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EXECUTIVE SUMMARY

In this module, I will cover the topic of Accounting Fundamental and will show the concept of Accounting Fundamentals. In the first part of question, we can see the introduction of Accounting Fundamentals and its importance and roles of accounting. Besides that, i would like to share some information about history of accounting In second part of question, I will describe about the differences between account payable and receivable. Furthermore, I will describe about the double entry accounting and some additional notes about accounting cycle. While, in third part of question i would talk about a company's profit and balance sheet with some simple examples. Last but not least, i will explain about the bank reconciling statement.

Question 1

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

Bookkeeping is the process of classifying,recording and summarizing business

transactions.Accounting is the process of classifying recording and summarizing business transactions is monetary units and interpreting the financial data of a business in order to assist stakeholders in making decisions.Accounting involves the following four phrases.There are classifying, recording, summarizing, analysing and interpreting.Classifying accounts data from business documents are arranged and categorized.Recording transaction are recorded in day books and ledgers.Summarizing accounting data for a particular period is summarized in the form of financial statements.Example of financial statements are Trading Accounts, Profit and Loss Accounts and Statements of Financial Position.Analysing and Interpreting financial statements are analysed and the result of the analysis is used as a guide to make decisions.Therefore, bookkeeping is the initial step in the accounting process, that is part of the accounting process.

|  |
| --- |
| Classifying |

|  |
| --- |
| Recording |

|  |
| --- |
| Analysing |

|  |
| --- |
| Interpreting |

|  |
| --- |
| Bookkeeping |



|  |
| --- |
| Summarizing |

|  |
| --- |
| Accounting |

History of the Accounting

The history of accounting or accountancy is thousands of years old and can be traced to ancient civilizations.The early developmentof accounting dates back to ancient Mesopotamia, and is closely related to developments in writing, counting and money and early auditing system by the ancient Egyptians and Babylonians.

Role of Accounting

An account plays a vital role in the financial operations of a business. Information derived fro the financial reports of a business will usually have a big impact on the decision made in the daily operations of the business.

Generally, an accountant is based in the finance department and carries out all tasks of an accounting cycle. These tasks include the process of collecting, recording, analysing and pretending the financial operations and perfomance of the business to potential users.

In the case of bigger and successful business, their accountants may need to perform more challeging roles. Apart from the tasks listed above, they may also carry out tasks such as :

1. Designing and controlling system of financial account
2. Preparing account and tax returns
3. Auditing financial information
4. Applying his/her expertise to provide financial advice
5. Compiling, analysing and prensenting information
6. Dealing with third parties
7. Writing financial reports

It is important that these tasks be carried out by a person with requisite knowledge, skills and experience, in order to establish and maintain accurate financial reports for individuals or business. The financial reports prepared might be used by a user in his/her decision making. Thus, if the reports were gained fro wrongful conduct or prepared without adhering to certified practices, this might lead to misinterpretation of financial decisions. Hence , this is a reasonwhy all financial reports must be prepared according to accounting principles andassumptions. The accountant is also liable to abide by certain code ethics and be alert to any updates or changes to do their profession.

Double Entry

The double entry system is the basis of an accounting recording sytems.In depth understanding of this system is needed in order to maintain a correct organized and accurate bookkeeping records. An accounting equation shows the relationship between three impotant elements asset,mliability and owner’s equity.

Asset = Liability + Owner’s Equity

When a transaction occurs, it will have an impact on the elements of the accounting equation.The relationship between assets and the financial resources used to finance them is illustrated

|  |
| --- |
| Investments  (financial sources) |

|  |
| --- |
| Assets owned by the business |

|  |
| --- |
| Constribution from owners  (Owner’s Equity) |

|  |
| --- |
| External sources  - Bank loan  - Account payable  (liabilities) |

According to the double entry system, each transaction must be recorded in at least two ledger accounts, with a debit to one or more ledgers and a credit to one more ledgers. The some of all debits of the transaction must be equalled to the sum of all credits of the transaction. Demonstrates the relationship between an accounting equation and the double entry system

|  |
| --- |
| Accounting equation |

Assets = Liablities + Owner’s

equity

|  |
| --- |
| Double entry system |

Debit for increase Credit for increase

Credit for decrease Debit for decrease

Question 2

1. What is the difference between accounts payable and accounts receivable?

Account payable are amounts a company ownes 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 labilities. Accounts receivable are assets.

Let’s assume that Company A sells merchandise to Compan B on credit. Perhaps the invoices sates 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.

The example remainds an old sayings, “There are two sides to every transaction.” In accounting we also expect symmetry: Company A has a sale and a receivable, Company B has a purchase and a payable.

Question 3

3.Why does a company’s profit appear as a credit on its balance

Sheet?

The accounting equation and double entry system provide an explanation why a company’s profit appear as a credit on its balance sheet.

Asset accounts usually have debit balances while liabilities and owner’s equity usually have credit balance. When a company provides services for cash, its asset Cash is increased by a debit and its owner’s equityis incresed by a credit. The credit is initially recorded in a revenue account but revenue accounts are temporary accounts that cause owner’s equity to increase.

If the owner withdraw some cash for personal use, the asset Cash will decrease through a credit and the owner’s equity will decrease through the debit part of the accounting entry. The ebit mighy initially be recorded in the sole propertorssss’s Drawing account but this account is also a temorary account that will cause the owner’s equity to decrease.

Generally speaking, the credit balance reported in the owner’s or stakeholders’ equiy 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 hat the company began.

Dr Profit And Loss Account Cr

|  |  |
| --- | --- |
| (-) Expenses  Rent paid XX  Salaries XX  Wages XX  Carriage outwards XX  Bad debits XX  Discount given XX  Net profit XXXX  XXXXXX | Gross profit XXXX  (+) Incomes  Discount received XX  Commission received XX  Rent received XX  Net loss XXXX  XXXXXX |

BALANCE SHEET

Dr Cr

ASSETS LIABILITY

NON CURRENT ASSETS EQUITY AND CAPITAL

Land and buildin XX Capital XX

Vehicle XX (+) Net Profit @ (-) Net loss XX

Machinery XX XXXXX

Equiments XX (-) Drawing (XXX)

Furniture XX

XXXXXX XXXXXX

NON CURRENT ASSET CURRENT LIABILITY

Stok Inventory XX Creditor XX

Cash Bank XX Bank overdraf XX

Cash in hand XX NON CURRENT LIABILITY

Debtor Acc XX Bank Loan XX

Receivable

XXXXXX

Question 4

4.What is meant by reconciling account?

Reconciling an account often means proving or documenting that an account balnce is correct. For example, we recconcile the balance in the general ledger account Cash in Checking to the balance shown on the bank statement. The objective is to report the correct amount in the general ledger account Cash in Checking. You will often need to adjust the general ledger account balance for items appearing on the bank statement that were not entered in the general ledger account.

I recall being asked to reconcile the general ledger account Freight Payable. What I needed to do was provide documentation that the balance in Freight Payable was proper. I proceeded to look at the shipment of recent sales and then determined how much we would be obligated to pay for the freight on those sales. We the adjusted the balance in Freight Payabe to my documented amount. This recociliation was done to have the outside auditors with documentation which could easily be reviewed.

I also reconciled the balance in Utilities Payable by computing the daily cost of each utility that the company used. The cost per day was then multiplied by the number of days since the last meter reading date shown on the utility bills already entered in our accounting system. We then adjusted the Utilities Payable account balance to be equal to the documented amount.

BANK RECONCILING STATEMENT

|  |  |
| --- | --- |
| Balance from cash books XX  (+) Debit bank statement XX  XXXX    b/d XXXXXX | (+) Credit bank statement XX    c/d XX  XXXX |

Dr (money in) Cr (money out)

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Date | Details | F | Cash | Bank | Date | Details | F | Cash | Bank |
| May 01 | Capital |  | XXXXX |  | May 02 | Rent |  | XXXXX |  |
| 03 | Sales |  |  | XXXXX | 04 | J Fine |  |  | XXXXX |
| 05 | F Love |  | XXXXX |  | 06 | Wages |  | XXXXX |  |
|  |  |  |  |  | 31 | Balance |  | XXXXX | XXXXX |
|  |  |  | XXXXX | XXXXX |  |  |  | XXXXX | XXXXX |
| June 01 | Balance | b/d | XXXXX | XXXXX |  |  |  |  |  |

CONCLUSION

In this assignment, I learned alot of about Accounting Fundamental knowledge and the overall operation of its importance. The first question the role of accounting are based on business function and nature of a particular modern organization.Financial accounts information to individuals and group both inside and outside the organusation in order to help them axcess the firm’s financial perfomance.Therefore, the second question all know thast every coin has two aspects and the same is the case with accounts payable are managed as recorded liabilities and the receivable and payable managements records have their difference signifitation in business world. The third question is about why company profit appear as a credit on its balance sheet.Its assets cash is increased by a debit and its owner’s equity is increased by a credit. The credit balance reported in the owners or stakeholders’ equity section of the balance sheet reflect the owners’ investment in the company plus the profits earned minus the amounts distributed to the owners’ since the time that the company began. Not last but least the question forth whatis recociling an amount. Reconciliatation of accounts using this method is undertaken by estimating the transaction that should be in an account, usually based on other data, in histirical activties.

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APPENDIX

