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**Executive Summary**

In this assignment, I going to elaborate about basics of accounting fundamental. And also, I learned general things of accounting. Such as, assets, expenses, liability, income, and more. But, I’m just going to answer mainly about the assignment questions. The first question of this assignment was brief in a comprehensive response, define the role of accounting. The second part is what is the difference between accounts payable and accounts receivable?. The third thing is going be why does a company’s profit appear as a credit on its balance sheet?. And the last question is what is meant by reconciling an account?. These are the questions that I’m moving to answer in explained way.

**Introduction**

In this assignment, I studied about basic of accounting fundamental. What is accounting in general? , I learned that accounting is a bright but misunderstood field. A formal definition of accounting that I understood is about process of identifying, measuring and communicating system to legal document informed judgments and decisions by users of the information.

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**Assignment Questions**

**Question 1**

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

Accounting is a system of recording financial transactions and also methods for recording transactions. The accounting also keeping financial records, performing internal accounting system. The way of accounting which is going through by reporting, analyzing financial information to the management, summarizing, and advising on taxation matters. But the process of accounting in systematic ways are identifying, recording, measuring, classifying, verifying, interpreting and communicating financial information.

The purpose of analyzing in accounting is checking the numbers. Reports of accounting are like tax reports, balance sheet, salary statement, statement of cash flows, statement of retained earnings and disclosures that accompany the financial statements. The main function of this accounting is its is important for all the business.

History of Accounting

The accounting was created by Luca Pacioli, in a simple concept which is double-entry. In that case . he also called as Father of Accounting, the founder of this concept. Double-entry is an accounting and bookkeeping term describing the method of entering transactions into the accounting records. Entries are made into the accounting records as debits and credits.

Double-Entries

The double-entry system of accounting or bookkeeping means that every business business transaction will involve two accounts. Each accounting entry will adjust one account, and have an equal but opposite effect on another account, so the debit account is always equal to the credit account.

The system of double-entry accounting arises because it makes it easier to insure that all entries are made correctly. If the credits and debits don’t match, the accountant knows immediately that there is an error in the books.

Debits and credits are terms used in accounting bookkeeping and have been used for period of time.They are key part of the double-entry system , that every business transaction will affect a minimum of two accounts. One of the accounts will receive a credit entry, the amounts entered as debits must be equal to the accounts entered as credits.Debit as an entry on the left side of an account, and a credit as entry on the right side of another account. Accountants usually use in T-ledger accounts to visualize the debit and credit effects on the accounts’ balances.

In double entry concept there are categorized by debit and credit, but in debit side consists of two items. The two items are expenses and assets. In credit side also consists another two items which is income and liability. Examples of each items are in expenses is salaries,in income is commission received, assets is land building and in liability is creditors.

An expense in accounting is the money spent or cost received in an entity’s efforts to generate revenue. Expenses represent the cost of doing business where doing in all business is the sum total of the activities directed towards making a profit. Accounting income is defined as an estimate of performance in the operations of a company. Accounting income or loss usually recognizes realized gains and losses , and does not recognize unrealized gains and losses.

The things in assets that are resources owned by a company and which have future economic value that can be measured and be expressed in currencies. A liability is a company debt or cause that arise during the course of its business operations. Liabilities are settled over time through the transfer of economic benefits including money, goods or services.

But there is also have some general rules which like expenses will have debit entries and will have debit balances, while revenues will have credit entries and will have credit balances. Assets will have debit and credit entries, but will usually have debit balances, liabilities will have debit and credit entries, but will usually have credit balances. Lastly, stockholders’ equity accounts could have debit and credit entries, but the combined total for profitable corporation will be a credit.There are some examples of each house; here they are

Expenses > Bought goods by cash $1200.

Dr Purchase Cr Dr Cash Cr

= Dr - Purchase - $ 1200

Cr - Cash - $ 1200

Income > Sold goods $500 on cash.

Dr Sales Cr Dr Cash Cr

= Dr - Sales - $ 500

Cr - Cash - $ 500

Liability > Bought goods $1500 on credit.

Dr Purchase Cr Dr Creditor Cr =Dr - Purchase - $1500

Cr - Creditor - $1500

Asset > Paid salaries on cash $900

Dr Salary Cr Dr Cash Cr

= Dr - Salary - $900

Cr - Cash - $900

User of Accounting Information

The role of accounting only will used by some parties. Which like business owners, banker or creditor, investor, government for paying tax in business and employee. The business owners using it for analyzing the viability and profitability of their investment and determining any future course of action. While, employees using it for assessing company’s profitability and its result on their future earnings and job security.

In creditors side, they are using it for determining the credit worthiness of the organization. Terms of credit are set by creditors according to the assessment of their customer’s financial health. Creditors or bankers include suppliers as well as lenders of finance such as banks. Investors needs it for analyzing the practicability of investing in the company. Investors wants to make sure that they can earn a reasonable return on their investment before they commit in any other financial resources to the company, and also assessing the financial position of its suppliers which is necessary for them to maintain a stable source of supply in the long term. And lastly, the government absolutely needs it for determining the credibility of the tax returns field on behalf of the company and for ensuring that the company’s revealing of accounting information is in giving with the rules and regulations set in order to protect the interest of the stakeholders who believe on such information in forming their decisions.

**Question 2**

**What is the difference between accounts payable accounts receivable ?**

Account Payable

Accounts payable defined that when a company purchases goods on credit which is needs to be paid back in a short period of time, it is known as Accounts Payable. It is processed as a liability and comes under the head current liabilities. Accounts Payable is a short-term debt payment which is needs to be paid to avoid default. It always buy on creditor. Creditors always pay this to people by cash, cheque and on credit.

Example > Bought goods on credit $1200.

Expenses- Dr Liability- Cr

Dr Purchases Cr Dr Creditor Cr

**$ $**

**1500 1500**

**Creditor Purchases**

Dr - Purchases - Expenses

Cr - Creditor - Liability

Account Receivable

Account receivable is the proceeds or payment which the company will receive from its customers who have purchased its goods & services on credit. Usually the credit period is short intense from few days to months or in some cases maybe a year. The company sells its goods and services both in cash as well as on credit.

When a company extends credit to the customer, the sale is realised when the invoice is generated, but the company extends a time of period to the customers to pay amount after sometime. Account Receivables are treated as current assets on the balance sheet.

Example > Sold goods on credit $1500.

Income - Cr Asset - Dr

Dr Sales Cr Dr Debtor Cr

$ $

1500 1500

**Debtor Sales**

Dr - Debtor - Assets

Cr - Sales - Income

Question 3

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

Balance Sheet

The accounting balance sheet is one of the major financial statements used by accountants and business owners. 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. 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 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.

The accounting balance sheet with its major categories; which is asset, liability and equity. 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, such as prepaid advertising, prepaid insurance, prepaid legal fees, and prepaid rents. Examples of asset accounts that are reported on a company’s balance sheet are cash, petty cash, temporary investments, accounts receivable, inventory, supplies, prepaid insurance, land, land improvements, buildings, equipment and goodwill.

Liabilities are obligations of the company; they are amounts owed to creditors for a past transaction and they usually have the word “payable” in their account title. Along with owner’s equity, liabilities can be thought of as a source of the company’s assets. They can also be thought of as a claim against a company’s assets. Liabilities also include amounts received in advance for future services. Examples of liabilities accounts reported on a company’s balance sheet are notes payable, accounts payable, salaries payable, wages payable, interest payable, other accrued expenses payable, income taxes payable, customer deposits, warranty liability, lawsuits payable, unearned revenues and bonds payable. Liability accounts will normally have credit balances.

Accounting Equation

From the large, multi-national corporation down to a grocery store, every business transaction will have an effect on a company's financial position. The financial position of a company is measured by **assets** (what it owns), **liabilities** (what it owes to others) and **equity** (the difference between assets and liabilities). The accounting equation offers us a simple way to understand how these three amounts relate to each other. The accounting equation for a sole partnership is:

Assets = Liabilities + Equity

Assets are a company’s resources-things the company owns. From the accounting equation, I saw that the amount of assets must equal the combined amount of liabilities plus equity. Liabilities are a company’s obligation-amounts the company owes. Liabilities can be viewed in two ways; which like claims by creditors against the company’s assets, and a source-along with owner or stockholder equity-of the company’s assets.

Equity is the amount left over after liabilities are deducted from assets:

Assets - Liabilities = Equity

Equity also reports the amounts invested into the company by the owners plus the increasing net profit of the company that has not been withdrawn or distributed to the owners. Why the net profit can sit on credit side because it is showing the wealth of business.

If a company keeps accurate records, the accounting equation will always be “in balance,” meaning the left side should always equal the right side. The balance is maintained because every business transaction affects at least two of a company’s accounts. A company keeps track all of its transactions by recording them in accounts in the company’s general ledger. Each account in the general ledger is designated as to its type: asset, liability, equity, revenue, expense, gain, or loss account.

EQUITY AND CAPITALS

Capitals XXXX

(+) net profit / (-) net loss XXXX

XXXX

(-) drawings (XXXX)

XXXX

Trading Account

The trading account is called about to determine the gross profit or gross loss of a business concern. The net profit or net loss which is determined through profit and loss account. The trading accounting has follows the first stage of final accounts of a trading concern, and also prepared on the last day of an accounting period. And so, only direct revenue and direct expenses are considered in it. Direct expenses are recorded on its debit side and direct revenue on its credit side. All items of directs expenses and direct revenue concerning current year is considered in it. Lastly, if its credit side exceeds it represents gross profit and if debit side exceeds it shows gross loss.

Gross profit is a important data in business, since all business expenses are met out of it. So the amount of gross profit should be suitable to meet the indirect expenses of a business concern. The amount of net sales can be determined through this account. Gross sales can be verified from sales account in the ledger, but net sales cannot be so obtained. The sales of a business is a net sales not gross sales. Net sales are determined by deducting sales returns from gross sales in trading account.

Profit And Loss Account

The account through which every year net profit or loss of a business is find out, is called profit and loss account. Gross profit or loss of a business is verified through trading account and net profit is determined by deducting all indirect expenses from the gross profit through profit and loss account. Thus profit and loss account starts with the results given by trading account.

The particulars required for the preparation of profit and loss account are available from the trial balance. Only indirect expenses and indirect revenues are considered in it. This account starts from the result of trading account (gross profit and gross loss). 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. All indirect expenses are transferred on the debit side of this account and all indirect revenues on credit side. If the total of the credit side exceeds the debit side,the results is “net profit” and if the total of the credit side, the result is net loss. As the net profit or net loss of a certain accounting period is determined through profit and loss account.

Gross profit is ascertained by deducting cost of goods sold from sales. Net profit is ascertained by deducting all indirect expenses from the gross profit.

CR DR

INCOME >> EXPENSES = NET PROFIT

DR CR

EXPENSES >> INCOME = NET LOSS

**NET SALES - COST OF SALES = GROSS PURCHASE**

Theory

Every businessman goes into a business with the idea of making profit, which is the reward of this effort. He tries his best to get more and more profit at the smallest economic cost. The role of accounting is to accumulate accounting data in such a manner that the amount of profit made or loss sustained during a particular period ascertained. The “final accounts” enable us to check on the conduct of the business, and to discover whether it is being run profitably. They are the means of conveying to the owner, management, creditors, and financial position of the business.

Trading and profit and loss account or income statement, which is prepared to know the profit earned or loss suffered by the business during a specific period and balance sheet, which is prepared to know the financial position of the business on a particular date.

**Question 4**

Bank reconciliation

A bank reconciliation is the process of matching the balances in quantity’s accounting records for a cash account to the similar information on a bank statement. The goal of this process is to ascertain the differences between the two, and to book changes to the accounting records as relevant. The information on the bank’s record of all transactions impacting the entity’s bank account during the past month.

A bank reconciliation should be completed at regular intervals for all bank accounts, to make sure that a company’s cash records are correct. Otherwise, it may find that cash balances are much lower than expected, resulting in bounced checks or overdraft fees. A bank reconciliation will also detect some types of fraud after the fact; this information can be used to design better controls over the receipt and payment of cash.

If there is so little activity in a bank account that there are really is no need for a routine bank reconciliation, you should question why the account even exits. It may be better to terminate the account and roll any balance funds into a more active account. By doing, it may be easier to invest the balance funds, as well as to monitor the status of the investment.

The purpose or importance of bank reconciliation are helps in identification of errors in the accounting records of the company or the bank. And so, cash is the most vulnerable asset of an entity. Bank reconciliations provide the necessary control mechanism to help protect the valuable resource through uncovering break such as unjustified bank withdrawals. Whatever, in order for the control process to work effectively, it is necessary to divide the duties of persons responsible for accounting and enabling of bank transactions and those responsible for preparing and monitoring bank reconciliation statements. If the balance appearing in the accounting records can be confirmed to be correct by comparing it with the bank statement balance, it provides added comfort that the bank transactions have been recorded correctly in the company records. Monthly preparation of bank reconciliation assists in the regular monitoring of cash flows of a business.

The Differences Between Cash Book And Bank Statement

The balance on the cash account; which should be the same as the balance in the cash book, is compared to the balance on the bank statements at a given date. However, these two balances may not agree. These are various reasons of it. Time lag between writing a cheque and the payment appearing on the bank statement as unpresented cheque. Time lag between depositing amounts into the bank account and these appearing on the bank statement as unrecorded lodgements. Directs debits and standing orders are not yet recorded in the cash account or cash book. Bank charges not recorded in the cash account or cash book. Errors, such as transposition errors, or casting errors in the cash account or cash book. Errors made by the bank on the bank statement.

Therefore, differences between the cash book and the bank statement arise for 3 reasons. They are errors that usually in the cash book. And so, omissions such as bank charges, standing orders and direct debits not posted in the cash book. Lastly, timing differences such as unpresented cheques and unrecorded lodgements.



Format of Bank Reconciliation Statement

* Cashbook

$ $

Balance from cashbook XX (-) (Cr) / Bank statement XX

(+)

(Dr) Bank statement XX c/d XX

XXX XXX

b/d XXX

* Bank Reconciliation Statement

$ $

Debit balance in cashbook XXX

(+)

unpresented cheque XX

XX XXX

XXX

(-) uncredited deposit (XX)

credit balance in Bank statement XXX

**Conclusion**

how much I have learned the basics of accounting fundamental; which is like can different between general purposes of it and its functions. And now I’m able to differences between the two sorts of accounting (financial accounting and management accounting). I also could be able to describe the different elements of financial information, such as income/revenue, costs/expenses, assets/liabilities, as well as identify the main financial statements like income statement, balance sheet and cash flow statement and their purposes.

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