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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 Acounting fundamentals.What is accounting and how importance accounting in daily life.In first part,I studied the meaning of accounting,history of accounting, role of accounting and will explain about 5 facts in it.In the second part,I will describe about what is the difference between accounts payable and accounts receivable.In the third part,I have understood why does a company’s profit appear as a credit on its balance sheet and also how to prepare of balance sheet in horizontal and vertical style.Finally,I will explain about reconciling an account?These are the questions that I’m moving to answer in explained way.**

**Introduction**

**In this assignment,I studied about the accounting fundamentals refers to principles,accounting concepts,and accounting terminology.Some of basic accounting terms that you will learn include revenues,expenses,assets,liabilities,income statement,balance sheet,and statement cash flows.I learned the accounting debits and credits as we show you how to record transactions.I also got understanding, why two basic accounting principles,the revenue recognition principle and the matching principle,assure that a company’s income statement reports a company’s profitability.**

**Assignment Questions**

**Question 1**

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

**Meaning of Accounting?**

**Accounting is a system of recording the financial transaction of the business.It is a proses of summarizing, analyzing and reporting financial transactions.It is one of the main function of organization because it reveals financial position during the period.**

**History of accounting?**

**The history accounting or accountancy is thousands of years old and can be traced to ancient civilizations.The early development of accounting dates back to ancient Mesopotamia, and is**

**closely related to development in writing,counting and money and early auditing system by the ancient Egytians and Babylonians.By the time of the Emperor Edrian Henio,the Roman government had access to detailed financial information.In india Chanakya wrote a manuscript similar to a financial management book, during the period of the Mauryan Empire. His book “arthashasthra” contains few detailed aspects of maintaining book of accounts for a Sovereign State.The Italian Luca Pacioli, recognized as The Father of accounting and booking was the first person to publish a work on double-entry bookkeeping, and introduced the field in Italy.The modern profession of the chartered accountant originated in Scotland in the nineteenth century. Accountants often belonged to the same associations as solicitors, often offered accounting service to their client. Early modern accounting had similarities to today’s forensic accounting. Accounting began to transition into an organized profession in the nineteenth century with local professional bodies in England merging to form the institute of Chartered accountants in England and Wales 1880.**

**Double Entry Accounting**

**“Double-entry accounting is based on the fact that every financial transaction has equal and opposite effects in at least two different accounts. It is used to satisfy the equation Assets=Liabilities+Equity, in which each entry is recorded to maintain the relationship.This is the same concept behind the accounting equation. Every debit that is recorded must be matched with a credit.The system of double entry accounting arises because its makes it easier to ensure that all entries are made correctly.If the credits don’t match the accountant knows immediately that there is an error in the books.Debits and credits are term used in accounting book keeping and have been used for period of time.They are kep 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 account entered as credits.Debits as an entry on left side of an account,an 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 concepts there are categorized by debit and credit,but in debit side consists of 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 liability is creditors.**

**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**

**What is role of Accounting?**

**Accounting is often called the language of business.Because,it communicates so much of the information that owners,managers,and investors need to evaluate a company’s financial performance.These people’s are all stakeholders in the business they are interested in its activities because they are affected by them.In fact,the purpose of accounting is to help stakeholders make better business decisions by provide them with financial information.**

**Business Honest :The role of accounting in business is to help internal and external stakeholders make better business decisions by providing with them financial information.**

**Employees : The role of accounting about employees is prepares asset,liability,and capital account entries by compiling and analyzing account information.Documents financial transactions by entering account information.Maintains accounting controls by preparing and recommending policies and procedures.**

**Creditors : The role of accounting in Creditors is entities,companies or people of legal nature who have provided goods or services,or loaned money to a debtor.On the other hand,a debtor is a person who owes money to the creditors.To simplify,the debtor-creditor relationship is similar to the customer-supplier relationship.One owes money in return for ood,sevices,or a loan.**

**Investors : The role of accounting in investors is differs from regular accountant,which work to monitor and handle finances for individuals,businesses,and**

**companies.Invesment accountant,on the other hand,work in the specific sector of the financial industry which are brokerage and asset management firms.**

**Government agency : The role of aacounting in government agency is various governmental accounting systems are used by various public sector entities.Goverment agency can therefore be referred to as the process of recording and the management of all financial transactions incurred by the government which includes it’s income and expenditures.Business are required to furnish financial information to a number of government agencies.Publicly owned companies,for examples the ones whose shares are traded on a stock exchange must provide annual financial reports to the securities and Exchange Commission (SEC) ,a federal agency that regulates stock trades.Companies must also provide financial information to local,state,and federal taxing agencies,including the Internal Revenue Service.**

**Question 2**

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

**What is accounts payable?**

**Account payables defined as a liability to a creditor,carried on open account,usually for purchases of goods and services.When a company orders and receives good(or services) in advance of paying for them,we say that the company is purchasing the goods on account or on credit.The supplier(or vendor)of the goods on credit is also referred to as a creditor.if the company receiving the goods does not sign a promissory note,the vendors bill or invoice will be recorded by the company in its liability account payable.As is expected for a liability account,Account payable will normally have a credit balance.Hence,when a vendor invoice is recorded,Account payable will be credited and another must be debited(as required by double-entry accounting).When an account payable is paid,Accounts payable will be debited and cash will be credited.Therefore,the credit balance in accounts payable should be equal to the amount of vendor invoices that have been recorded but have not yet been paid.The accounts payable process involves reviewing an enormous amount of detail to ensure that only legitimate and accured amounts are entered in the accounting system.Much of the information that’s need to be reviewed will be found in the following documents:**

* **Purchase orders issued by the company**
* **Receiving reports issued by the company**
* **Invoices from the company’s vendor**
* **Contracts and other agreements**

**The accuracy and completeness of a company’s financial statements are dependent on the accounts payable process.A well-run accounts payable process will include :**

* **The timely processing of accurate and legitimate vendor invoices**
* **Accurate recording in the appropriate general ledger accounts**
* **The accrual of obligations and expenses that have not yet been completely processed**

**The efficiency and effectiveness of the accounts payable process will also affect the company’s cash position,credit rating,and relationship with its suppliers.**

**What is accounts receivable?**

**Accounts receivable is the money that a company has a right to receive because it had provided customers with goods.For example,a manufacturer will have an account receivable when it delivers a truckload of goods to a customer on June 1 and the customers is allowed to pay in 30 days.From June 1 until the company receives the money,the company will have an account receivable(and the customer will have an account payable).Account receivables are also known as trade receivables.Companies who sell credit are unlikely to have liens on their customer’s property.Hence,there is a risk that the full of amount of their accounts receivables might not be collected.This means that companies need to cautious when granting credit and establishing an account receivables.if there is uncertainty of a potential(or existing)customers credit worthiness,it is wise for the company to require the customer to pay with a credit card before delivering goods or services.It is also important for a company to monitor its accounts receivables and to immediately follow up with any customer who has not paid as agreed.An aging of accounts receivable is a tool that will help and it is readily availables with most accounting software.A general rule is that the older a receivable gets,the less likely it will be collected in full.**

**What is the difference between account payable and account receivable?**

**Account payable are amounts a company owes because it purchased goods or services on credit from a supplier or vendor.Account receivable are amounts a company has a right to collect because it sold goods or services on credit to a customer.Account payable are liabilities.Account receivable are assets.Lets assume that Company A sells merchandise to Company B on credit.(Perhaps the invoice states that the amount is due in 30 days.)Company A will record a sale and will also record an account receivable.Company B will record the purchase (perhaps as inventory)and will also record an account payable.Example reminds me of an old saying,There are two sides to every transaction.In accounting we also expect symmentry:Company A has a sale and a receivable,Company B has a purchase and a payable.**

|  |  |
| --- | --- |
| **Your company’s account payable** | **Delivery corperation’s account receivable** |
| **Also known as a trade payables.** | **Also known as a trade receivable.** |
| **A $600 obligation to the vendor Deliver Corperation resulting from a service on account (or on credit.)** | **A right to receive $600 from its customer your company as a result of providing a service on account(or on credit.)** |
| **Recorded in the general ledger accounts payables as of May 1.** | **Recorded in the general ledger account receivable as of May 1.** |
| **Delivery expense of $600 is also recorded as of May 1.** | **Delivery revenue of $600 is also recorded as of May 1.** |
| **The payable and the expenses are documented by the vendors sales invoice.** | **The receivable and the revenue are documented by its sales invoice.** |
| **Your Company is the debtor.** | **Delivery corperation is the creditor(and is usually an unsecured creditor)** |

**Question 3**

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

**The accounting equation and the double entry system provide an explanation why a company’s profit appears as a credit on its balance sheet.Assets accounts usually have debit balances while liabilities and owner’s or stockholders equity usually have credit balances.When a company provides services for cash,its asset cash is increased by a debit and its owner’s equity is increased by a credit.The credit is initially recorded in a revenue account,but revenue accounts are temporary accounts that cause owners equity to increase.If the owner withdraws some cash for personal use,the asset cash will decrease through a credit and the owners equity will decrease through a credit and the owners equity will decrease through the debit part of the accounting entry.The debit might initially be recorded in the sole proprietors drawing account but this account is also a temporary account that will cause the owners equity to decrease.General speaking,the credit balance reported in the owners or stockholders equity section of the balance sheet reflects the owners investments in the company plus the profits earned minus the amounts distributed to the owners since the time that the company began.**

**What is balance sheet?**

**The balance sheet is also known as the statement of financial position and its reflects the accounting equation.The balance sheet reports a company’s assets,liabilities,and owner’s(or stockholders)equity at a specific point in time.Like the accounting equation,it shows that a company’s total amount of liabilities plus owner’s(or stockholders)equity.**

**What is income statement?**

**The income statement is the financial statement that reports a company’s reveneus and expenses and the resulting net income.While the balance sheet is concerned with one point in time,the income statement covers a time interval or period of time.The income statement will explain part of the change in the owner’s or stockholders equity during the time interval between two balance sheets.**

**What is accounting equation?**

**From the large,multi-national corporation down to the corner beauty salon,every business transaction will have an effect on a company’s financial position.The financial position of a company is measured by the following items:**

1. **Assets(what it owns)**
2. **Liabilities(what it owes to others)**
3. **Owners equity(the difference between assets and liabilities)**

|  |
| --- |
| **Asset=Liabilities+Owner’s Equity** |

**The accounting equation (or basic accounting equation)offers us a simple way to understand how these three amounts relate to each other.The accounting equation for sole proprietorship is:**

**The accounting equation for a corporation is:**

|  |
| --- |
| **Assets =Liabilities+Stockholder’s** |

**Assets are a company’s resources things the company owns.Examples of assets include cash,accounts receivables,inventory,prepaid insurance,investments,land,buildings,equipment, and goodwill.From the accounting equation,we can that the amount of assets must equal the combined amount of liabilities plus owner’s (or stockholder’s)equity.Liabilities are a company,s obligations amounts the company owes.Examples of liabilities include notes or loans payable,accounts payable,and income taxes payable (if the company is a regular corporation).Liabilities can be viewed in two ways:**

**→As claims by creditors against the company’s assets.**

**→A source along with owner or stockholder’s equity of the company assets.**

**Owner’s equity or stockholder’s is the amount left over after liabilities are deducted from the assets.Owner’s or stockholder’s equity also reports the amount invested into the company by the owner’s plus the comulative net income of the company that has not been withdrawn or distributed to the owner’s.**

|  |
| --- |
| **Assets-Liabilities =Owner’s (or Stockholder’s) Equity** |

**If a company keeps accurate records,the accounting equation will always be in balance,meaning the left side should always equal right side.The balance is maintained because every business transaction affects at least two of a company accounts.For example,when a company borrows money from a bank,the company’s assets will increase and its liabilities will increase by the same amount.When a company purchases inventory for cash,one asset will increase and one asset will decrease.Because there are two or more accounts affected by every transaction,the accounting system is reffered to as double-entry accounting.**

**Equity and Capitals**

**Capitals XXXX**

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

**XXXX**

**(-)drawings (XXXX)**

**XXXX**

**Trading Account**

**The trading accounts 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 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 aacount 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 accounts 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 accounts 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 and 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**

**What is the meant by reconciling an account?**

**Define of bank reconciliation statement?**

**Banks reconciliation is a process that explains the difference on a specified date between and the bank balance show in an organization’s bank statement,as supplied by the bank,and the corresponding amount shown in the organization’s own accounting records.Such differences may occur.For example,because cheques issued by the organization have not been presented to the 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 the looking at very recent transactions 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 minimize the amount of work involved,it is good practice to carry out such reconciliation at reasonable frequent intervals.Reconciliations may be assisted by specialized 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.**

**Propose of bank reconciliation statement?**

**A bank reconciliation is used to compare your records to those of your bank,to see if there are any differences between these two sets of records for your cash transactions.The ending balance of your version of the cash records is known as the book balance,while the bank’s version is called the bank balance.**

**Importance of bank reconciliation statement?**

**Bank reconciliation statement is an important technique by which the accurancy of the bank balance shown by the pass book and cash book is ensured.Bank reconciliation statement ensures the accurancy of the balances shown by the passs book and cash book.Bank reconciliation statement provides a check on the accuracy of entries made in both the books.Bank reconciliation statement helps to detect and rectify any error commited in the both books.Bank reconciliation statement helps to update the cash book by discovering some entries not yet recorded.Bank reconciliation statement indicates any undue delay in the collection and clearance of some cheques.**

**What is the differences between cash books and bank statement?**

**The difference between the balance on the bank statement and the balance on the books include outstanding checks,deposit in transit,bank service charges,check printing charges,errors on the books,error by the bank,electronic charges on the bank statement not yet recorded on the books,electronic deposits on the bank statement that are not yet recorded on the books.If an item is on the books but has not yet appeared on the bank statement(outstanding checks,deposits in transit),the items are entered as an adjustment to the balance per bank statement.Outstanding checks are a deduction to the balance per bank;deposits in transit are an addition to the balance per bank.If an item is on the bank statement but has not yet been entered on the books,the items are entered as an adjustment to the balance per books.Bank services charges,check printing charges,and other electronic deductions that are not yet recorded on the books are deductions from the cash balance on the books.Electronic deposits not yet on the books are added to the cash balance per books.**

**Format of bank reconciliation statement?**

**Cash book**

**$ $**

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

**(+)**

**(Dr) 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 fundamentals;which is like can different between general purposes of it and its functions.And now im 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 statements, balance sheet and cash flow statement and their purposes.**

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**THE END.**