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TABLE OF CONTENTS

|  |  |  |
| --- | --- | --- |
| NO | DETAILS | PAGE |
| 1 | EXECUTIVE SUMMARY | 3 |
| 2 | INTRODUCTION | 4 |
| 3 | ASSIGNMENT QUESTION |  |
|  | PART 1 | 5 - 9 |
|  | PART 2 | 10 |
|  | PART 3 | 11 - 14 |
|  | PART 4 | 15 - 18 |
| 4 | CONCLUSION | 19 |
| 5 | REFERENCES | 20 |
| 6 | APPENDIX | 21 |
|  |  |  |

Executive summary

In the module, I covered the topic about Accounting Fundamentals. In starting part, we can see the introduction of Accounting Fundamentals. In first part, will do in a brief but comprehensive response, define the role of accounting. In the second part, what is the differences between accounts payable and accounts receivable? In the third part, why does a company’s profit appear as a credit on its balance sheet? Then, explain why does the company profit appears as credit in balance sheet. Finally, what is meant by reconciling an account and explain your understanding on computerized accounting system.

INTRODUCTION

While there will be some duplication in the contents of the executive summary and the introduction, the purpose of the executive summary is to provide a summary of the findings of each section of the report. The purpose of the introduction, however, is to outline what the report will cover. The introduction may also include some back ground information such as why the report was commissioned. These observations do have limitations which will be noted. This report will explain how a cash flow statement and a prospectus could enhance analysis.

Once a system has been designed, reports are made for various departments. Since accounting is used by everyone in one form or another a good understanding of accounting principlies is beneficial to all.

ASSIGNMENT QUESTIONS

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

[ACCOUNTING CONCEPT]

Accounting is a fundamental of business flowness in a field where by involving payer and receiver in a term by performance. These peoples are often called as skateholders in the business they hold, where they gain benefits either no of it anyway. It could be affected both of them by the information providing of by the financial department. The history of accounting device from many source which available since and fraced to ancient civilizations. The early development of accounting traced in meopotamia closely related to development of writing, countries and money.

It has no boundary, when the Italian Luca Pacioli recognised as the father of accounting and bookkeeping was the first person to publish a work on double entry bookkeeping by introduced the field in itally. Besides, on the nineteen century accountants associations as solications offered accounting services to their clients which contained modern account similarities towards today forensic accounting.

[DOUBLE ENTRY]

The double entry system of business will involve two accounts or more. 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 equation system explained and playing a big role in business profit appearance on a credit balance sheet in accounts sheet. Double entry accounting is based on a simple concept each party in a business transaction will receive something and give something in return. In bookkeeping terms, what is received is a debit and what is given is a credit. The T account is a representation of a scale or balance.

The double entry system of accounting or bookkeeping means that every business transaction will involve two accounts [or more] for example: when a company borrows money from its bank, the company’ s cash account will increase and its liability account loans payable will increase. If a company pays $200 for an advertisement, its cash account will decrease and its account advertising expense will increase. Each transaction must still be analysed to determine which accounts are involved whether the accounts increase or decrease and how much the balance will change. Some business enter into thousands of transaction daily or even hourly. Accountants must carefully keep track of and record there transaction in a systematic manner.

A third aspect of double entry is that the amounts entered into the general ledger accounts as debits must be equal to the amounts entered as credits. Double entry is bookkeeping system in which all transaction are entered in two places, as a debit in one account and as a credit in another. The required double entry is a debit to the long term work in progress account to increase the value of the asset, and a credit to the profit and loss account. True to its name, double entry accounting is a standard accounting method that involves recording each transcation in at least two accounts, resulting in a debit to one or more accounts and a credit to one or more accounts.

[THE SYSTEM RECORDS THE TWO SIDED EFFECT OF TRANSACTION]

|  |  |
| --- | --- |
| TRANSCATION | TWO – SIDED EFFECT |
| Bought furniture for cash  Took a loan in cash | Decrease in one asset  Increase in another asset  Increase in an assets  Increase in a liability |

[ROLE OF ACCOUNTING]

The role of accounting in business is to help internal and external skateholders make better business decisions by providing them with financial information. Accounting communicates information that owners, managers and investors need to evable a company’s financial performance.

The purpose of management accounting is to supply relevant, accurate, timely information to managers in a format that will aid them in making decisions. Financial accounting includes income statements, balance sheets and statements of cash flows.

These people are all skateholders in the business, which is to say they ‘re interested in its activities because they’re affected by them. You wouldn’t try to run an organization or make investment decisions without accurate and timely financial information and it’s the accountant who prepares this information. Collecting all the numbers is the easy part today, all you have to do is start up your accounting software. All this means that accounting can be defined as a system for measuring and summarizing business activities, interpreting financial information and communicating the results to management and other decision makers.

[BUSINESS OWNER]

Individual or entity who owns a business entity in an attempt to profit from the successful operations of the company. Generally has decision making abilities and first right to profit. Some cost accounting will help you to grasp the concepts of covering your fixed costs, hidden variable costs, the cost of capacity, and how to accurately cost our a project so that you don’t end up losing money on a project you thought would be a big earner. Bankers are more confident when dealing with business owners who actually understand financial implications. Many small business owner are aware of the importance of using accounts software. Fox business recently discussed seven of the top reason to use accounting software.

[EMPLOYEES]

An individual who works part time or full time under a contract of employement, whether oral or written, express or implied and has recorgnised rights and duties. Emplyees performance management is about aligning the organisational objectives with the employees agreed measures, skills, competency requirements, development plans and the delivery of results.

Organisations used this new method to drive behaviours from the employees to get specific outcomes. The gap between justification of pay and the development of skills and knowledge became a huge problem in the use of performance management. Many of the old performance appraisal methods have been absorb into the concept of performance management which arms to be a more extensive and comprehensive process of management.

[CREDITIES ]

Credit is a contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some date in the future, generally with interest. Credit also refers to an accounting entry that either decreases assets or increases liabilities and equity on the company balance sheet. Credit is part of your financial power. It helps to get the things you need now, like a loan for a car or a credit card based on your promise to pay later. Credit is the negative side a balance sheet account and the positive side of a resulting them.

A credit is an outstanding the amount that is due to a creditor by a debtor to a borrower. In the accounting ledger, this is a recorded on the right side of the a balance sheet to negative as it is a decreases in assets. Crediting an account implies that there is a negative amount that in the account. The individual or company that issues a credit is known as the creditor. Credit is given in exchange for a product or services given by the creditor to the a debtor.

[INVESTOR]

Investor use financial statements to obtain valuable information used in valuation and credit analysis of companies. Therefore, it is important in investing to understand how business accounting is the done and which principles guide financial statement preparation. Understanding a company’s classification of its assets, liabilities and valuation methods in financial a accounting is the paramount in the investment and a credit analysis. The value for a certain class of assets is based on the management ‘s judgement and may not reflect its true economic value.

A person or organization that puts money into financial schemes, property, etc with the expectation of achieving a profit. Investor who have a strong knowledge of business a accounting can be a head of the curve by identifying such problems early on. The ability to identifying debt and the equity is a crucial in determining the company’s value since the debt to an equity ratio is commonly used in measuring a company’ s idiosyncratic risk. Operating lease payments are a kind to debt payments, and investors may wish to treat the present value of operating leases as debit.

Investors with a strong grasp of financial a accounting can quickly decipher whether certain line items on the income statement are non – recurring and are not expected to occur in the future. Investors with strong accounting backgrounds use a company’s financial reports to identify key risk area that can point to potential losses in assets values. Also, investors use financial statements to calculate a financial rations that assist in the estimating a companys liquidity and default risk. Investors may need to process extensive knowledge of a different accounting standards to the compare companies from different countries.

* INVENTORY – goods held by a firm for resale to customers
* ACCOUNT PAYABLE – a liability that results from the purchase of goods or services an account.
* COMPOUND ENTRY – a transcations that effects more than two accounts.
* CREDITOR – one to whom money is owned.
* DEBTOR – one who owes money.

[GOVERNMENT AGENCY]

A government or state agency, often an appointed commission is a permanent or semi – permanent organization in the machinery of government that is responsible for the oversight and admistration of specific functions, such as an intelligence agency. Accounting is an important function of any business. Knowing when and where your money is coming and going is crucial. It’s impossible to know who or what got paid or needs to be paid. Accounting is also necessary for the government that uses the records of entities to make fiscal and monetary policies and it is important for regulations of government that the are concerned with income tax reporting.

All entities should fill the income tax return properly and correctly and make sure that it is nearly paid. In that way, they will avoid various troubles that can occur such as underpaying or overpaying of taxes that can further leave many negative consequences on the tax eturn policy. Accounting ensures that all economic activities within the boundaries of a nation are conducted without gaps and in a legal manner. Without it, it would be impossible for the government to have access to the inconsistencies among its citizens and their potential financial crimes.

Finally, they most posses excellent written and verbal communication skills. Students who have earned a bachelor of science in accounting will be eligible to fill available accounting positions at the federal, state and local levels. In addition to traditional government roles, government a accountants also have the option of working with government affiliated companies and corporations.

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

ACCOUNT RECEIVABLE – [DEBTOR] ACCOUNT PAYABLE – [CREDITOR]

|  |  |
| --- | --- |
| * Money owned to a company by its debtors. * Account receivable is the money that a company has a right to receive because it had provided customers with goods and services. * Money which is owed a company by a customer for products and services provided on credit. * This is often treated as a current asset on a balance sheet. * A specific sale is generally only treated as an account receivable after the customer is sent an invoice. * Sales made but not paid for by the customers. * Account receivable is the proceeds or payments which the company will receive from its customers who have purchased its goods & services on credit. * Usually the credit period is short ranging from few days to months or in some cases maybe a year. * Sold goods on credit. | * Money owed to supplies. * Money owed by a company to its creditors. * Account payable also called trade payables is a short – term liability account used to record debts from purchasing goods or services on credit. * An account payable detailed again report lists all of the current creditors with their account balances listed in amounts due or overdue in days. * Primarily this account is used to record inventory purchases from vendors and others trade debts but it is also used for supply, equipment and services purchases. * Account payable are a current liability for a company and are expected to be paid within a short amount of time. * Account payable is the aggregate amount of an entity’s short term obligations to pay suppliers for products and services which the entity purchased on credit. * If accounts payable are not paid within the payment terms agreed to with the supplier the payables are considered to be in default. * Bought goods on credit. |

|  |  |
| --- | --- |
| ASSET  CURRENT ASSET = Less than a year  NON-CURRENT ASSET =more than a year  EXAMPLE= sold goods on credit  CURRENT ASSET = Cash in hand    Cash in bank  Stock inventory  Debtor they pay money  NON- CURRENT ASSET = land and building  Vehicles  Machines  equipment | LIABILITY  CURRENT LIABILITY = less than a year  NON- CURRENT LAIBILITY= more than a year  EXAMPLE = purchased goods a credit  CURRENT LIABILITY = creditor  Bank overdraf  NON- CURRENT LIABILITY = only pay more  Than a year  Bank loan  montgage |

QUESTION 3: Why does a company’s profit appear as a credit on its balance sheet?

[ Balance sheet]

Balance sheet is the financial statement of a company which includes assets, liabilities, equity capital, total debt, at a point time. These three balance sheet segments give investors an idea as to what the company owns and owes as well as the amount invested by shareholders. Balance sheet includes assets on one side, and liabilities on the other. For the balance sheet to reflect the true picture, both heads [liabilities & assets] should tally [Assets = Liabilities +Equity]. A balance sheet is a statement of the financial position of a business on a specified date. A balance sheet is a statement of the financial which states the assets, liability, and owners equity at a particular point in time. The balance sheet is a financial balance sheet consists of the three sections; assets, liabilities and owner’s equity or capital.

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

.

Account equation

The accounting equation or balance sheet equation forms the building blocks for the entire double entry accounting system. It shows that every asset owned by the company is equal to the claims liabilities and equity against the assets. The accounting equation looks like this. Assets = Liabilities +Equity.

[ Assets = Liabilities + Equity]

In its most basic form, the accounting equation shows what a company owns, what a company owes, and what stake the owners have in the business. The equation starts off with the company has to use in the future like cash, accounts receivable, equipment and land. Most of the time, the company doesn’t own its assets completely outright. There are claims to these assests. For instance, the company might have a loan on the company car, a mortgage on the building, or even owe money to its shareholders. That is why the second part of the accounting equation is made up the claims on company assests. All of these claims on the company assets are separated into two categories liabilities and equity.

Liabilities are claims on the company assets by other companies or people. In other words, it’s the amount of money owed to other people. A bank loan or mortgage is a good example. The bank has a claim to the business building or land that is mortgage. Equity on the other hand is the shareholders claims on the company assets. This is the amount of money shareholders have contributed to the company for an ownership stake.

Equity also includes retained earnings. Equity is usually shown after liabilities in the accounting equation because liabilities must have to be repaid before owners claims. You might also notice that the accounting equation is in the same order as the balance sheet. Once all of the claims by shareholders are added up, they will always equal the total company asset.

[HOW BALANCE SHEET SHOW]

ASSETS = LIABILITY + EQUITY

ASSETS = LIABILITY +EQUITY

ASSETS = LIABILITY +[capital ]

+net profit

-drawing

TRADING ACCOUNTS AND PROFIT AND LOSS ACCOUNTS

The account which is prepared to determine the gross profit or gross loss of a business concern is called trading account. It should be noted that the result of the business determined through trading account is not true result. The true result is the net profit or the net loss which is determined through profit and loss account. The trading accounting has the following features:

It is the first stage of final accounts of a trading concern. It is prepared on the last day of an accounting period. Only direct revenue and 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 direct expenses and direct revenue concering current year are taken into account but no item relating to past or next year is considered in it. If its credit side exceeds it respresents gross profit and if debit side exceeds it shows gross loss.

From the trial balance, the balance of opening stock account, purchases account, returns inwards account and of all direct expenses are transferred on the debit side of the trading account, and the balance of the sales account, returns outwards account and closing stock account are transferred on the credit side of the trading account. If the credit side of the trading account exceeds the debit side, the results is gross profit and if debit side exceeds the credit side the results is gross loss.

DR TRADING ACCOUNTS CR

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

|  |  |
| --- | --- |
| (-)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 xxxxxxx  xxxxxxx |

DR PROFIT AND LOSS ACCOUNT CR

NET SALES = GROSS SALES – SALES RETURN

NET SALES = COST OF SALES – GROSS PURCHASES

QUESTION 4: What is meant by reconciling an account.

A bank reconciliation statement is a summary of banking and business activity that reconciles an entity’s bank account with its financial records. The statement outlines the deposit, withdrawals, and other activity impacting a bank account for a specific period. A bank reconciliation is the process of matching the balances is an entity’s accounting records for a each account to the or responding information on a bank statement. The goal of this process is to as certain the differences between the two and to book changes to the accounting records as appreciate.

It is the process of company and matching figures from the accounting records against those shown on a bank statement. Bank reconciliation is simply checking the transaction with the bank that and bank reconciliation statement comparison between bank statement and bank book of the company.

The reason for us to prepare bank reconciliation statement are as follows to detect items not entered and errors in the cash book. To ensure that the cash book entries are complete. Items missing from the cash book will not have been recorded in other ledger accounts and the business records will be unreliable. 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 transaction.

[Reasons to prepare a bank reconciliation statement ]

The cash book records all transaction with the bank. The bank statement records all the bank’s transaction with the business. The contents of the cash book should be exactly the same as the record provided by the bank in the form of a bank statement and therefore the business entity concept. The ledger account maintained by the bank is the opposite way round to the cash book.

This is because the bank records balances from their perspective. Therefore if a client has a positive bank balance the bank would display this as a credit balance because they have a liability to pay it back to it the client. If the client is overdrawn this would be shown as a debit because the bank are owned a repayment from the client. Timing differences must inevitably occur. A cheque payment is recorded in the cash book when the cheque is despatched. The bank only records such as cheque when it is paid by the bank, which may be several days later. Items such as interest may appear on the bank statement but are not recorded in the cash book as the business is unware that they have arisen.

[THE PURPOSE OF A BANK RECONCILIATION]

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 is called the bank balance.It is extremely common for there to be differences between the two balance,which you should track down and adjust in your own records.

If you where to ignore these differences,there would eventually be substantial variances between the amount of cash that you think you have and the amount the bank says you actually have in an account .The result could be an overdrawn bank account ,bounced check ,and overdraft fees .In some cases ,the bank may even elect to down your bank account it is also useful to complete a bank reconciliation to see if any customer check have bounce ,or if any checks you issued were altered or even stolen and cashed without your knowledge.

Thus, fraud detection is a key reason for completing a bank reconciliation. When there is an ongoing search for fraudulent transactions it may be necessary to reconcile a bank account on a daily basic ,in order to obtain early warning of a problem. When it comes time for the annual audit, the the auditors will always examine the company’s ending bank reconciliation as part of their testing procedures ,so this is yet another reason to complete a reconciliation.

Here are some of the areas in which your records could vary from the book record: Fees. The bank has charged fees for its services, such as a monthly account fee .NFC checks. The bank may have rejected some of your deposited checks, because the person or business issuing the checks did not have sufficient funds in their account(s)as NSF (not sufficient funds) Checks.

Recording error. Either you or the bank may have recorded a check or a deposit incorrectly .Some organizations consider the bank reconciliation to be so important that they condust one ever day, which they condust one ever day, which they accomplish by accessing the latest updates to the bank’s records on the bank’s secure website. This is of particular importance if a company is pany is operating with minimal cash reserves, and needs to ensure that its recorded cash balances is correct. A daily reconciliation may also be necessary if you suspect that someone is fraudulently withdrawing cash from the bank account.

[The main reasons for differences between the cash book and the bank statement]

The balance on the cash account (which should be the same as the balance in the cash book)is compared to the balance on the bank statement at the at a given date.however,these two balances may not agree .There are various reasons.Time lag between writing a cheque and the bank statement (unpresented cheques).Time lag between depositing amounts into the bank account and these appearing on the bank statements (unrecorded lodgements).

Direct debits and standing orders are not yet recorded in the cash account (or cash book).Bank charges not recorded in the cash account (or cash book).Errors ,such as transposition errors, or casting rrors in the cash account (or cash book ).Errors made by the bank statements.

There ,different between the cash book and the bank statements arise for 3 reasons. Errors-usually in the cash book. Omission -such as bank charges , standing orders and direct debits not posted in the cash book.Timing differens -such as unoresented cheques and unrecords lodgements. There are timing differences such as unpresented cheque and unrecorded lodgements between cash book and bank reconciliation.

[FORMAT OF BANK RECONCILIATON STATEMENT]

[BANK RECONCILING STATEMENT]

CASH BOOK EDITED

|  |  |
| --- | --- |
| Balance from cash books xxxxx  (+)Dr bank statement xxxxx  XXXXX  B/D XXXXX | (-)Cr bank statement xxxxxx  C/D XXXXXX  XXXXX |

DR- MONEY IN CASH BOOK 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 | C/D | XXXXX | XXXXXX |
|  |  |  | XXXX | XXXX |  |  |  | XXXXX | XXXXXX |
| JUNE 01 | BALANCE | B/D | XXXX | XXXXX |  |  |  |  |  |

CONCLUSION

In this part, you should give final summary about your modules. You should be able to understand the advantage of this module and able to draw up conclusion of your module. Examiner will able to see your understanding of module in this part.accounting enables business to analyse the financial performance by determing the profit or loss made during a certain period. Hence it is sometimes called the language of business.

REFERENCES

Information from another source must be credited in the references page.

Online [http :/URL title of article ]

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APPENDIX

ACCOUNTING FUNDAMENTALS

* Concept
* Double entry
* Trading account
* Cash book
* Bank reconciliation statement
* Gross profit and loss account
* Asset
* Liability
* Expenses
* income

THE END