CHAPTER 1: ACCOUNTING BASICS

Accounting: It is a systematic process of identifying, recording, measuring, classifying, verifying, summarizing, interpreting and communicating financial information. It reveals profit or loss for a given period, and the value and nature of a firm's assets, liabilities and owners' equity.

Assets: Those resources are owned and controlled by the entity (business), and having economic values. Assets are either tangible e.g property or intangible e.g Goodwill. There are two types of assets;

- Non current assets: owned by the business for more than one year and not for resale purpose. They two further types;
    - Intangible: not physically available e.g Goodwill, patents, copyrights and trademarks.
    - Tangible: exist physically in a business e.g property, plant & machinery, motor vehicles and fixtures.
- Current Assets: Owned by the business for less than one year or for resale e.g Inventory, trade receivables, bank and cash.

Liabilities: These are legal obligations which are payables to different entities after a specific interval. There are two types of liabilities.

- Non current liabilities: These are payables in more than one year e.g bank loan.
- Current liabilities: These obligations are payables within one year e.g trade payables, bank overdraft.

Capital (Owner's equity): Amount of cash or assets invested by the owner into the business. It is equal to assets less liabilities.

Drawings: Cash or any asset withdraws by the owner from business for personal use is called drawings.

Trade receivables: Credit customers of a business who buy goods from the business on credit and pay later.

Trade Payables: Credit suppliers of a business who supply goods on credit to the business.

Revenue: Incomes which is earned by a business through selling of goods or services.

Expenses: Expenses are the costs incurred to run business activities and earn revenue.

Capital employed: This refers to total long term investment in a business. It includes equity and non current liabilities.

Working capital: The capital of business which is used to day-to-day operations. It is calculated by subtracting current liabilities from current assets.

Formulae:

- **Accounting equation: Total assets=capital (equity)+total liabilities**
  Non current assets+current assets= Capital (equity)+non current liabilities +current liabilities
- **Working capital (net current assets)= current assets-current liabilities**
- **Capital employed= Total assets-current liabilities**
- **Or capital employed= equity (capital)+non current liabilities**

Questions:

Q1: Differentiate between assets and liabilities.

a) Building
b) Trade payables
c) Trade receivables
d) Cash in hand
e) Cash at bank
f) Loan from bank
g) Loan to M. Black
h) Plant
i) Machinery
j) Furniture
k) Fixtures and fittings
l) Motor vehicles
m) Premises
n) Bank overdraft
o) Loan from friend
p) Car
q) Inventory
r) Equipment

Q2: Tick (√) the right option.

		Assets	Liabilities
I.	Premises		
II.	Motor van		
III.	Bank overdraft		
IV.	Trade receivables		
V.	Inventory		
VI.	Trade payables		
VII.	Machinery		
VIII.	Plant & equipment		
IX.	Cash in hand		
X.	Loan to friend		

Q3: Complete the following table.

Current assets $	Current liabilities $	Working capital $
a) 26,700	13,400	
b) 38,900	20,100	
c) 49,000	16,200	
d) 17,500		2,500
e) 62,400	44,400	
f) 55,600		11,300

Q4: Complete the following table.

	Assets	Current liabilities	Non current liabilities	Capital (equity)	Capital employed
1	100,000	34,000	26,000		
2	231,000	21,000		170,000	
3	141,000		47,000	56,000	
4	210,000	47,000	53,000		
5		37,500	42,500	254,000	
6	89,000		12,000	41,000	
7		11,000	70,000	161,000	

Q5: Tick (√) the right option.

	NCA	CA	NCL	CL
Premises				
Inventory				
Bank overdraft				
Trade payables				
Trade receivables				
Plant & machinery				
Bank loan				
Bank				
Cash				

Q6: Complete the following table. All values in ($)

Non current assets	Current assets	Non current liabilities	Current liabilities	Working capital	Capital employed	Owner's equity
72 000	22 000	10 000	4 000			
111 000	41 000	50 000		39 000		
220 000	67 000	40 000				250 000
36 000	14 000	16 000	5 000			

Q7: Complete the following table.

Non-current assets ($)	Current Assets ($)	Non-Current liabilities ($)	Current liabilities ($)	Equity ($)
140 000	43 500	20 000	13 700	
	16 800	50 000	31 100	90 900
279 500	44 400		22 100	161 800
88 800		33 000	11 000	55 500
111 100	66 600	77 700	33 300	
240 000	60 000	90 000		180 000

Q8: Leung commenced business on 1 April 2010 with inventory (stock) $500 and bank $6000. Leung also has a bank loan of $3500 which is repayable in full on 31 March 2013.

Required:
Calculate on 1April 2010, the
i) Owner's Equity
ii) Capital Employed

Q9: Joe's business had the following assets and liabilities on 31 March 2011:

	$
Non-current assets	120 000
Liabilities due within one year	25 000
Current assets	35 000
Liabilities due in over one year	50 000

Required:
Calculate;
- i) Equity
- ii) Capital Employed

Q10: Maria had the following assets and liabilities on 1 May 2014.

	$
Inventory	1 950
Amount payable – Midland Telecoms	400
Bank	550 Dr
5% Bank loan (repayable 30 April 2018)	2 500
Fixtures and fittings	1 500

REQUIRED
Calculate the following.
(i) Owner's capital
(ii) Capital employed