

# [Concepts of money measurement](https://assignbuster.com/concepts-of-money-measurement/)

Business Entity Concept can also be known as separate entity concept. A business entity concept is the financial activities are record distinct from the people who finance it such as owners, creditors, customers, and employers. The accounting records reflect the financial activities of a specific corporate entity. So, the business should separately from the proprietor or investor. When the profit is return in to the business, the profit must be taken into account.

For example, the sole trader invests available funds in the market share account. These available funds are not affecting the financial status of the business itself.

Money Measurement Concept

Money Measurement Concept is expressed in monetary term. Every transaction is records in terms of money. If the transaction cannot be measured in monetary term, then the transaction cannot be taken into account.

Going Concern Concept

Going concern concept is the business that expected that a business will continue to operate its business for the next 12 months or next accounting period. This concept assumes that the business is going on steadily training for year to year without reducing its operation. When an enterprise liquidates or scale down a part of operation of the enterprise, the ability of the enterprise to continue as going concern concept is not impaired normally.

Materiality Concept

This materiality concept is refers to purposes paying attention to important events and ignoring insignificant accounting items as well as suggests small aster purchases or improvements should be initially written off as an expense.

Prudence concept

Prudence concept is taking a proper caution in measuring profit and income. Prudence must be exercised when preparing financial statements because of the uncertainty surrounding many transactions. In this concept, income should not be anticipated at all possible losses should be provided for.

a.) Give FOUR reasons why depreciation may occur.

The definition of the depreciation is refers to noncash expense that reduces the value of an asset as a result of wear and tear, age, or obsolescence. Most assets lose their value over time and must be replaced once the end of their useful life is reached.

The main reason of the depreciation is due to the physical wear and tear and the passage of time. For example, the value of the car is reduced over time as new model is introduced to the market, or the value of used motor vehicles is lower than a similar model but new motor vehicles.

The second reason is obsolescence of the asset. For instance, the old machine in a factory is become more obsolescence due to time that the machine used. After many years, the value of the machine is depreciated because the residual or scrap value of the asset and similar new machine is come out in the market.

The third reason is passage of time. Some assets diminish in value on account of sheer passage of time, even though they are not used. For example, the patent rights, copy rights and lease hold property.

The forth reason is depletion of the asset. The depletion is to provide for the consumption on charge against earnings, based on the amount of wasting natural resources that are taken out of total available reserves during an accounting period.

2 b.)

A firm buys a motor vehicles in January 20X5 for RM10, 000. Calculate the annual depreciation for the first four years using.

Reducing Balance Method, at an annual rate of 20%.

## Reducing Balance Method:

Depreciation: Reduced Balance:

Year 1 (20X5) 20% x RM 10, 000 = RM 2, 000 (RM 10, 000 – 2, 000) = RM 8, 000

Year 2 (20X6) 20% x RM 8, 000 = RM 1, 600 (RM 8, 000 – 1, 600) = RM 6, 400

Year 3 (20X7) 20% x RM 6, 400 = RM 1, 280 (RM 6, 400 – 1, 280) = RM 5, 120

Year 4 (20X8) 20% x RM 5, 120 = RM 1, 024 (RM5, 120 – 1, 024) = RM 4, 096

Straight Line Method, if the vehicle is to be sold in four years time for RM2, 000.

## Straight Line Method:

Depreciation per year =

## =

## = RM 2, 000

Dt

Motor Vehicle account

Ct

RM

RM

20X5

20X5

Jan 1

Bank

10, 000

Dec 31

Balance c/d

10, 000

20X6

20X6

Jan 1

Balance b/d

10, 000

Dec 31

Balance c/d

10, 000

20X7

20X7

Jan 1

Balance b/d

10, 000

Dec 31

Balance c/d

10, 000

20X8

20X8

Jan 1

Balance b/d

10, 000

Dec 31

Balance c/d

10, 000

Dt

Provision for Depreciation on Vehicle

Ct

RM

RM

20X5

20X5

Dec 31

Balance c/d

2, 000

Dec 31

Profit & Loss A/C

2, 000

20X6

20X6

Dec 31

Balance c/d

4, 000

Jan 1

Balance b/d

2, 000

Dec 31

Profit & Loss A/C

2, 000

4, 000

4, 000

20X7

20X7

Dec 31

Balance c/d

6, 000

Jan 1

Balance b/d

4, 000

Dec 31

Profit & Loss A/C

2, 000

6, 000

6, 000

20X8

20X8

Dec 31

Balance c/d

8, 000

Jan 1

Balance b/d

6, 000

Dec 31

Profit & Loss A/C

2, 000

8, 000

8, 000

Profit & Loss Account ( extract ) for the year ended 31 December

20X5

20X6

20X7

20X8

Operating expenses :

RM

RM

RM

RM

Depreciation of Motor Vehicle

2, 000

2, 000

2, 000

2, 000

Balance Sheet ( extract ) as at 31 December

20X5

20X6

20X7

20X8

Fixed Assets

RM

RM

RM

RM

Motor Vehicle, at cost

10, 000

10, 000

10, 000

10, 000

Less : Provision for depreciation

2, 000

4, 000

6, 000

8, 000

Net book value

8, 000

6, 000

4, 000

2, 000

Calculate the cost of raw materials issued from the following data using :

DATE

PURCHASES

SALES

JAN

15 units x RM 10. 00

FEB

10 units x RM 10. 50

APRIL

20 units x RM 25. 00

JUN

8 units x RM 11. 00

AUG

10 units x RM 25. 00

SEPT

20 units x RM12. 00

NOV

13 units x RM 25. 00

a.) LIFO method

Date

Purchases

Cost of goods sold

Balance

Jan

15units x RM 10

15units x RM 10 = RM 150

Feb

10units x RM10. 50

10units x RM 10. 50 = RM 105

TOTAL

25 units @ RM 225

April

10units x RM10. 50

10units x RM 10

10units x RM10. 50 = RM105

10units x RM 10 = RM100

TOTAL

5 units x RM10 = RM 50

Jun

8 units x RM11

8 units x RM 11 = RM 88

TOTAL

5 units x RM10 = RM 50

8 units x RM 11 = RM 88

13 units @ RM 138

August

8 units x RM 11

2 units x RM 10

8 units x RM 11 = RM 88

2 units x RM 10 = RM 20

10 units @ RM 108

TOTAL

3 units x RM 10 = RM 30

Sept

20 units x RM 12

20 units x RM 12 = RM 240

TOTAL

3 units x RM 10 = RM 30

20 units x RM 12 = RM 240

23 units @ RM 270

Nov

13 units x RM 12

13 units x RM 12 = RM 156

Closing stock

3 units x RM 10 = RM 30

7 units x RM 12 = RM 84

10 units @ RM 114

Sales = ( 20 units + 10 units + 13 units ) x RM 25

= RM 1075

Cost of goods sold

= (10units x RM10. 50) + (10units x RM 10 ) + (8 units x RM 11 ) + (2 units x RM 10 ) + ( 13 units x RM 12 )

= RM 105 + RM 100 + RM 88 + RM 20 + RM 156

= RM 469

GROSS PROFIT = Sales – Cost of Goods Sold

= RM1075 – RM469

= RM606

b.) FIFO method

Date

Purchase

Cost of goods sold

Balance

Jan

15 units x RM 10

15 units x RM 10 = RM 150

Feb

10 units x RM 10. 50

10 units x RM 10. 50= RM 105

TOTAL

25 units @ RM155

April

15 units x RM 10

5 units x RM 10. 50

15 units x RM 10 = RM 150

5 units x RM 10. 50= RM 52. 50

20 units @ RM 202. 50

TOTAL

5 units x RM 10. 50 = RM 52. 50

Jun

8 units x RM 11

8 units x RM 11 = RM 88

TOTAL

5 units x RM 10. 50 = RM 52. 50

8 units x RM 11 = RM 88

13 units @ RM 140. 50

August

5 units x RM 10. 50

5 units x RM 11

5 units x RM 10. 50 = RM 52. 50

5 units x RM 11 = RM 55

10 units @ RM 107. 50

TOTAL

3 units x RM 11 = RM 33

Sept

20 units x RM 12

20 units x RM 12 = RM 240

TOTAL

3 units x RM 11 = RM 33

20 units x RM 12 = RM 240

23 units @ RM273

Nov

3 units x RM 11

10 units x RM 12

3 units x RM 11 = RM 33

10 units x RM 12 = RM 120

13 units @ RM 153

Closing stock

10 units x RM 12 = RM 120

Sales = ( 20 units + 10 units + 13 units ) x RM 25

= RM 1075

Cost of goods sold

= ( 15 units x RM 10 ) + ( 5 units x RM 10. 50 ) + ( 5 units x RM 10. 50 ) + ( 5 units x RM 11 ) + ( 3 units x RM 11 ) + ( 10 units x RM 12 )

= RM 150 + RM 52. 50 + RM 52. 50 + RM 55 + RM 33 + RM 120

= RM 463

GROSS PROFIT = Sales – Cost of Goods Sold

= RM1075 – RM463

= RM612

c.) Average cost method

Date

Purchases

Cost of goods sold

Balance

Jan

15 units x RM 10

15 units x RM 10 = RM 150

Feb

10 units x RM 10. 50

10 units x RM 10. 50 = RM 105

WAVCO

15 units x RM 10 = RM 150

10 units x RM 10. 50 = RM 105

25 units @ RM 225

= RM 10. 20 / units

April

20 units x RM 10. 20

20 units x RM 10. 20 = RM 204

TOTAL

5 units x RM 10. 20 = RM 51

Jun

8 x RM 11

8 units x RM 11 = RM 88

WAVCO

5 units x RM 10. 20 = RM 51

8 units x RM 11 = RM 88

13 units @ RM 139

= RM 10. 69 / units

August

10 units x RM 10. 69

10 units x RM 10. 69 = RM 106. 90

TOTAL

3 units x RM 10. 69 = RM 32. 07

Sept

20 units x RM 12

20 units x RM 12 = RM 240

WAVCO

3 units x RM 10. 69 = RM 32. 07

20 units x RM 12 = RM 240

23 units @ RM 272. 07

= RM 11. 83 / units

Nov

13 units x RM 11. 83

13 units x RM 11. 83 = RM 153. 79

Closing stock

10 units x RM 11. 83 = RM 118. 30

Sales = ( 20 units + 10 units + 13 units ) x RM 25

= RM 1075

Cost of Goods Sold

= ( 20 units x RM 10. 20 ) + ( 10 units x RM 10. 69 ) + (13 units x RM 11. 83 )

= RM 204 + RM 106. 90 + RM 153. 79

= RM 464. 69

GROSS PROFIT = Sales – Cost of Goods Sold

= RM1075 – RM 464. 69

= RM 610. 31

5a.) Explain clearly the difference between capital expenditure and revenue expenditure.

Capital expenditure is acquired to be used in business operation to generate revenue for a period of more than one year. Capital expenditure is the money that spends on buying asset. For instance, office equipment and motor vehicle are the examples of the capital expenditure. Capital expenditure also can be considered as the useful economic life of the asset. Therefore, the expenditure incurred is allocated over the period it is used to match the revenue earned.

On the other hand, revenue expenditure are incur in the current year in the business operation. The revenue expenditure is the expenditure on the wages, premises, and utility bills. Therefore, the revenue expenditure need to written off to the profit and loss account in the year in order to measure the profit or loss. This is an accounting concept termed ‘ matching’ and ‘ accruals’ concept. Revenue expenditure also is the money that spends to obtain the use of the asset and maintain the dairy operation of the business.

b.) Classify the following items as capital or revenue expenditure.

i .) Cost of new machinery

Capital expenditure

ii . ) Petrol and oil for the motor vehicle

Revenue expenditure

iii . ) Wages of office staff

Revenue expenditure

iv . ) Extension of factory

Capital expenditure

v . ) Repainting office

Revenue expenditure

vi . ) Cost of road tax and insurance for new van

Capital expenditure

vii . ) Cost of road tax and insurance for existing van

Revenue expenditure

viii . ) Repair and maintenance of existing van

Revenue expenditure

ix . ) Legal fees paid in connection with factory extension

Revenue expenditure

x . ) Cost of painting firm’s name on new van

Capital expenditure

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