**TALHA AMAN**

**13906**

**Course Title: Principles of Accounting**

**Instructor: Ms. Marium Saleem**

**Q1. The business transactions of ABC Ltd. during September are given below: (15 marks)**

**Sept. 1 Mark opened a bank account in the name of the business by depositing $50,000 cash, which he had saved over a number of years.**

**Sept. 10 Purchased a small office building located on a large lot for a total price of $182,400, of which $106,000 was applicable to the land and $76,400 to the building. A cash payment of $36,500 was made and a note payable was issued for the balance of the purchase price.**

**Sept. 15 Purchased a microcomputer system from XYZ Stores for $5000 cash.**

**Sept. 19 Purchased office furnishings including equipment from Michael Operations at a cost of $5,760. A cash down payment of $960 was made, the balance to be paid in three equal instalments due September 28, October 28 and November 28. The purchase was on open account and did not require signing of a promissory note.**

**Sept. 26 A $140 monitor in the microcomputer system purchased on September 15 stopped working. The monitor was returned in XYZ Stores which promised to refund the $140 within five days.**

**Sept. 28 Paid Michael Operations $1600 cash as the first instalment due on the account payable for office furnishings.**

**ABC Ltd**

**General journal**

**September 1**

|  |  |  |  |
| --- | --- | --- | --- |
| **Sep 1**  **Sep 10**  **Sep 15**  **Sep 19**  **Sep 26**  **Sep 28** | **TITLE/DESCRIPTION**  Cash  Deposit capital amount in bank Account open by ABC  Building  Land  Cash  note payable  Purchase a small office Building along with land  Computer system  Cash  Purchased a micro computer system for computer state  Office furnishing  Cash  Account payable  Purchased office furnishing  Account Receivable  Monitor  Promise made by computer state to refund amount with in 5 days  Account payable  Cash | **DEBIT**  **$50000**  **$76400**  **106000**  **$5000**  **$5760**  **$140**  **$160** | **CREDIT**  **$50000**  **$36500**  **$195900**  **$5000**  **$960**  **$4800**  **$140**  **$160** |

**Q2.**

|  |  |
| --- | --- |
| **Edward Pine capital, December 31, 2005 $27,200** |  |
| **Edward Pine, Drawing 18,000** | **Depreciation expense:**  **Painting equipment 1200** |
| **Painting fees earned 163,300** | **Insurance expense 12,000** |
| **Paint & Supplies expense 27,500** | **Painting equipment 7,200** |
| **Accumulated depreciation:**  **Painting equipment 3,000** |  |
| **Salaries expense 66,800** |  |
| **Rent expense 9,600** |  |
| **Advertising expense 3,200** |  |

**From the above account balances, prepare first an income statement and then a statement of owner’s equity for Pine Painting Contractors for the year ended December 31, 2005. (15 marks)**

**PAINTING CONTRACTOR**

**INCOME STATEMENT**

**FOR THE YEAR ENDED DECEMBER, 2005**

**REVENUES:**

Painting fees $163,300

Total revenues $163,300

**EXPENSES**

Painting and supplies $27,500

Salaries expense $66,800

Rent expense $9600

Advertising expense $3200

Depreciation expense $1200

Insurance expense $12000

**Total expenses: $120,300**

**Net income: $4300**

***Q:2 part B***

**PAINTING CONTRACTORS**

**STATEMENT OF OWNER EQUITY**

**FOR THE YEAR ENDED DECEMBER 31, 2005**

Capital at beginning $2200

*Increases:*

Net income $4300

Total increases $4300

*Decreases:*

Drawing by owner $1800

Total decreases $1800

**Capital at end of 2005 $27200**

**Q3. Prepare the year-end closing entries for Pine Painting Contractors, using the data given above in Q2.**

**Closing entries**

**General journal**

**For the month ended Dec 31, 2005**

**Date title/explanation debit credit**

Painting fees earning revenue 163,300

Income summary 163,300

Income summary 120,300

Insurance expanse 12,000

Deprecation expanse painting equipment 1200

Paint and supplies expanse 27500

Rent expanse 9600

Advertising expanse 3,200

Salaries expanse 43000

Income summary 43,000

Retained earnings 43,000

Accumulated depreciation 3000

Painting equipment account 3000

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

**Answer:**

**Matching principle:**

The matching principle is an accounting practice whereby firms recognize revenues and their related expenses in the same accounting period. Firms report "revenues," that is, along with the "expenses" that brought them.

**Purpose of the matching principle:**

The purpose of the matching principle is to avoid misstating earnings for a period. Reporting revenues for a period without stating all the expenses that brought them could result in overstated profits.

**Example of the matching principle:**

Wages. The pay period for hourly employees ends on March 28, but employees continue to earn [wages](https://www.accountingtools.com/articles/2017/11/5/wage) through March 31, which are paid to them on April 4. The employer should record an expense in March for those wages earned from March 29 to March 31.

**Income statement equation:**

The matching principle refers specifically to matching earned revenues with the incurred expenses that brought them. Matched "revenues" and "expenses" work together in the Income statement equation to determine the firm's net profit for the period

Net Profit = Revenues Earned – Expenses Incurred

**Earning Revenues:**

Under accrual accounting, firms claim revenues when they earn them.

**Incurring Expenses.**

Under accrual accounting, consuming resources incurs expenses. Note especially that the accountant's definition of "expense" refers to [assets](https://www.business-case-analysis.com/asset.html).

**Expense:**

A decrease in owner’s equity due to using up assets[.](https://www.business-case-analysis.com/asset.html)

**Matching principle in relation to revenue and expenses:**

All of the reporting period's "revenue" earnings match only with all "expenses" incurred in the same period.

Consider a firm that sells merchandise from rented shop space. Suppose also the firm reports sales revenues for the quarter at $600,000. However, the firm's customers may not, in fact, pay all they owe during the quarter. Some payment may arrive days or weeks the period ends. And, also suppose that the firm pays $30,000 for floor space rent each month, for using the shop, and payment is due in advance on the first of each month.

One day after the quarter ends:

The firm reports earning $600,000 in revenues for the quarter just finished, even though some of this is still "payable."

The matching concept requires that the firm report floor space rental expenses for the incurred for occupancy during the quarter. The firm will report $90,000 incurred for the quarter just over. It will state this amount even if it has already made the advance payment for the next month.

**Conclusion:**

This concept tries to make sure that there no over or under revenue or expenses records in the [financial statements.](https://www.wikiaccounting.com/five-types-of-financial-statements-ifrs/) If the revenue or expenses records inconsistently, then there will be over or under revenue or expenses.

**Realization Principle**

In [accounting](https://financial-dictionary.thefreedictionary.com/accounting), a principle stating that a company can [realize](https://financial-dictionary.thefreedictionary.com/Realize) [revenue](https://financial-dictionary.thefreedictionary.com/revenue) only when it [earns](https://financial-dictionary.thefreedictionary.com/earned+income) revenue.

**Realization principle in relation to revenue and expenses:**

An accounting standard that recognizes revenue only when it is earned. Generally, realization occurs when goods are sold or a service is rendered.

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](https://accounting-simplified.com/standard/ias-11-construction-contracts/stage-of-completion.html) are accounted for as [prepaid income](https://accounting-simplified.com/prepaid-income.html) or [accrued income](https://accounting-simplified.com/prepaid-income.html) as appropriate.

**Example:**

For example, revenue is earned when services are provided or products are shipped to the customer and accepted by the customer.

**Conclusion:**

The revenue recognition principle, a feature of [accrual accounting](https://www.investopedia.com/terms/a/accrualaccounting.asp), requires that revenues are recognized on the income statement in the period when realized and earned—not necessarily when cash is received.