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Executive Summary

In the module, I covered the topic about accounting fundamentals. First of fall , I will started my introduction of accounting. In the introduction , i will talk about what is accounting and cycle of accounting. In the first question, I brief but comprehensive response and define the role of accounting. In the second question , i will explain what is the different between accounts payable and account receivable. In the third question, i will explain why does company profit appear as a credit on its balance sheet. In the third question , I also explain about balance sheet , accounting equation , trading profit and loss account . In the last questions , I will written about what is meant by reconciling an accoun

Introduction

The explanation of accounting basics will introduce us to some basic accounting principles, accounting concepts, and accounting terminology. Some of the basic accounting terms that you will learn include revenues, expenses, assets, liabilities, income statement, balance sheet, and statement of cash flows.

We will become familiar with accounting debits and credits as we show you how to record transactions. We will also see 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.

Next is account also included balance sheet is financial equipment in account was used by business owner and accountant. Balance sheet in financial position is at every end of the year. Balance sheet has two part, asset and liability. Asset in balance is present company owns things. They always have debit balance. Asset also separate by two current asset and non-current asset.

In accounting, trading profit and loss account is account which details the gross profit or loss made by an organization for a given period trading account, and after adding other income and deducting various expenses, is able to show the profit or loss of the business. Reconciling is meant bank reconciliation statement in accounting. Bank reconciliation statement is a process that explains the difference on a specified date between the bank balance shown in an organization's bank statement, as supplied by the bank, and the corresponding amount shown in the organization's own accounting records.

Cycle of Accounting

Posting

Journal

Entries

Transaction

Financial

Statement

Worksheet

Closing the book

Adjusting

Journal

Entries

cv

Trial

Balance

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

Accounting is a system recording in the financial transaction of the business. It is the process to summarizing in the financial transaction .Accounting is related about relationship of seller, debtor and creditor. Accounting is produce by Luca Pacioli in Italy. He is created double entry system in to T-ledger to record account in accounting. Double entry has divide by two, once debit another is credit. Debit in accounting is increase an asset or expense account. Credit in accounting is increase the liability account. The T-ledger debit is in the right left is for the expenses and the credit is in the right side, is for the income. T-ledger also included asset and liability. Asset is a valuable product and asset is a product we can sell them to help financial problem in the business. In Asset have two differences, is non-current asset (fixed asset) and current asset so asset in the T-ledger is in the left side .Next is the liability, liability is a debt and paying transaction in accounting. Liability have two non-current liability and current liability so in the T-ledger is the right side.

The role of accounting is help business internal and external debtor or creditor make better decision in business by giving a business financial information. Role of accounting have some proses to make a decision.

Business Owner

Business owner need to know how much is earned of their business. This can be help business man to comparing with other alternatives to doing business.

Employees

Employees may use accounting record to justify their demand for wage increase and changes in working conditions.

Creditors

Creditors for determining the credit worthiness of the organization terms of credit are set by creations according to the assessment to their customer’s financial health.

Investors

Investors need analyzing the possibility in investing in the company. Investors need to make sure they can earn on their investment before they accept any financial expenses to the company

Government Agencies

Government Agencies department of Tax Authourities need accounting to assess the reasonable of the amount of tax being paid by business.

Questions 2: What is the difference between accounts payable and account receivable?

|  |  |
| --- | --- |
| Account payable | Account receivable |
| Account payable is a creditor. Account payable is a business department or division that is responsible for making payments owed by the company to suppliers and other creditors. | Account receivable is a debtor. Account receivable is receiving the money from clients or customers in the business. The phrase refers to accounts a business has a right to receive because it has delivered a product or service. |
| In account payable is a liability. Liability is a financial debt during the business operation. In the double entry liability is a debit. Have two different of liability, non-current liability and current liability. Example of non-current liability is bank loan. Example of current liability is bank overdraft. | In account receivable is asset. In the double entry asset is a credit. Asset is a valuable of products or we can sell the asset to provide future financial problem in business. Have two different asset, current asset and non-current asset. Example of current asset is inventory. Example of non-current asset is machinery. |
| Example of account payable.   * Sold a company computer $2500 on credits. | Example of account receivable.   * Bought a printer for company $3000 on credit. |
| * Sold a goods of business $800 on credits. | * Bought an air conditioner for company $5000 on credit. |

Question 3: why does company profit appear as a credit on its balance sheet?

Balance sheet is financial equipment in account was used by business owner and accountant. Balance sheet in financial position is at every end of the year. Balance sheet has two part, asset and liability. Asset in balance is present company owns things. They always have debit balance. Asset also separate by two current asset and non-current asset.

Example of current asset in balance sheet: -vehicles and machinery. Example of non-current asset is inventory and cash in bank.

Liability has two main part, equity and others liability. Liability is obligations of company; it is owner owed someone money like creditor in the balance sheet of date. Liability is separate by two, current liability and non-current liability. Example of current liability is bank overdraft and example of non-current liability is bank loan. The stockholder of the amount is different between asset amount and liability amount. Owner may also need to reference some basic accounting equation: (Assets = liability + Equity).

Example of balance sheet:

Balance sheet

|  |  |
| --- | --- |
|  | $ |
|  | Equity and capitals    Capital xxx  (+)net profit /(-)net loss xxx  xxx  (-)Drawings (xxx)  xxx |

Accounting equation in business transaction will have an effect on an company financial. The financial position is display by this following item.

-Assets (what it owns)

-Liabilities (what it owes to others)

-Owner's Equity (the difference between assets and liabilities)

The accounting of equation have a simple way to understand how does three relationship between asset, liability and equity .

|  |
| --- |
| Asset = liability + equity |

Balance sheet

|  |  |
| --- | --- |
|  |  |
|  |  |
|  |  |
|  | Equity and capitals    Capital xxx  (+)net profit /(-)net loss xxx  xxx  (-)Drawings (xxx)  xxx |
|  |  |
|  | Current liability  Creditor xxx  Bank overdraft xxx  Non-current liability  Bank loan xxx  xxx |
|  |  |
|  |  |

Assets are on the left side of the accounting equation and the balances in the asset accounts are normally on the left side of the accounts. A balance on the left side of an account is referred to as a debit balance.

Equity and liability in credit because revenues cause an increase to the owner's equity credit balance, a credit entry will be required. However, at the time that the revenue is recorded, the amount will be entered as a credit in a revenue account. (At the end of the year the balances in the revenue accounts will be closed to an owner's capital account.)

Trading profit and loss account is account which details the gross profit or loss made by an organization for a given period trading account, and after adding other income and deducting various expenses, is able to show the profit or loss of the business.

Profit is from a company to begin their own business. Before accountant or business man get the net profit or net loss, need to open trading account to get a gross profit in their own accounting.

Example of trading account:

Trading account

|  |  |
| --- | --- |
| $ $ | $ |
| Opening stock xx  (+)purchase xx  (-)purchase return (xx) xx  (+) carriage inwards xx  **Cost of goods sold** **xx**    (-)closing stocks ( xx )  Cost of sales xx  **Gross profit**  **xx**  xx | Revenue/sales xx  (-)sales return (xx)  **Net sales**   **xx**  xx |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |

|  |
| --- |
| **Sales - Cost of Goods Sold = Gross Profit** |

After get the gross profit , accountant will open trading profit and loss accounts.

Example of trading profit and loss account:

Trading profit and loss account

|  |  |
| --- | --- |
|  |  |
| (-)expenses  Rent paid xx  Salary xx  Wages xx  Carriage outwards xx  Bad debts xx  Discount given xx | **Gross profit xx**  (+) income xx  Discount received xx  Commission received xx  Rent received xx |
|  |  |
| **Net profit xx** | **Net loss xx** |
|  |  |
|  |  |
|  |  |
|  |  |

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 will recorded in a revenue account, but revenue accounts are temporary accounts that cause owner's equity to increase.

If the business income more than expenses will be net profit, so will become debit side. But not every business will get a net profit , some business is expenses more that income will become net loss it will be credit side.

Question 4: what meant by reconciling an account?

Reconciling is meant bank reconciliation statement in accounting. Bank reconciliation statement is a process that explains the difference on a specified date between the bank balance shown in an organization's bank statement, as supplied by the bank, and the corresponding amount shown in the organization's own accounting records.

Purpose of Bank reconciliation statement is because this statement to help business owner to see different between these two transaction of bank and record by owners. 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.

Important of bank conciliation statement is bank conciliation statement can show problem to business owner before they get on hand. The problem is amount of bank and amount of record by business will be different. Another problem Business owner will forget debtor have transfer money to their account or not or business owner have pay to creditor on time or not.

The different of cash book and bank statement is time lag between writing a cheque and the payment show on the bank statement (no presented cheques). Another point is bank charges not recorded in the cash to the cash book. Last issues, errors made by the bank on the bank statement.

Example formal of Bank conciliation statement:

Cash book edited

|  |  |
| --- | --- |
| $ | $ |
| Balance from cash bank xx  (+)credit bank statement xx  amount  xx    b/d xx | (-) debit bank statement xx  Amount  c/d xx  xx |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |

In the cash book edited is showing the bank statement are not recorded inside in the cash book amount , if the item amount in the debit side in bank statement it will recorded in the cash book in credit side, or the item amount in the credit side in bank statement it will recorded in the debit side of cash book edited.

After finished the cash book edited, it will open a bank reconciliation statement.

Example format of bank reconciliation statement:

Bank reconciliation statement

|  |  |  |
| --- | --- | --- |
|  | $ | $ |
|  |  |  |
| Debit balance in cash bank  (+) unpresented cheque :  (-) uncredited deposits  credit balance in bank statement | xx  xx | xx  xx  xx  (xx)  xx |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |

After done the bank reconciliation statement , the total amount must be same the previous bank statement amount.

Conclusion

In this assignment, i learn about accounting is important for business owner or company. If accounting is not around of business owner and company, they will not work smoothly in their business. Accounting is a system to business owner and company to help their business become better and also giving business owner to increase knowledge and more understanding about accounting in their business.

If now the day, no one created accounting, people will not understanding about accounting and also don’t know how to operate their own business. Business are related system financial , if related about system financial is about accounting.

The advantage of accounting is help business owner are no knowledge to operate their own business and increase their communication between each other. Accounting is help business owner how to distribution their financial between own financial and company financial.

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