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Course Title: ESSENTIALS OF ACCOUNTING FUNDMENTALS

Subject Code: BHM03

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**EXECUTIVE SUMMARY**

The aim of this assignment is to investigate the brief explanation of accounting and also to know about financial statements in accounting such as profit & loss statement, trading account, balance sheet and bank reconciliation statement. It’s perform a variety of professional level accounting duties involved in preparing, maintaining, analysing, verifying and reconciling complex financial transactions.

**INTODUCTION**

The purpose of accounting is to provide a recording, reporting, summarizing, and interpreting economic data. An accounting system must be designed in order to do this. A system design serves the needs of users of accounting information. Once a system has been designed, reports can be issued and decisions based upon these reports are made for various departments. Since accounting is used by everyone in one form or another, a good understanding of accounting principles is beneficial to all.

**ASSIGNMENT QUESTIONS**

**QUESTION 1**

Accounting can be described as a means used by individuals and business entities to record their financial transactions and measure their financial performance. Accounting enables businesses to analyse the financial performance by determining the profit or loss made during a certain period. Accounting started from the beginning of civilisation. Early accounting involved primitive methods and as trade grew, accounting becomes more sophisticated. The Chinese introduced the abacus for counting and calculating. Accounting dealt with money instead of actual goods with the arrival of coins

Double entry system is a method of bookkeeping that recognizes both sides of a business transaction by debiting the amount of the transaction to one account and crediting it to another account so the total debits equal the total credits. The double-entry bookkeeping was developed and introduced by Luca Pacioli during the Renaissance when businesses grew larger and transactions became complex. The entry will be debited when an increase in assets and expenses while an decrease in assets and expenses, the entry will be credited The entry will be credited when an increase in liability and income while an decrease in liability and income, the entry will be debited.

**QUESTION 2**

|  |  |  |
| --- | --- | --- |
|  | 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**

Balance sheet defined as financial statement that summarizes a company’s assets, liabilities and shareholder’s equity at a specific point in time. These three segments give investors an idea as to what the company owns and owes as well as the amount invested by shareholder.

Balance sheet

|  |  |
| --- | --- |
| Dr | Cr |
|  | Liabilities |
|  | Equity and capitals  Capitals xxx  (+) net profit / (-) net loss xxx  \_\_\_\_  xxx  (-) drawings (xxx)  \_\_\_\_\_  xxx |

Accounting equation is the foundation of double entry accounting. It’s describes that the total value of assets of a business is always equal to its liabilities plus owner’s equity.

Accounting equation: assets = liabilities + owner’s equity

Trading account defined as account which is prepared to determine the gross profit of a business concern. Trading account is similar to a traditional bank account, holding cash and securities and is administered by an investment dealer.

Profit & loss account is defined as financial statement that summarizes revenues, costs and expenses incurred during specific period of time. These accounts are to provide information about organization’s ability or lack to generate profit by increasing revenue, reducing costs or both. Profit & loss account starts with the result provided by trading account

**QUESTION 4**

Bank reconciliation statement is a summary of banking and business activity that reconciles an entity’s bank account with its financial records. The statement outlines the deposits, withdrawals and other activity impacting a bank account for a specific period. This is a useful financial internal control tool used to thwart fraud.Importance of bank reconciliation statement is it assists to cause of differences between cash and passbook balances. It also assists to calculate the actual bank balances. It assists to find out mistakes committed in cashbook and passbook. It also shows the transaction not recorded either by cash book or pass book. It assists to maintain up to date record and tries to avid in collection and payment.Differences between cash book and bank statement is there are usually some error in cash book but there will be no error in bank reconciliation statement. Omissions such as bank charges, standing orders and direct debit not posted in cash book while omission will post in bank reconciliation statement. There are timing differences such as unpresented cheques and unrecorded lodgements between cash book and bank reconciliation statement.

**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.

**REFERENCES**

1. Online (http:// [www.acowtancy.com/textbook/acca-f3](http://www.acowtancy.com/textbook/acca-f3))
2. Online (http://www.investopedia.com)