Good example of essay on accounting

Business, Company

Source: (MDD, 2013)

Whenever a merchandise sales is made on credit, the sales information is recorded in the sales day book. This is the first document where the records are entered, and they are also known as books of prime entry. In the general ledger, there are accounts for Cash, Accounts Payable, Sales, Purchases and Depreciation. The sales will be recorded in the sales account of the general ledger. The account of the customer who has purchased the goods from the company is going to be debited. At the ends of the period the difference of the debt side and the credit side of the accounts in the general ledger is going to go to the trial balance. Similarly, when the customer is going to pay the cash, first of all, this item will be recorded in the cash book as cash inflow from operations. After that the customer account will be credited showing that the money has been received and bank or cash account will be debited. The impact of this on the balance sheet will increase in the cash or bank account, and decrease in the accounts receivables. The impact of the credit sales on the income statement will be increase in the sales, and it is also going to improve the net income of the company, as higher the sales amount, the higher will be net income.

When a company buys an asset or improves the existing asset, it is known as the capital expenditure. The impact of capital expenditure is on both the balance sheet and income statement of the company. Capital expenditures increase the fixed assets side of the balance sheet. This signifies that the capital employed in the business has increased, or more capital has been injected in the business. When a company makes a capital expenditure, it immediately credits the account of the supplier from whom the company has purchased the machinery or an asset. This increases the accounts payable in the balance sheets, and also increases the fixed assets of company. When the company makes a payment to supplier or the firm from whom the machinery or an asset is purchased, the bank account or cash account is credited. Similarly, the supplier or creditors account is debited signifying that the cash has moved from the bank account to the supplier. This again impacts both the balance sheet and the income statement. The balance is affected by reduction in the cash account, and also the reduction in the accounts payable. Similarly, the company also experiences an increase in the total fixed assets of the company. An asset is also depreciated over its useful life. No asset can last forever, and hence the capital expenditure is divided over the asset’s useful life. Depreciation is recorded in the income statement of the company. It reduces the net income of the company. However, since new assets always increase the revenue and income opportunities for a company, this charge is offset by the increase in sales and revenue.

It can easily be learned from this paper that accrual based accounting is very important in any business. Without the knowledge of how make the accrual and cash flow entries, the accountant will be confused and will either understate or overstate the company’s actual position. (Woods and Sangster, 2008)

References

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