Principle of Accounting

Program

MBA (Non Business)

Submitted to

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Submitted by

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Q :1

General Entries in book

Of ABC Ltd.

Date	Title/ description	Debit	Credit
Sep 1	Cash /Bank Account	50,000	
	Capital Account (Being investment in business by owner)		50,000
Sep 10	Land A/C	106,000	
	Building A/C	76,400	
	Cash A/C		36,500
	note payable A/C		145,900
	(Being parchase land & building)		
Sep 15	Office equipment A/C	5000	
	Cash A/C		5000
	(Being parchase of micocomputer for business use)		
Sep19	Office furnishing A/C	5,760	
	Cash		960
	Payable to michael		4,800
	Being Purchased office furnishing for business use)		
Sep26	Account receivable	140	
	Office equipment A/C		140
	(Being return of faculty item)		
Sep28	Payable to Micheal A/C	16,00	
	Cash A/C		1600
	(Being payment of 1st instalment)		

Q2:

Painting Contractors

Income statement

For the year ended December 31, 2005.

Revenues

Painting fees		$163,300
Total revenue		$163,300

Expenses

Paint and supplies expense	$27,500	
Salaries expense	$66,800	

Rent expense	$9,600	
Advertising expense	$3,200	
Depreciation expense	$12,00	
Insurance expense	$12,000	
Total expense		$120,300
Net income		$43,000

Painting Contractors

Statement of Owner equity

for the year ended December 31,2005

Capital at beginning		$22,00
Increase:		
Net income	$43,000	
Total increase		$43,000
Decrease:		
Drawing by owner	$18,000	
Total decrease		$18,000
Capital at end of 2005		$27,200

Q3:

Closing entries

Revenue A/C	163,300	
Income Summery		163,300
Income Summery	120,300	
Paint and supplies expense		27,500
Salaries expense		66,800
Rent expense		9,600
Advertising expense		3,200
Depreciation expense		12,00
Insurance expense		12,000
Income Summery A/C	43,000	
Retained earning A/C		43,000
Accumulated Depreciation A/C	3000	
Painting equipment A/C		3000

Q4. Briefly explain the matching principle and the realization principle in relation to the recording of revenue and expenses.

Matching Principle

Matching Principle requires that expenses incurred by an organization must be charged to the income statement in the accounting period in which the revenue, to which those expenses relate, is earned.

Explanation

Prior to the application of the matching principle, expenses were charged to the income statement in the accounting period in which they were paid irrespective of whether they relate to the revenue earned during that period. This resulted in non recognition of expenses incurred but not paid for during an accounting period (i.e. accrued expenses) and the charge to income statement of expenses paid in respect of future periods (i.e. prepaid expenses). Application of matching principle results in the deferral of prepaid expenses in order to match them with the revenue earned in future periods. Similarly, accrued expenses are charged in the income statement in which they are incurred to match them with the current period’s revenue.

A major development from the application of matching principle is the use of depreciation in the accounting for non-current assets. Depreciation results in a systematic charge of the cost of a fixed asset to the income statement over several accounting periods spanning the asset’s useful life during which it is expected to generate economic benefits for the entity. Depreciation ensures that the cost of fixed assets is not charged to the profit & loss at once but is ‘matched’ against economic benefits (revenue or cost savings) earned from the asset’s use over several accounting periods.

Matching principle therefore results in the presentation of a more balanced and consistent view of the financial performance of an organization than would result from the use of cash basis of accounting.

Realization Principle

Realization concept in accounting, also known as revenue recognition principle, refers to the application of accruals concept towards the recognition of revenue (income). Under this principle, revenue is recognized by the seller when it is earned irrespective of whether cash from the transaction has been received or not.

Explanation

In case of sale of goods, revenue must be recognized when the seller transfers the risks and rewards associated with the ownership of the goods to the buyer. This is generally deemed to occur when the goods are actually transferred to the buyer. Where goods are sold on credit terms, revenue is recognized along with a corresponding receivable which is subsequently settled upon the receipt of the due amount from the customer.

In case of the rendering of services, revenue is recognized on the basis of stage of completion of the services specified in the contract. Any receipts from the customer in excess or short of the revenue recognized in accordance with the stage of completion are accounted for as prepaid income or accrued income as appropriate.