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**1**

**Executive Summary**

In the module, I covered the topic about Accounting Fundamentals within a Hospitality Management.In starting part,we can see the introduction of Accounting Fundamentals. What is Accounting Fundamentals and how importance our Accounting Fundamentals in hotel industry? In first part,I studied the comprehensive response and the role of accounting and will explain the comprehensive response in Accounting Fundamentals. In the second part, I will describe difference between accounts payable and accounts receivable. Third part, I have understand how a company’s profit appear as a credit on it’s balance sheet.Finally, I will explain topic on meant by reconciling an account.

**2**

**INTRODUCTION**

Accounting plays a vital role in facilitating all forms of economic activity in the private , public and non-profit sectors. Business owners and managers, in both large and small companies, use accounting information to gauge how their business is doing. Non-profit track the cash flow and income needed to fuel their organization’s mission.

Government entities use accounting information operationally as well as to track tax revenues that may be due to them from other governmental entities and tax payers.

In short, accounting is the language of business. Virtually nothing done in the business world doesn’t involve accounting information of some sort.

The American Accounting Association offers this definition: ”The process of identifying, measuring and communicating economic information to permit informed judgements and decisions by users of the information.” In other words, accounting is the basis of all decision making.

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**ASSIGNMENT QUESTIONS**

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

It is already well known the major role of accounting in the entire decision-making process .A manager cannot be sure upon making right decisions, unless owning accounting information, which must be alike, understandable, relevant, reliable and consistent. True to its own name, the accounting information, being specific to a particular field is created, both by specific structures within an economic entity, such as accounting departments, financial accounting departments or by freestanding legal entities or by authorized individuals, such as chartered accountants. The only condition is that the latter have as object of activity the obtaining accounting information. Illustrious American economist Hybe noted that of all the information circulating within an economic entity, 80% are of economic nature, and 47% of it are accounting information. It is widely recognized and I agree with the view that, as information is the starting point in creating an information system, so is accounting information the starting point for creating an accounting and cost information system. Economic information system (EIS) is represented by all the means and procedures for obtaining, storing and using information in an area of economic activity as a result of capital investment of human resources.

Accounting information is directly proportional to the size of the economic entity, and for managers of any economic entity, accounting information relating to assets and liabilities, cash flow, results, cost, human resources, are very important. In fact, it is of great importance all information which diagnoses the state of an entity at a certain time or permanently. Unless the manager has a clear vision regarding the importance and usefulness of accounting information, he cannot even formulate a medium and long term strategy, as the latter are closely related to accounting information.

The diversity of problems concerning financial accounting and economic activities of an entity in terms of cause – effect relationship, requires the study, analysis and interpretation of financial accounting or the financial and economic diagnosis. The purpose of diagnosying the external environment of any entity consists in knowing the public,which is the user of economic, social, financial or tax advisory information.

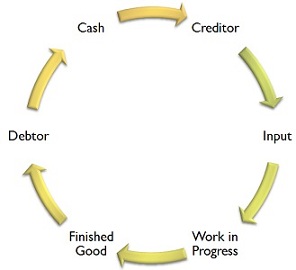
In my opinion, the accounting information is useful to substantiate economic decisions, if the generally accepted accounting principles are respected and also the internal procedures established by the management entity. Inthe same time the financial statements should offer a clear and complete image of the financial position and performance of the economic entity in question.

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Like any database, the perception of reality is based on a conceptual system. In other words, the entire accounting system is based on a set of objectives, postulates, principles, rules and norms. The monetary unit postulate makes possible to aggregate a large number of facts, of different nature and to perform an overall assessment of company performance. Accounting information can be considered a commodity of mass consumption.

**QUESTION 2**

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



The two major elements of working capital of a company are current assets and current liabilities. The assets which are readily converted into cash are considered as Current Assets while Current liabilities are those debts which fall due for payment within a short duration. Account receivable is a current asset account, which represents the money to be received by the company, against the goods delivered or services rendered to the customers.

On the other hand, accounts payable is a current liability account, indicating the money owed by the company to the suppliers, and appeas as a liability in the company’s Balance Sheet. Many accounting students get confused amidst these two terms, but there is a fine line of difference between account receivable and account payable.

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|  |  |  |
| --- | --- | --- |
| **BASIS FOR COMPARISON** | **ACCOUNTS RECEIVABLE** | **ACCOUNTS PAYABLE** |
| Meaning | Money expected to be received by the company in the future for the goods sold and services rendered to the customers on credit. | Money expected to be by the company in the future for the goods bought and services received from the suppliers on credit. |
| Status | Assets | Liabilities |
| Concept | Amount owned by the entity towards debtors | Amount owed by the company towards creditors. |
| Represents | Money to be collected | A debt to be discharged |
| Outcome of | Credit Sales | Credit Purchases |
| Results in | Cash inflows | Cash outflows |
| Components | Bills Receivable and Debtors. | Bills Payable and Creitors. |

**Definition of Accounts Receivable**

Accounts Receivable refers to the amount to be received by the entity in the future specified date for selling goods to the customers on credit. It reflects the money owed by the customers towards the company. It appears on the assets side of the Balance Sheet, under the head current assets. Bills Receivables and Debtors constitute the Account Receivables.

Every company sells goods on credit to other entities, to have better customer relations, holding an advantageous position in the market and increasing turnover as well. Although all the debtors do not prove to be good, default in payment is also made by some debtors which lead to Bad Debts. Due to this reason, a provision is always created by the company to cope up with the bad debts.

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The provision is known as Provision for Doubtful Debts. Few points are considered before allowing goods on credit to any customer. They are

Credit Policy: This includes decisions regarding credit period, discount rate, early payment, etc.

Credit Analysis: This includes decisions regarding whether a particular customer is allowed extended credit period or not. The techniques used in this regard are the evaluation of credit ratings, past credit history, etc. collection of debts.

Collection Policy: The Timely collection of receivables enables the reduced risk of losses.

Control on Receivables: This includes follow-up of debtors and faster

**Definition of Accounts Payable**

A short-term obligation, need to be discharged in the future, arising out of the purchase of goods or services received or expenses made is known as Accounts Payable. It includes trade payable i.e. bills payable and creditors, and expenses payable like an advertisement expense, electricity expense or expenses on supplies, etc. It represents the money owed by the company towards suppliers and creditors. Accounts Payable appears on the liabilities side of the Balance Sheet, under the head current liabilities.

It is quite natural that the entities on credit buy goods. They are one of the major sources of finance for the company which arises very often, in the normal course of business. It is the duty of the company to pay the creditors in time because slow payment of debts will hamper the whole supply cycle, which in turn spoil the working capital cycle of the company. This will also have an ill effect on the reputation of the company. This should be kept in mind that the company should effectively utilize the credit period, allowed by the creditors. Moreover, they must use bills of exchange to pay the debt in place of cheques.

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**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.

Asset 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 owner's equity to increase. If the owner withdraws 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 debit might initially be 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.

Generally speaking, the credit balance reported in the owner's 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.

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The only account recorded on the balance sheet, when dividends are declared and before they are paid out to a company's shareholders, is dividend payable, which is a liability account. After the dividends are paid, the dividend payable is reversed and is no longer present on the liability side of a company's balance sheet . The ultimate effect of cash dividends on the balance sheet is the decrease of a company's retained earnings and its cash balance, resulting in a reduction of the balance sheet size.

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**The balance sheet is a snapshot of the firm's financial position at one point in time.**

**What is the Balance sheet?**

The Balance sheet (B/S) is one of the four primary financial statements that publicly held companies must publish every quarter and year. The B/S is viewed as a summary of the firm's financial position at one point in time. In fact, some firms and most government organizations publish their Balance sheets under the alternate name Statement of financial position. The other three mandatory statements are the Income statement, the Statement of retained earnings, and the Statement of changes in financial position .In principle, a firm could publish a new and different Balance sheet every day. In practice, they normally do so only at the end of fiscal quarters and years. The B/S heading names a date with a phrase such as this: "...at 31 December 2016." The B/S is thus a "snapshot" of the firm's financial position on that date. The B/S therefore differs from other statements, which report activity for a specific time period.

**What does the balance sheet report?**

**For a given date, the Balance sheet shows the firm's:**

Total Assets. Items of value the firm owns or controls, which it uses to earn revenues.

Total Liabilities. What the firm owes.

Total Owners Equities. What the firm owns outright.

More accurately, the balance sheet shows end-of-period balances in the firm's Assets, Liabilities, and Owners Equity accounts. However, its name includes "Balance" for another reason. Note especially that its 3 main sections represent the accounting equation:

Assets = Liabilities + Owners Equity

The term balance applies because the sum of the firm's assets must equal (balance) the sum of its liabilities and owner’s equities. This balance holds, always, whether the firm's financial position is very good, or terrible. Double entry principles in accrual accounting ensure that every change to the total on one side brings an equal, offsetting change on the other side.

**9**

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**Where is "Financial position" on the balance sheet**?

Analysts evaluate a firm's financial position not by the size of the Assets total, or its balancing counterparts, but rather by comparing numbers on the sheet. The firm's liquidity, for instance, is given by metrics that compare balance sheet figures, such as Current ratio and Working capital. The firm's capital and financial structures, for example, are built as ratios of Balance sheet figures for Owners Equities and Liabilities. These structures define the firm's Capitalization and level of leverage. Other metrics compare Balance sheet and Income statement figures to measure the firm's stock valuation, prospects for growth, and ability to use assets efficiently. Explaining the Balance sheet in context

Sections below further define, explain, and illustrate balance sheet. Note especially that the term appears in context with related terms and concepts, including the following: Analysts evaluate a firm's financial position not by the size of the Assets total, or its balancing counterparts, but rather by comparing numbers on the sheet. The firm's liquidity, for instance, is given by metrics that compare balance sheet figures, such as Current ratio and Working capital.

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**Debit and credit impacts depend on the account category**

**Debits and credits, however, have different results on different sides of the balance sheet**.

Firstly, consider the "Liabilities + Owners Equity" side of the B/S. To accountants, the bank's usage is technically correct. However, this is only because banks regard an account holder as a liability account. In double entry accounting: A credit increases the balance in a Liability or Equity account. A Debit decreases the balance in a Liability or Equity account.

Secondly, consider the "Assets" side of the Balance sheet. Here, the rules for debits and credits reverse:A credit decreases the balance in an Assets account. A debit increases the balance in an Assets account. In double entry accounting, every financial event must impact at least two accounts. Whether each impact is a "debit" or a "credit" depends on the kinds of accounts involved. The double entry approach, moreover, ensures that the Balance sheet always balances.

Example: Debits and credits maintain the balance Suppose the firm acquires assets for $1,000. An asset account (perhaps under Current Assets) increases $1,000. This could be, for instance, an Inventories account.

The increase results from a debit because the Inventories account is an Asset account. The sheet is now temporarily out of balance until a credit of the same size appears. This could be either.

A reduction in another account on the Assets side of the sheet. This could be, for instance, a credit to a cash account also under Current assets An increase in an account on the Liabilities and Equities side. This could be due to a credit of $1,000 to a long term liabilities account. This would occur if firm borrows the purchase funds. In this way, total Balance sheet Assets always equal total Liabilities and Equities. And, Total debits always equal Total credits.

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|  |  |
| --- | --- |
| Assets | Liability |
|  | Equity and Capital  Capital xxxxxx  [+]net profit @ [-]net loss xxxxxx  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ xxxxxx  [-] Drawings xxxxxx  xxxxxx |

DR TRADING ACCOUNTS CR

|  |  |
| --- | --- |
| Opening stock  xxxx  [+]purchases xxxxx  [-]purchases return (xxxxx) xxxx  [+]carriage inwards xxxxx  xxxxx  [-]closing stocks (xxxx)  Cost of sales xxxx  Gross profit xxxxx  xxxxx | Revenue/sales xxxxxx  [-]sales return (xxxxxx)  xxxxxx |

**12**

DR PROFIT AND LOSS ACCOUNT CR

|  |  |
| --- | --- |
| [-]EXPENSES  Rent paid xxxxx  Salaries xxxxx  Wages xxxxx  Carriage outwards xxxxx  Bad debits xxxx  Discount given xxxx  Net profit xxxx  xxxxx | Gross Profit xxxxx  [+]incomes  Discount received xxxxx  Commission received xxxxx  Rent received xxxxxx  Net loss  xxxxxxxx |

NET SALES=GROSS SALES – SALES RETURN

NET SALES=COST OF SALES – GROSS PURCHASES

**QUESTION 4**

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

It means proving or documenting that an account balance is correct. For example, we reconcile the balance in the GL Account (Cash In Checking) to the balance shown on the bank statement.

Reconciling an account often means proving or documenting that an account balance is correct. For 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. 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 shipments of recent sales and then determined how much we would be obligated to pay for the freight on those sales. We then adjusted the balance in Freight Payable to my documented amount. This reconciliation was done to have the correct account balance and to provide the outside auditors with documentation which could easily be reviewed.

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* **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

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**Definition**

The following two definitions are given by the Oxford Dictionary of Accounting.

i) “A procedure for confirming that the balance in a chequebook matches the corresponding bank statement. This is normally done by preparing a bank reconciliation statement.

ii) A procedure for confirming the reliability of a company’s accounting records by regularly comparing [balances of transactions]. An account reconciliation may be prepared on a daily, monthly, or annual basis.

GAAP (The Generally Accepted Accounting Principles) are a set of accounting principles, procedures and standards that organisations use in order to compile their financial statements. GAAP states that the purpose of account reconciliation is to provide accuracy and consistency in financial accounts. To ensure all cash outlays and inlays match between cash flow statements and income statements it is necessary to carry out reconciliation accounts.

Reconciliation is a process that may benefit businesses as this may help avoid balance sheet errors which may have led to detrimental ramifications, in addition reconciliation may help against fraud and can help instill financial integrity .Accounting software is one of a number of tools that organisations use to carry out this process thus eliminating errors and therefore making accurate decisions based on the financial information. Reconciliation of accounts determines whether transactions are in the correct place or should be shifted into a different account.

Reconciliation in accounting is not only important for businesses, but may also be convenient for households and individuals. It is prudent to reconcile credit card accounts and chequebooks on a regular basis, for example. This is done by comparing debit card receipts or check copies with a person bank statements.

**The benefits of reconciling:**

Mitigates mistakes which have been made by financial institutions or if there have been any fraudulent withdraws from an account. Helps create an overall image on spending and helps asse Methods

To ensure the reliability of the financial records, reconciliations must, therefore, be performed for all balance sheet accounts on a regular and ongoing basis. A robust reconciliation process improves the accuracy of the financial reporting function and allows the finance department to publish financial reports with confidence.

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**There are two ways in which reconciliation can take place:**

Using a documentation review, “document review is a formalised technique of data collection involving the examination of existing records or documents.” This is the most common approach of account reconciliation. This method is done by using accounting software.

The second method used is analytics review. “Any process by which a person or company looks at an account or financial statement and attempts to identify any irregularities. This may involve comparing financial and non-financial information.” Reconciliation of accounts using this method is undertaken by estimating the transactions that should be in an account, usually based on other data, for example historical activity. In both cases where mistakes are identified as a result of the reconciliation adjustments should be undertaken in order for the account balance to match the supporting information.

**Current practice**

Currently there are no specific account standards for accountancy reconciliation per se. However, there are different rules for balancing many types of accounts. There are no specific regulations mentioned by IAS, ICAW and HMRC. GAAP provide different rules in regards to reconciliation to balance different types of accounts. According to GAAP, account reconciliation is a process that is performed through account conversion or double-entry accountings if a person is overspending on fees.

**Manual reconciliation to automation**

In the United States, the passage in 2002 of the Sarbanes-Oxley Act (SOX) has emphasized the need for balance sheet account reconciliation to be included within a company's own procedures, not relying only on external auditors. The legislation was enacted “to protect shareholders and general public from accounting errors and fraudulent practices in the enterprise, as well as improve the accuracy of corporate disclosures.” SOX and other acts like it across the world have increased stress on organisations to comply. As a result, the accounting industry has sought ways to automate a previously strenuous manual process. The pressure of SOX coupled with the perennial need to mitigate erroneous reconciliation in the process.

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By using all of the information technology available, organisations can easily automate their reconciliation and for each financial close cycle less manual labour would be required. 90% of companies manually reconcile using Microsoft Excel spread sheets in order to do so. This process is arduous allowing for further human error. Automating reconciliation can significantly reduce aforementioned errors and increase efficiency. Further benefits of automated reconciliation include centralised control, improved monitoring, reduced operational costs, increased productivity and efficiency, improved accessibility, data security improved and reduced audit risks and costs.

**Reconciliations**

Bank reconciliations are the most common type of reconciliation. To ensure accurate accounting records, perform reconciliations on all your financial accounts. Compare each transaction in your financial statement with the same transaction in your accounting records. As you complete your reconciliation, you will add some entries such as fees, interest income or interest expense entries from the financial statement to your accounting records. Check the transactions off as you verify them as proof the transactions have cleared the financial institution. Most accounting software have a built-in way for you to perform a reconciliation and check off each cleared transaction. Accounting paper and check registers also have a column you can check off as you reconcile your account.

**Catch Mistakes**

A reconciliation tells you which transactions have cleared the financial institution. As you perform your reconciliation, you may encounter transactions that seem to match but with different amounts. The best way to determine whether you or the financial institution has made a mistake is to examine the original financial record. You should still have this record at the time of the reconciliation, because according to the IRS, you should keep financial record backups such as bills, receipts and deposits for a minimum of three years. If the mistake is yours, correct your mistake. If the financial institution made the mistake, call and work with it to correct your account.

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**Find Fraud**

To protect your company from worker fraud, have a person who does not input financial transactions perform reconciliations. Reconciliations sometimes reveal entries in the financial statement that are not in your accounting records. First investigate in-house to determine if the entry is legitimate. If you cannot find a legitimate source for the entry in-house, call the financial institution and ask for clarity. If the transaction is fraudulent, get your financial institution to remove it if possible. Another type of fraud easily detected through a reconciliation is check fraud. A reconciliation will flush out transactions where a person alters a check you have given him or writes a check on your account without your permission.

**Security Measures**

Reconciliations will also let you know which transactions you have entered that the bank has not yet processed. These are called deposits in transit and outstanding checks. If you made a deposit at the end of the statement period and it is not on the statement, this is normal; it will appear on the next statement. However, if you make a deposit at the beginning of the statement period and it does not appear in the statement, this is something you should investigate. Unlike unprocessed deposits, unprocessed checks are rarely a sign of fraud. It usually means someone has forgotten to deposit the check in his account. If the check stays unprocessed for many months, call the recipient as a courtesy to remind her to deposit the check.

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**CONCLUSION**

In this assignment, I learned a lot about Accounting Fundamentals knowledge and the overall operation of its importance. In the first question the role of accounting are based on business function and nature of a particular modern organization. Moreover, it is varying based on the size and type of organization and their business or services industry. The capturing of financial data is in the traditional accounting information systems while non-financial data capturing was in the other such as it can be redundant systems. One of the examples is enterprise resource planning that will be including to support and to provide financial and non-financial information along with accounting information systems’ traditional functions. In the second question, as we all know that every coin has two aspects and the same is the case with accounts receivable and accounts payable. If there are accounts receivable for a particular company, this will surely be accounts payable for some other company. Both of them are important for a company for its survival and smooth running. Full control over the accounts receivable and accounts payable should be there, for efficient working capital management. In the third question, describe about why a company profit appear as a credit on its balance sheet. A company’s balance sheet provides investors the ability to compare the current balance sheet to previous editions. They can see when a company is improving current assets relative to those reported a year ago. Often companies display this period’s balance sheet line items along site prior year’s balance sheets. The income statement is the first piece of information many investors look at when they are thinking about investing in a company. In the last question, I understand what is reconciling an account. In sample answer , to make Analysis of that account by all action taken either Debit or credit and have supported documents to that analysis as well for audit wise or even if your managers ask us for that back up.

**19**

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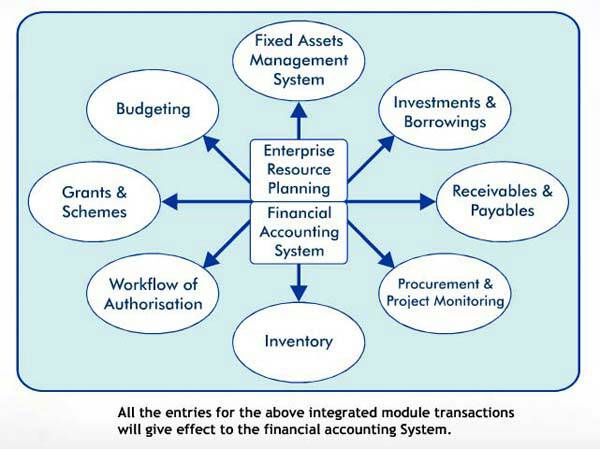
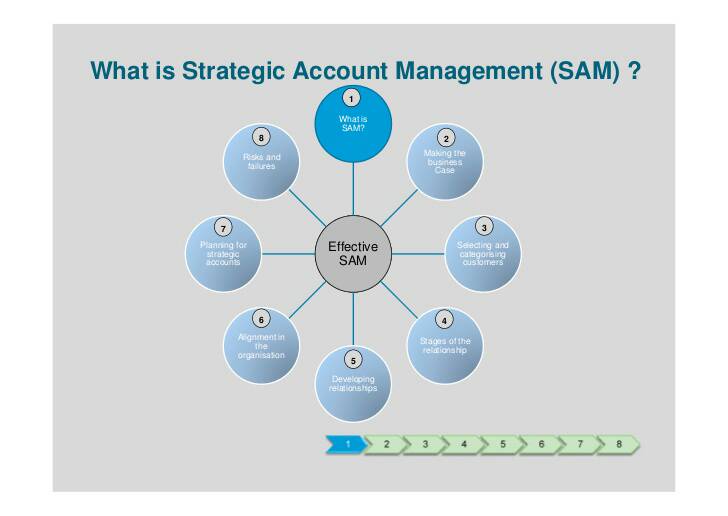
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**APPENDIX**

**EXAMPLES:**

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**THE END**