be expressed in terms of money. This is the major drawback of financial accounting and financial statements.  
  
**g) Matching Concept:**  
  
According to this concept, while calculating the profits during the accounting period in a correct manner, all the expenses and costs incurred during the period, whether paid or not, should be matched with the income generated during the period.

Double entry

The [double entry](https://www.accountingcoach.com/blog/double-entry-bookkeeping" \o "What does double entry mean?) system of accounting or [bookkeeping](https://www.accountingcoach.com/blog/what-is-bookkeeping" \o "What is bookkeeping?) means that every business transaction will involve two accounts (or more). For example, when a company borrows money from its bank, the company's Cash account will increase and its liability account Loans Payable will increase. If a company pays $200 for an advertisement, its Cash account will decrease and its account Advertising Expense will increase.  
  
Double entry also allows for the [accounting equation](https://www.accountingcoach.com/blog/accounting-equation" \o "What is the accounting equation?) (assets = liabilities + owner's equity) to always be in balance. In our example involving Advertising Expense, the accounting equation remained in balance because expenses cause [owner's equity](https://www.accountingcoach.com/blog/what-is-owners-equity" \o "What is owner's equity?) to decrease. In that example, the asset Cash decreased and the owner's capital account within owner's equity also decreased.  
  
A third aspect of double entry is that the amounts entered into the [general ledger accounts](https://www.accountingcoach.com/blog/what-is-a-general-ledger-account" \o "What is a general ledger account?) as debits must be equal to the amounts entered as credits.

The Role Of Accounting In Business

* + [Accounting](https://www.boundless.com/accounting/definition/accounting/) communicates information that owners, managers, and investors need to evaluate a company’s financial performance.
  + Accountants typically work in one of two major fields: [management](https://www.boundless.com/accounting/definition/management/) accounting, which helps you keep your business running, or [financial accounting](https://www.boundless.com/accounting/definition/financial-accounting/), which tells you how well you’re running it.
  + The purpose of management accounting is to supply relevant, accurate, timely information to managers in a format that will aid them in making decisions.
  + The purpose of financial accounting is to provide information that helps with the assessment of a firm's financial history and current performance.
  + Financial accounting includes income statements, [balance sheets](https://www.boundless.com/accounting/definition/balance-sheet/), and statements of [cash flows](https://www.boundless.com/accounting/definition/cash-flows/).

**Question 2**

What is the differences between accounts payable and accounts receivable?

|  |  |  |
| --- | --- | --- |
|  | Account receivable | Account payable |
| Definition | Payment which the company will receive from its customers who have purchased goods and services on credit. Customers who have purchased goods and services are called debtors. | When a company purchases goods on credit which needs to be paid back in a short period of time. Account payable is short-term debt payment which needs to be paid to avoid default. |
| Family | Assets | Liabilities |
| Example | Sold goods RM 500 on credit | Bought goods RM200 on credit |

1. Purchase

|  |  |
| --- | --- |
| Dt | Cr |
| Cash RM 1200 |  |

Cash

|  |  |
| --- | --- |
| Dt | Cr |
|  | Purchase RM 1200 |

1. Salaries expenses

|  |  |
| --- | --- |
| Dt | Cr |
| Cash RM 900 |  |

Cash

|  |  |
| --- | --- |
| Dt | Cr |
|  | Salaries expenses RM 900 |

1. Rental expenses

|  |  |
| --- | --- |
| Dt | Cr |
| Bank RM 2000 |  |

Bank

|  |  |
| --- | --- |
| Dt | Cr |
|  | Rental expense RM 2000 |

1. Purchase

|  |  |
| --- | --- |
| Dt | Cr |
| Creditor RM 1500 |  |

Creditor

|  |  |
| --- | --- |
| Dt | Cr |
|  | Purchase RM 1500 |

1. Cash

|  |  |
| --- | --- |
| Dt | Cr |
| Sales RM 1500 |  |

Sales

|  |  |
| --- | --- |
| Dt | Cr |
|  | Cash RM 1500 |

1. Cash

|  |  |
| --- | --- |
| Dt | Cr |
| Commission received RM 1300 |  |

Commission received

|  |  |
| --- | --- |
| Dt | Cr |
|  | Cash RM 1300 |

1. Cash

|  |  |
| --- | --- |
| Dt | Cr |
| Discount received RM 250 |  |

Discount received

|  |  |
| --- | --- |
| Dt | Cr |
|  | Cash RM 250 |

1. Debtor

|  |  |
| --- | --- |
| Dt | Cr |
| Sales RM 250 |  |

Sales

|  |  |
| --- | --- |
| Dt | Cr |
|  | Debtor RM 250 |

**Question 3**

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

## Introduction to Balance Sheet

The accounting balance sheet is one of the major financial statements used by accountants and business owners. (The other major financial statements are the [income statement](https://www.accountingcoach.com/terms/I/income-statement), [statement of cash flows](https://www.accountingcoach.com/terms/S/statement-of-cash-flows), and [statement of stockholders' equity](https://www.accountingcoach.com/terms/S/stockholders-equity)) The balance sheet is also referred to as the statement of financial position.

The balance sheet presents a company's financial position at the end of a specified date. Some describe the balance sheet as a "snapshot" of the company's financial position at a point (a moment or an instant) in time. For example, the amounts reported on a balance sheet dated December 31, 2016 reflect that instant when all the transactions *through December 31* have been recorded.

Because the balance sheet informs the reader of a company's financial position as of one moment in time, it allows someone—like a creditor—to see what a company *owns* as well as what it *owes* to other parties as of the date indicated in the heading. This is valuable information to the banker who wants to determine whether or not a company qualifies for additional credit or loans. Others who would be interested in the balance sheet include current investors, potential investors, company management, suppliers, some customers, competitors, government agencies, and labor unions.

In **Part 1** we will explain the components of the balance sheet and in **Part 2** we will present a sample balance sheet. If you are interested in balance sheet analysis, that is included in the [**Explanation of Financial Ratios**](https://www.accountingcoach.com/financial-ratios/explanation).

We will begin our explanation of the accounting balance sheet with its major components, elements, or major categories:

* Assets
* Liabilities
* Owner's (Stockholders') Equity

In [AccountingCoach PRO](https://www.accountingcoach.com/pro) you will find some special materials on the balance sheet. For example, the video seminar Understanding Financial Statements provides a line-by-line explanation of a balance sheet. PRO also includes a visual tutorial, business forms, and exam questions that will help you learn and retain information on the balance sheet.

## Assets

[Assets](https://www.accountingcoach.com/terms/A/assets) are things that the company owns. They are the resources of the company that have been acquired through transactions, and have future economic value that can be measured and expressed in dollars. Assets also include costs paid in advance that have not yet [expired](https://www.accountingcoach.com/terms/E/expired-costs), such as prepaid advertising, prepaid insurance, prepaid legal fees, and prepaid rent. (For a discussion of prepaid expenses go to [Explanation of Adjusting Entries](https://www.accountingcoach.com/adjusting-entries/explanation).)

Examples of asset accounts that are reported on a company's balance sheet include:

* [Cash](https://www.accountingcoach.com/terms/C/cash)
* [Petty Cash](https://www.accountingcoach.com/terms/P/petty-cash)
* [Temporary Investments](https://www.accountingcoach.com/terms/T/temporary-investments)
* [Accounts Receivable](https://www.accountingcoach.com/terms/A/accounts-receivable)
* [Inventory](https://www.accountingcoach.com/terms/I/inventory)
* [Supplies](https://www.accountingcoach.com/terms/S/supplies)
* [Prepaid Insurance](https://www.accountingcoach.com/terms/P/prepaid-insurance)
* [Land](https://www.accountingcoach.com/terms/L/land)
* [Land Improvements](https://www.accountingcoach.com/terms/L/land-improvements)
* [Buildings](https://www.accountingcoach.com/terms/B/buildings)
* [Equipment](https://www.accountingcoach.com/terms/E/equipment)
* [Goodwill](https://www.accountingcoach.com/terms/G/goodwill)

Usually asset accounts will have *debit* balances.

[Contra assets](https://www.accountingcoach.com/terms/C/contra-asset-account) are asset accounts with *credit* balances. (A credit balance in an asset account is contrary—or contra—to an asset account's usual debit balance.) Examples of contra asset accounts include:

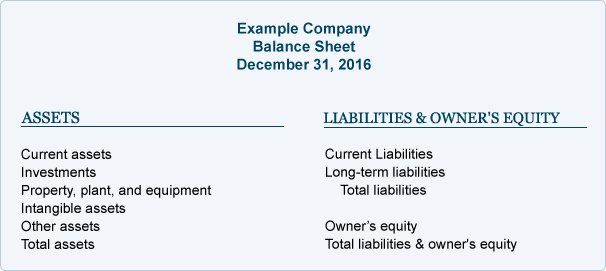
* [Allowance for Doubtful Accounts](https://www.accountingcoach.com/terms/A/allowance-for-doubtful-accounts)
* [Accumulated Depreciation-Land Improvements](https://www.accountingcoach.com/terms/A/accumulated-depreciation-land-improvements)
* [Accumulated Depreciation-Buildings](https://www.accountingcoach.com/terms/A/accumulated-depreciation-buildings)
* [Accumulated Depreciation-Equipment](https://www.accountingcoach.com/terms/A/accumulated-depreciation-equipment)
* [Accumulated Depletion](https://www.accountingcoach.com/terms/A/accumulated-depletion)
* Etc.

**Classifications Of Assets On The Balance Sheet**

Accountants usually prepare [classified balance sheets](https://www.accountingcoach.com/terms/C/classified-balance-sheet). "Classified" means that the balance sheet accounts are presented in distinct groupings, categories, or classifications. The **asset classifications** and their order of appearance on the balance sheet are:

* [Current Assets](https://www.accountingcoach.com/terms/C/current-assets)
* [Investments](https://www.accountingcoach.com/terms/I/investments)
* [Property, Plant, and Equipment](https://www.accountingcoach.com/terms/P/property-plant-and-equipment)
* [Intangible Assets](https://www.accountingcoach.com/terms/I/intangible-assets)
* [Other Assets](https://www.accountingcoach.com/terms/O/other-assets)

An outline of a balance sheet using the balance sheet classifications is shown here:

[](https://www.accountingcoach.com/wp-content/uploads/2013/10/05X-table-01@2x.png)

To see how various asset accounts are placed within these classifications, [view the sample balance sheet in Part 4](https://www.accountingcoach.com/balance-sheet/explanation/4#balance-sheet-sample).

**Question 4**

What is meant by reconciling an account

Account [reconciliation](http://www.investopedia.com/video/play/reconciliation-0/) is also important for businesses. Businesses must reconcile their accounts to check for fraud and to prevent [balance sheet](http://www.investopedia.com/terms/b/balancesheet.asp) errors. Businesses typically use [accounting software](http://www.investopedia.com/terms/a/accounting-software.asp) to help them perform account reconciliations. Mistakes can have serious ramifications for publicly traded companies. For example, an [auditor](http://www.investopedia.com/terms/a/auditor.asp) who reviews the company’s [financial statements](http://www.investopedia.com/terms/f/financial-statements.asp) in accordance with federal regulations such as the Sarbanes-Oxley Act could find a material error, which the company would have to publicly disclose as a failure of controls, a material misstatement and/or a material weakness. Without accurate financial information, a company cannot make well-informed decisions.

## Difference Between Double-Entry Reconciliation and Account Conversion

In double-entry accounting, an accountant posts every financial transaction in two columns of a business's balance sheet. For example, if the business takes out a long-term loan for $10,000, the accountant credits long-term debt or notes payable with that amount and debits the cash column with the same amount. When these amounts are added together, the account reconciles or balances at 0.

Similarly, imagine that a business incurs an invoice for carpet cleaning services. It credits the amount of the invoice in its accounts payable column, and it debits its column devoted to office cleaning and similar expenses for the same amount. When the company pays the bill, it debits accounts payable and credits the office cleaning column.

Under the account conversion method, businesses or individuals compare records such as receipts or canceled checks with the entries in its ledger.

In bookkeeping, a bank reconciliation is a process that explains the difference on a specified date between the bank balance shown in an organization's [bank statement](https://en.wikipedia.org/wiki/Bank_statement), as supplied by the bank, and the corresponding amount shown in the organization's own accounting records.[[1]](https://en.wikipedia.org/wiki/Bank_reconciliation#cite_note-Warren2010-1)

Such differences may occur, for example, because

* [cheques](https://en.wikipedia.org/wiki/Cheque) issued by the organization have not been presented to the bank
* a banking transaction, such as a credit received, or a charge made by the bank, has not yet been recorded in the organization's books
* either the bank or the organization itself has made an error.

Sometimes it may be easy to reconcile the difference by looking at very recent [transactions](https://en.wikipedia.org/wiki/Financial_transaction) in the bank statement and the organization's own accounting records (cash book) and seeing if some combination of them tallies with the difference to be explained. Otherwise it may be necessary to go through and match every transaction in both sets of records since the last reconciliation, and see what transactions remain unmatched. The necessary adjustments should then be made in the cash book, or reported to the bank if necessary, or any timing differences recorded to assist with future reconciliations.

For this reason, and to minimise the amount of work involved, it is good practice to carry out such reconciliations at reasonably frequent intervals. Reconciliations may be assisted by specialised [accounting software](https://en.wikipedia.org/wiki/Accounting_software).

A Bank reconciliation statement is a statement prepared as part of the reconciliation which sets out the entries which have caused the difference between the two balances.

## Bank Reconciliation Defined

Have you ever balanced your checkbook? Why did you do that? Was it to make sure that you didn't make any mistakes when you were adding deposits or subtracting expenses? I bet it was because you wanted to make sure that your balance in your checkbook was the same as the balance in the bank, right? Everything that we just talked about refers to what we in accounting commonly call doing a bank reconciliation. A bank reconciliation is the balancing of a company's cash account balance to its bank account balance.

## Preparing a Reconciliation

Since it is really important to make sure that the cash account and the bank account balances match, a company prepares bank reconciliations on a monthly basis. There are several steps that are involved in this, but, even so, it is a relatively simple thing to do. Let's go through the steps and prepare the reconciliation.

Step 1: Collect the documents that you will need to prepare the reconciliation. The most common documents would be the bank statement that is received from the bank and the check register for the month. In the accounting industry, most check registers are printed off of accounting software and used for the reconciliation. The bank statement tells you what the bank balance was at the beginning of the month, the deposits the bank has on record for the account, the withdrawals that have been made from the account, and the ending balance of the account on a specific date. The check register will show all the deposits and withdrawals that were made by the company during a given time period. There is one key difference between the bank statement and the check register. The bank statement only lists deposits and withdrawals that have processed through the bank, while the check register lists all the deposits and withdrawals that a company had in a specific period, regardless of if it has cleared the bank or not.

Step 2: The second step in preparing the bank reconciliation is the most tedious. The object of this step is to account for all the deposits and withdrawals that a company has recorded and that have also cleared the bank. If you are manually preparing the reconciliation, you would highlight or check off the entries that are common among the two. In a computerized accounting program, you can simply just click on the entries to mark them as cleared. Cleared means that the item has been recorded in both the company's records and the bank's records.

Step 3: Once you have marked the items that are cleared on the check register, you move to the next step. In this step, you will make a list of any items that have been recorded in the check register but have not cleared the bank. Typically, a company will always have outstanding debits in the month. Outstanding debits are checks and other withdrawals that have been recorded in the company's cash account but have not yet been recorded in the bank's accounting records. There may also be outstanding credits that need to be accounted for. Outstanding credits are deposits that have been recorded in company's records but don't yet appear on the bank's records.

Step 4: Now that you have all the outstanding debits and outstanding credits together, it's time to do the math. Any debits that haven't been accounted for will need to be deducted from the balance on the bank statement. Likewise, any credits that have not been accounted for will be added to the balance on the bank statement. In a perfect world, once this step is complete, the current balance in the checkbook should match the adjusted bank statement balance.

Step 5: Notice that I just said, 'in a perfect world the balances would match'. It's not always a perfect world. Sometimes the balances don't match. That's when your detective skills come into play. If the current balance in the checkbook does not match the adjusted bank statement balance, then you have to start looking for errors. The most common error that occurs and is discovered in the reconciliation process is called transposition. Transposition occurs when the order of numbers are inadvertently switched during the recording process. For example, let's say that a check was written for $412 to pay a utility bill but was recorded in the checkbook as $421.00. That error would cause a $9 difference between the two balances. Of course, there could be other errors that cause the balances not to equal. Either a check or a deposit may not have been recorded or something may have been recorded twice. These are things that can be found and fixed in the reconciliation process.

**Conclusion**

Accounting is termed as a process meant for keeping records of the transactions financial in nature. Accounting is a practical, engaging subject with concepts that requires skills in both legal studies as well as mathematics. Accounting enables businesses to analyse the financial performance by determining the profit or loss made during a certain period. Hence it is sometimes called the “language of business”. Accounting involves the process of identifying, measuring, recording and communicating the economic events of an organization (business or non-business) to interested users of the information.

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**Appendix**

