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Course title: **Accounting Fundamentals**

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**Summary**

I have given a brief overview on accounting in my perspective with the aid of certain websites, scholars and journal articles. I have also explained the fundamentals in accounting and its basic steps that most managements or governments would follow. I have given differences in certain accounting terms and also an example to understand better. Finally some advantages of computerized accounting and how it makes accountants as well as business stakeholders life easier.

**Assignment**

**Module name: Accounting Fundamentals**

**Understanding of Accounting Fundamentals and its application**

Accounting is basically a use to record data and can be used for various purpose. The record is to classify and summarize in a more significant manner and in terms of money, transactions and events, which are part of a financial character, and deducing the result. In a business setting, accounting is used to determine profits or loss of the operations in the business during a specific period of time and also stating the financial position of the business.

Financial transaction in accounting is an event that impacts the monetary value of an asset, a liability, or the owner’s equity of a business and causes it to fluctuate. A financial transaction is characterized by the monetary impact it has on the financial statements of the business created by recording the data in an accounting register called journals. Whenever an event that does not neither impact on the business financially nor monetarily is not recorded in the journals.

The purpose of this financial transaction is for managers, investors and funders who need relevant and accurate information to help them make financial decisions about their business resources under their control. In accounting, this information is provided by financial reports that inform stakeholders of the current financial position and performance of their business. Through recording financial transactions that impact on the assets, liabilities and owners’ equity of a business, stakeholders are able to be constantly informed of the changes taking place in the financial position and performance of the business. All financial transactions performed by the business are systematically and accurately recorded in the journal, and subsidiary books.

The accounting process starts with identifying and analyzing business transactions and events. Not all transactions and events are entered into the accounting system. Only those that pertain to the business entity are included in the process. For an example, a personal loan made by the owner that does not have anything to do with the business entity is not required to be accounted for. The transactions identified are then analyzed to determine the accounts affected and the amounts to be recorded. Financial transactions are classified mainly into the transaction related with persons that include enterprises, persons, assets and income-expenses. Then, they are recorded in their respective ledger accounts, such as debtors and creditors accounts, land and building accounts, commission received accounts, and rent account. All financial transactions are summarized during an accounting process. To simplify the recording process, special journals are often used for transactions that recur frequently such as sales, purchases, cash receipts, and cash disbursements. A general journal is used to record those that cannot be entered in the special books. They will record it in a journal book can be in hard or soft copy in which transactions are recorded. Business transactions are recorded using the double-entry bookkeeping system. They are recorded in journal entries containing at least two accounts one debited and one credited.

Transactions are recorded in chronological order and as they occur. They are summarized by preparing a trial balance. Preparation of trial balance helps to prepare final accounts which disclose the profit and loss and financial position of the business. Finally the results of business operations such as whether profit or loss and the company's financial position are communicated to the users. Those users include owners, investors, government agents, creditors and managers who need financial information for decision making purposes.

Double entry is system where each transaction is entered twice, once on the debit side and once on the credit side. It is also called as balancing the books, as all of the accounting entries are balanced against each other and if the entries are not equal the accountants will know that there is something wrong in the ledger. The double-entry is a protection in order to prevent of an attempt of violating the conservation principle during the process of recording business events. Hence double-entry accounting is a tool of an income measurement. Accounting for labor is a completed system with the double-entry. This kind of accounting was in use in the dawn of civilization. An example of a double entry is when a business company issues an invoice to one of its clients. An accountant using the double-entry method enters a credit under the accounts receivables column and then a debit under the balance sheet's revenue column. When the client pays the invoice, the accountant debits accounts receivables and credits revenue.

The role of accounting is to gather accounting data in such a manner that the amount of profit made or loss sustained during a particular period ascertained. The final accounts enables us to check on the position of the business, and to find out whether the business is in loss or profit. They are the means of conveying to the owner/owners, management, creditors, investors, government agents and interested outsiders a concise picture of profitability and financial position of the business. Good accounting is as important to a business as good sales. The role of accounting is to provide the business and any other stakeholders with financial information about the company, such as sales revenue, the cost of benefits and the amount you owe your suppliers. Without the information from your accountants, the relevant people cannot make a good financial decision for the business.

Business accounting gives information about the company’s performance. When the business is selling lots of merchandise, they may feel they are doing great, but the accounting may show a different perspective of the story. If the cost of sales is high, that reduces the business’s profits. If all of the sales are on credit, the business may not have enough cash on hand to pay their suppliers or the power bill. Therefore, accounting provides details about their finances so they know when they would have the money to burn and when to be cautious in their spending.

As for the government agents, taxes are a part of business life as well. Those running a business have to pay tax on their business's income, Social Security on employee paychecks, sales tax and possibly several other tax bills. If the business stakeholders get the amounts wrong, the Internal Revenue Service or the state tax board can hit them with fines and penalties. A good accountant tells them how much to pay and what forms they need to fill out to meet the government’s obligations. If a need to provide financial information to government regulators, business accountant will be able to provide them with that data.

**Define the differences between accounts payable account receivable**

Accounts payable is when a company orders and receives goods or services in advance of before paying for them, it is called as that the company is purchasing the goods on account or on credit. The supplier or the 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 vendor's bill or invoice will be recorded by the company in its liability account Accounts Payable. As is expected for a liability account, accounts payable will normally have a credit balance. Therefore, when a vendor invoice is recorded, accounts payable will be credited and another account must be debited as required by double entry accounting. When an account payable is paid, the 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 been paid. The company receiving goods or services on credit must report the liability no later than the date they were received. The same date is used to record the debit entry to an expense or asset account as appropriate.

Accounts receivable is when the outstanding invoices a company has or the money the company is owed from its clients. This refers to accounts a business has a right to receive because it has delivered a product or service. Receivables essentially represent a line of credit extended by a company and due within a relatively short time period, ranging from a few days to a year. The practice of accounts receivable allows clients to avoid the hassle of physically making payments as each transaction occurs or happens. In other cases, businesses routinely offer all of their clients the ability to pay after receiving their service or products. For an example, electric companies typically bill their clients after the clients have received the electricity. While the electricity company waits for its customers to pay their bills, the unpaid invoices are considered accounts receivable.

So when a company purchases goods or services on credit, it will increase its accounts payable; a current liability. When a company sells goods or services on credit, it will increase its accounts receivable; a current asset. For an example, company A receives $5,000 of goods it ordered from Company B on credit. This transaction will result in Max recording a $5,000 accounts payable and a purchase, and company B recording a $5,000 accounts receivable and a sale.

**Explain why does the company profit appears as credit in balance sheet**

The reason why company profit appears as credit in the balance sheet is because of accounting equation and the double entry system. Asset accounts usually have a debit balance whereas liabilities and business stakeholder’s 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 owner's equity to increase.

Therefore, if the owner withdraws some cash for their personal use, the asset cash will then decrease through a credit and the owner's equity will decrease through the debit part of the accounting entry. The debit might be initially recorded in the sole proprietor's Drawing account but this account is also a temporary account that will cause the owner's equity to decrease. The credit balance reported in the owner's or business stakeholder’s equity section of the balance sheet reflects the owners' investments in the company including the profits earned and deluding the amounts distributed to the owners since the time that the company had begun.

Explain your understanding on computerized accounting system

Basically an accounting system is a collection of processes, procedures and controls designed to collect, record, classify and summarize financial data for interpretation and management decision-making in business managements or in governments.

Computerized Accounting is basically making use of computers and accounting soft wares to record, store and analyze financial data. A computerized accounting system brings with it many advantages that are unavailable to analog accounting systems. And also disadvantages.

One of the advantages of computerized accounting is automation, since all the calculations are handled by the software, computerized accounting eliminates many of the non-important and time-consuming processes associated with manual accounting. For example, once issued, invoices are processed automatically making accounting less time-consuming.

One disadvantage is when using a computerized accounting software we need to protect against data loss through power failure or viruses, and the danger of hackers stealing data. Computer fraud is also a concern, and there might be need to instigate a system of controls for who has access to the information, particularly customer information. If there is a security breach and data is stolen, management can be held personally liable for the loss of data.

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

Bank reconciliation statement is a report which compares the bank balance as per company's accounting records with the balance stated in the bank statement (Accounting-simplifiedcom, 2017). For an example, we reconcile 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. So we will often need to adjust the general ledger account balance for items appearing on the bank statement that were not entered initially in the general ledger account.

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