



# UNICOURSE

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Unit 10: Financial Accounting  
1 in a series of 2 for this unit  
Learning outcome 1-2



# Business Transactions

The accounting definition of a business transaction, according to the online Business Dictionary, is "an economic event that initiates the accounting process of recording it in a company's accounting system."

## Consider:

- Sales
- Purchases
- Receipt's
- Payments

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# Why do businesses keep accounting records and prepare accounts?

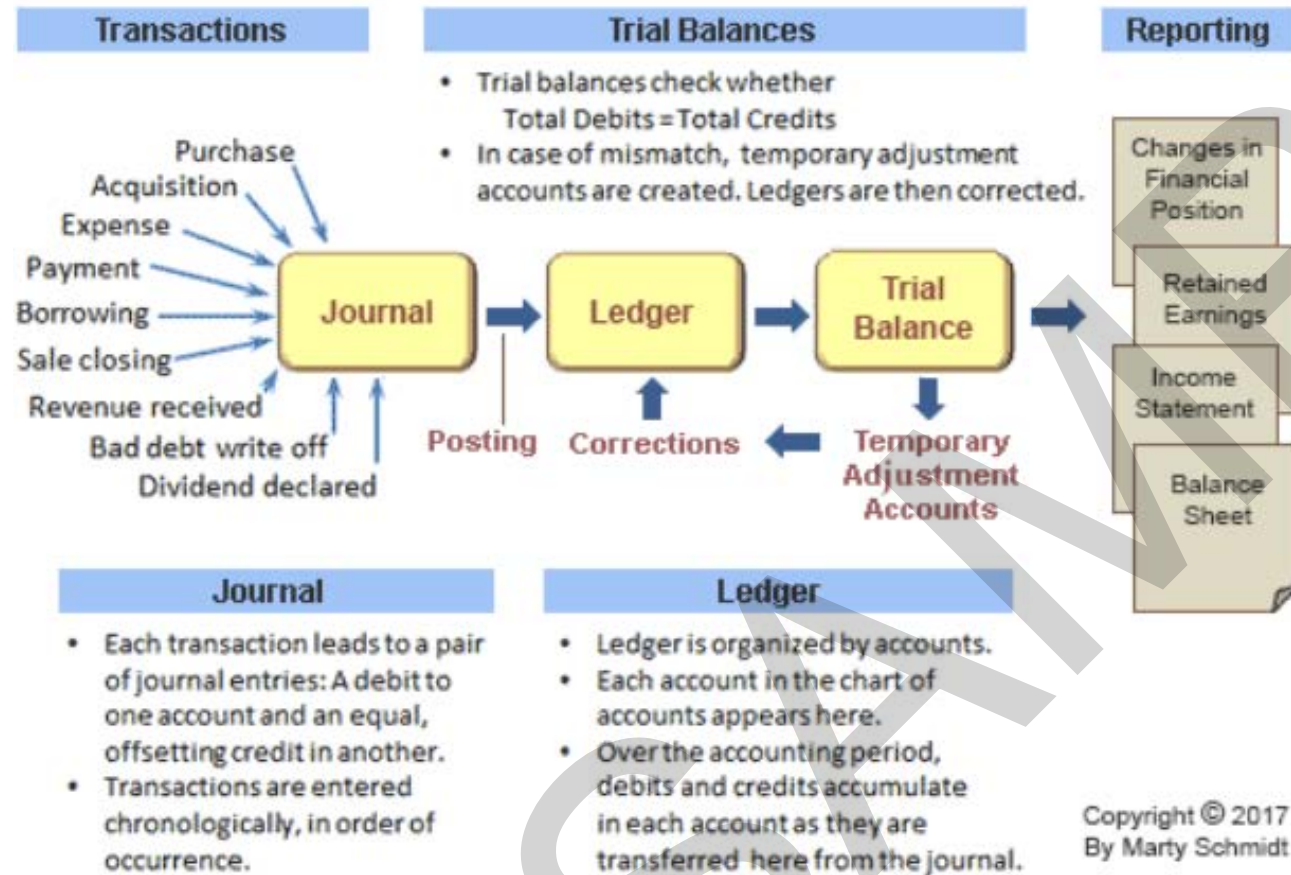
There are a number of reasons an organisation must:

- ▶ know what it owes;
- ▶ know what it is owed;
- ▶ know what it owns;
- ▶ be able to examine its activities to ensure that it makes a profit or works within a budget;
- ▶ be able to plan for the future.

In addition, certain organisations such as companies, charities and building societies are required by law to keep accounting records and prepare accounts.

The first three reasons for keeping accounting records are easily achieved by keeping a note of, or monitoring, transactions. The last two reasons are fulfilled by preparing accounts (or financial statements).

## The Accounting Cycle



# The Accounting Cycle



# Financial Statements

**Income Statement (or Profit and Loss)**-First-measures performance-records revenue and expenses-determine if you have Income/Net Loss.

**Balance Sheet**-Third-snapshot of financial position of your company, looks at assets , liability and equity, inventory/credit.

**Cash Flow Statement**-Last-Looks at the sources (in) and uses (out)of cash, looks at any problems if in negative equity cash crunch or shortfall.



# Double Entry Book Keeping



Watch this short video.



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# The Trial Balance

Account Title	Debit	Credit
Cash	\$7,000	
Accounts Receivable	3,000	
Office Supplies	3,000	
Office Equipment	5,000	
Bank Loan		\$5,000
Accounts Payable		1,000
Common Stock		10,000
Consulting Revenue		7,000
Rent Expense	600	
Salaries Expense	2,500	
Supplies Used	1,200	
Utilities Expense	700	
Total	\$23,000	\$23,000

The double entry system of accounting or bookkeeping means that every business transaction that a business makes has two effects.

For example if a business buys goods for cash then the two effects are that cash has decreased and that the business now has some purchases. Each must be shown in the ledger accounts by a debit entry in one account and an equal credit entry in another account.

The trial balance is a summary of the balances in a double entry system

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# Reasons for closing off accounts and producing a trial balance

- ▶ Checking the accuracy of double entry.
- ▶ Providing a starting point for the preparation of financial statements.
- ▶ Clearing revenue and expense accounts for the start of the accounting period.

The process, and limitations, of preparing a set of final accounts from a trial balance

- ▶ The trial balance does not prove the accuracy of records as not all errors affect the trial balance
- ▶ The trial balance does not give a profit figure.
- ▶ The trial balance has to be sorted into a statement of profit and loss and statement of financial position groupings.
- ▶ Closing inventory has to be recognised in both statement of profit and loss and statement of financial position, even if the trial balance includes a cost of goods sold account.



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