

# Bookkeeping And Accounts

## Reference Book 2

(修订本)

簿记与会计参考书

2

高中适用

# 《簿记与会计参考书2》（修订本） (Bookkeeping And Accounts Reference Book 2)

行政编辑：梁翠芳

版面设计与电脑排版：邓佩婷

封面设计与插图：张厚耀

© 郑重声明，此书版权归出版单位所有，未经允许，书上所有内容不得通过任何形式进行复制、转发、储存于检索系统，或翻译成其它语言的活动。

© Dong Zong

Hak cipta terpelihara. Mana-mana hahan atau bahagian dalam buku ini tidak dibenarkan diterbitkan semula, disimpan dalam cara yang boleh dipergunakan lagi, atau ditukar kepada apa-apa bentuk atau apa-apa cara, baik dengan elektronik, mekanikal, fotokopi, rakaman, pengalihan bahasa dan sebagainya tanpa mendapat kebenaran secara menulis daripada pihak penerbit terlebih dahulu.

© Dong Zong

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, translated in any other languages, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of the publisher.

**编辑单位：**

董教总华文独中工委会统一课程委员会

Unified Curriculum Committee of

Malaysian Independent Chinese Secondary School Working Committee ( MICSS )

**出版发行：**

马来西亚华校董事联合会总会（董总）

United Chinese School Committees' Association of Malaysia ( Dong Zong )

Blok A, Lot 5, Seksyen 10, Jalan Bukit, 43000 Kajang,

Selangor Darul Ehsan, Malaysia.

Tel: 603-87362337

Fax: 603-87362779

Website: [www.dongzong.my](http://www.dongzong.my)

Email: support@dongzong.my

**印刷：**

Swan Printing Sdn Bhd.

**版次：**

2010年11月第1版

2015年7月修订第1版

**印次：**

2020年11月第6次印刷

# 编辑说明

1. 这套参考书是根据董教总华文独中工委会统一课程委员会所拟定的《簿记与会计课程标准》编写，并参照我国与各国簿记与会计课程/考试纲要和教材编写而成。
2. 全套参考书共三册，供高中三年参考采用。第一册以会计的基础知识与技能为主，其中包括基本原理、会计程序以及各类账簿的设置。第二和第三册则以各商业组织的会计记录和财务报表的编制为主要学习内容。
3. 编写这套参考书主要的目的有：
  - ☞ 提供符合一般独中生英文水平的参考书，进而提升学生学习的兴趣；
  - ☞ 引导学生掌握记账的基础知识与基本应用技能，作为将来参与社会实践或继续学习的根基；
  - ☞ 引导学生从“做”中“学”，从“学”中“做”，培养独立完成记账的能力。
4. 这套参考书为了让学生能把握学习重点、启发思考、延伸学习、培养自学能力和增进学习效果，设有“Learning Objectives 学习目标”、“Example 示例”、“Think 想一想”、“Hint 小提示”、“Input 补充资料”、“Practice 练习”、“Answer Guide 解答指南”、“Review 复习”、“Appendix 附录”等栏目。
5. 这套参考书如有错误、遗漏或欠妥之处，欢迎采用者予以指正。
6. 这套参考书的教学参考资源，请浏览董总设置的华文独中教学平台资源站[moodle.dongzong.my](http://moodle.dongzong.my)，点选“簿记与会计/会计学”。

董教总华文独中工委会统一课程委员会  
2015年7月

# 编审小组

编 委 : 蔡爱珍 黄碧燕 叶素燕 李光杰 郭建华 邹碧锦  
黄伟钦 杨淑霖 徐惠金 詹文龙 陈润清 苏婷凤  
孙翠燕 谢福强

责任编辑: 黄明珠

## 鸣 谢

本书承蒙独中簿记与会计教师和国内学者协助编写与审稿，谨此致谢忱。

董教总独中工委会统一课程委员会 启

2015年7月

# Contents



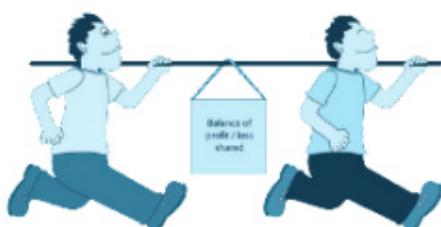
## Chapter 13 Correction Of Errors

|                                                   |       |
|---------------------------------------------------|-------|
| 13.1 Introduction                                 | 13-1  |
| 13.2 Errors not Affecting Trial Balance Agreement | 13-2  |
| 13.3 Errors Affecting Trial Balance Agreement     | 13-10 |
| 13.4 Effect of Errors                             | 13-20 |



## Chapter 14 Bank Reconciliation Statement

|                                                                                     |       |
|-------------------------------------------------------------------------------------|-------|
| 14.1 Handling of Cash at Bank                                                       | 14-1  |
| 14.2 Reasons for Difference between Cash Book Balance<br>and Bank Statement Balance | 14-2  |
| 14.3 Preparation of Bank Reconciliation Statement                                   | 14-6  |
| 14.4 Bank Overdraft                                                                 | 14-15 |



## Chapter 15 Partnership Accounts (1) — Financial Statements

|                                                  |      |
|--------------------------------------------------|------|
| 15.1 Characteristics of Partnership              | 15-1 |
| 15.2 Statement Of Financial Position             | 15-2 |
| 15.3 Trading account and Profit And Loss account | 15-7 |
| 15.4 Profit And Loss Appropriation account       | 15-8 |



## Chapter 16

### Partnership Accounts (2)

#### — Change In Profit And Loss Sharing Ratio, Withdrawal And Admission

|                                                |       |
|------------------------------------------------|-------|
| 16.1 Goodwill                                  | 16-1  |
| 16.2 Methods of Calculating Goodwill           | 16-2  |
| 16.3 Accounting Entries for Assets Revaluation | 16-4  |
| 16.4 Change in Profit And Loss Sharing Ratio   | 16-4  |
| 16.5 Withdrawal of Existing Partner            | 16-14 |
| 16.6 Admission of New Partner                  | 16-24 |



## Chapter 17

### Partnership Accounts (3)

#### — Dissolution

|                                                           |      |
|-----------------------------------------------------------|------|
| 17.1 Reasons and Significances of Partnership Dissolution | 17-1 |
| 17.2 Accounting Entries for Dissolution                   | 17-2 |
| 17.3 Garner versus Murray Rule                            | 17-8 |

## Chapter 18

### Company Accounts (1) — Financial Statements

|                                         |       |
|-----------------------------------------|-------|
| 18.1 Characteristics of Limited Company | 18-1  |
| 18.2 Classification of Share Capital    | 18-3  |
| 18.3 Classes of Shares and Loan Notes   | 18-6  |
| 18.4 Dividends                          | 18-7  |
| 18.5 Income Statement                   | 18-9  |
| 18.6 Statement Of Changes In Equity     | 18-10 |
| 18.7 Statement Of Financial Position    | 18-13 |





## Chapter 19

### Manufacturing Accounts

|                                                       |       |
|-------------------------------------------------------|-------|
| 19.1 Classification of Production Cost                | 19-1  |
| 19.2 Work-in-progress / WIP                           | 19-6  |
| 19.3 Manufacturing Profit of Finished Goods           | 19-11 |
| 19.4 Unrealised Profit on Inventory of Finished Goods | 19-23 |

## Chapter 20

### Incomplete Records

|                                 |       |
|---------------------------------|-------|
| 20.1 What is Incomplete Records | 20-1  |
| 20.2 Capital Comparison Method  | 20-2  |
| 20.3 Analysis of Records Method | 20-6  |
| 20.4 Margin and Mark-up         | 20-12 |
| 20.5 Inventory Loss             | 20-17 |



## Chapter 21

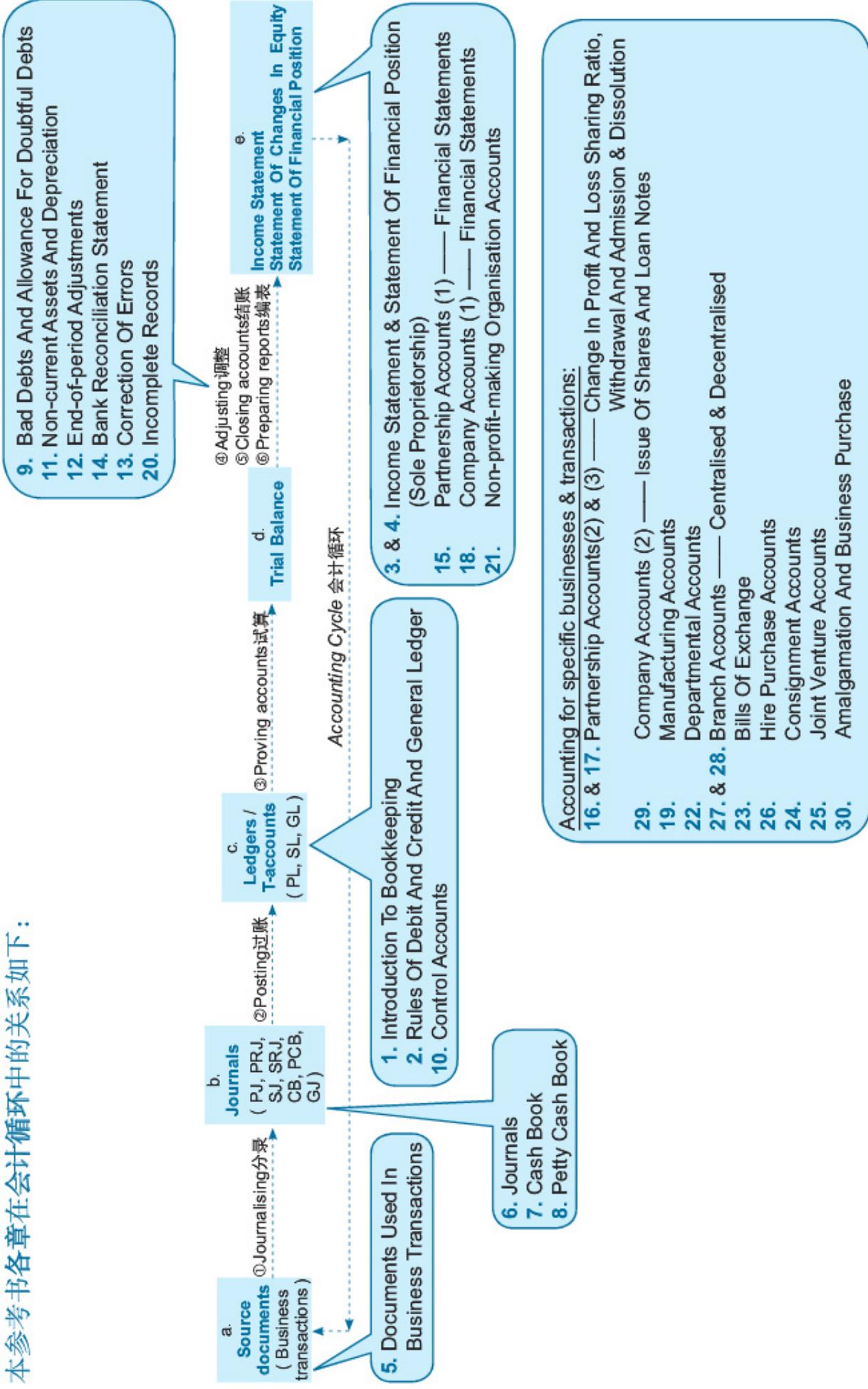
### Non-profit-making Organisation Accounts

|                                                                           |       |
|---------------------------------------------------------------------------|-------|
| 21.1 Differences between Profit-making and Non-profit-making Organisation | 21-1  |
| 21.2 Receipts And Payments Account                                        | 21-2  |
| 21.3 Adjustments in Subscriptions account                                 | 21-5  |
| 21.4 Income And Expenditure Account                                       | 21-9  |
| 21.5 Trading Account                                                      | 21-12 |
| 21.6 Statement Of Financial Position                                      | 21-16 |
| 21.7 Entrance Fees, Life Membership Fees and Donations / Legacies         | 21-17 |
| 21.8 Revenue and Capital Expenditures, Revenue and Capital Receipts       | 21-21 |

# Chapter-based relationship diagram for Bookkeeping And Accounts Reference Books 1, 2 & 3

## 《簿记与会计参考书①、② & ③》的单元关系图

本参考书各章在会计循环中的关系如下：



## Chapter 13

# Correction Of Errors



### Learning Objectives

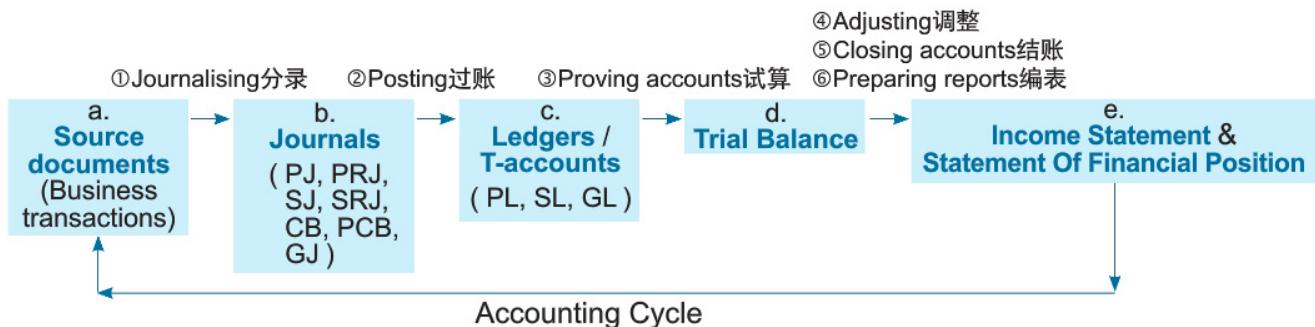
After studying this chapter, you should be able to:

- ☞ distinguish between errors not affecting and affecting Trial Balance agreement;
- ☞ show correcting Journal entries and Ledger accounts for all types of errors;
- ☞ use a Suspense account for an unbalanced Trial Balance;
- ☞ analyse the effect of errors;
- ☞ prepare Statement Of Corrected Net Profit / Net Loss and Revised Statement Of Financial Position.



### 13.1 Introduction

1. From Chapter 6 (**6.1 Accounting Cycle**), you have learned that a **Trial Balance** is extracted **before** the **preparation** of the **financial statements** at the end of a financial period:



2. A **Trial Balance** is prepared in order to **check** the **accuracy** and **completeness** of the **double entry** of all the accounts in the General Ledger. The **total debit balances** and **total credit balances** of a Trial Balance **may or may not equal**. Even though the **totals** of a Trial Balance are **equal**, **errors** may still happen.
3. There are **two types** of errors involving the books of accounts:
  - a. Errors **not affecting** Trial Balance agreement;
  - b. Errors **affecting** Trial Balance agreement.
4. When **errors** are **discovered**, **correcting entries** should be made in **General Journal** and then **posted** to **Ledger accounts**.



**Hint** All the **correcting entries** below (Example 1 to 12) are shown in shaded areas. The rest are for reference only.

## 13.2 Errors not Affecting Trial Balance Agreement

There are **six** main **types** of **errors** which do **not affect** the balancing of **Trial Balance**:

### 1. Error of omission

Where a business **transaction** is completely **omitted** from the books.



### Example 1

Cash purchases of RM 50 was not recorded in the books.

### Solution:



**Hint** To make a double entry to record the omitted transaction.

#### General Journal

|  |                                                                       |  | Debit | Credit |
|--|-----------------------------------------------------------------------|--|-------|--------|
|  | Purchases<br>Cash<br>(Being cash purchases not recorded in the books) |  | RM 50 | RM 50  |
|  |                                                                       |  |       |        |

#### General Ledger

| Purchases   |           |
|-------------|-----------|
|             | RM        |
| Cash        | 50        |
| <b>Cash</b> |           |
|             | RM        |
|             | Purchases |
|             | 50        |



## Practice 1

- (a) Sale of goods of RM 1,000 to Ah Mei was completely omitted from the books.
- (b) No entries were made in the books for a cheque of RM 2,300 received from Lee.
- (c) A payment of RM 230 by cheque for wages was overlooked.

You are required to prepare the correcting Journal entries and Ledger accounts for the above errors.

### 2. Error of commission

Where an entry is posted to the correct side but to a **wrong account** of the **same type**.



### Example 2



**Ledger accounts** are **classified** as **personal, real & nominal** accounts.



The **credit entry** was **recorded** in a **wrong account**.  
The **debit entry not mentioned** was supposed to be **recorded correctly**.

Goods of RM 50 purchased from Chan was credited to Chen's account.

#### Solution:

##### General Journal

|                                                              |      | Debit | Credit |
|--------------------------------------------------------------|------|-------|--------|
|                                                              | Chen | RM 50 | RM     |
|                                                              | Chan |       | 50     |
| (Being goods purchased from Chan credited to Chen's account) |      |       |        |

##### Purchases Ledger

Chen

Hint  
A wrong personal account was used.

| RM   | RM        |
|------|-----------|
| Chan | 50        |
|      | Purchases |
|      | 50 ×      |

| Chan | RM   |
|------|------|
|      | Chen |
|      | 50   |

##### General Ledger

Purchases

| RM        |
|-----------|
| Chen 50 ✓ |



## Practice 2

- (a) Purchase of goods of RM 1,000 from Mei was recorded in Mai's account.
- (b) Purchased office furniture by cheque RM 678 was entered in Office Equipment account.
- (c) A payment of RM 500 by cheque for wages was posted to General Expenses account.

You are required to prepare the correcting Journal entries and Ledger accounts for the above errors.

### 3. Error of principle

Where an entry is posted to the correct side but to a **wrong type of account**.



## Example 3

Purchase of a motor van by cheque RM 20,000 was debited to Purchases account.

### Solution:

#### General Journal

|  |                                                            | Debit     | Credit |
|--|------------------------------------------------------------|-----------|--------|
|  | Motor Vehicles                                             | RM 20,000 | RM     |
|  | Purchases                                                  |           | 20,000 |
|  | (Being purchase of motor van debited to Purchases account) |           |        |

#### General Ledger

Purchases



A **wrong type of account** was used.

|      | RM              |                | RM            |
|------|-----------------|----------------|---------------|
| Bank | <u>20,000 x</u> | Motor Vehicles | <u>20,000</u> |

Bank

|           | RM       |
|-----------|----------|
| Purchases | 20,000 ✓ |

Motor Vehicles

|           | RM     |
|-----------|--------|
| Purchases | 20,000 |



## Practice 3

- Repairs of equipment amounting to RM 500 was posted to Equipment account.
- Cost of installation of a machine RM 1,000 was debited to Repairs And Maintenance account.
- Disposal proceeds** 变卖收入 of RM 4,000 for a motor van was credited to Motor Vehicles account.

You are required to prepare the correcting Journal entries and Ledger accounts for the above errors.

#### 4. Error of original entry

Where the amount of a transaction is **recorded incorrectly** in the **book of original entry** 原始记录簿 or **source document** 原始凭证.



Goods of RM 50 purchased from Tan was recorded as RM 500 in Purchases Journal.

**Solution:**

**General Journal**

|  |                                                                                              | Debit     | Credit    |
|--|----------------------------------------------------------------------------------------------|-----------|-----------|
|  | Tan<br>Purchases<br>(Being goods of RM 50 purchased recorded as RM 500 in Purchases Journal) | RM<br>450 | RM<br>450 |
|  |                                                                                              |           |           |

**Purchases Ledger**

| Tan       |     |           |       |
|-----------|-----|-----------|-------|
|           | RM  |           | RM    |
| Purchases | 450 | Purchases | 500 × |

**General Ledger**

| Purchases |       |     |     |
|-----------|-------|-----|-----|
|           | RM    |     | RM  |
| Tan       | 500 × | Tan | 450 |

To offset the overstated amount



## Practice 4



**Hint** The figure was recorded in a different order, and transposed 颠倒 in both sides of the accounts.

- A payment of RM 1,890 for office rental was recorded as RM 1,980.
- Credit sales of RM 380 to Da Hua was entered in the books as RM 280.
- A purchases **invoice** of RM 1,000 from Tan Enterprise was understated by RM 900 in Purchases Journal.

You are required to prepare the correcting Journal entries and Ledger accounts for the above errors.



**Input**  
When an **invoice** is used,  
the transaction is **on credit** 赊账.

### 5. Reversal error

Where the debit and credit **entries** are **reversed**.

(i.e. Entries are made on the wrong side of both accounts.)



## Example 5



**Hint** The **accounts** used were **correct**.

A payment of cash RM 50 to Yap was recorded as receipts from him.

### Solution:

**General Journal**

|     |                                                     | Debit | Credit   |                                      |
|-----|-----------------------------------------------------|-------|----------|--------------------------------------|
| (a) | Yap<br>Cash                                         | RM 50 | RM 50    | To cancel the entry made incorrectly |
| (b) | Yap<br>Cash                                         | 50    | 50       | To make a double entry correctly     |
|     | Or  To combine 2 entries into 1 entry               |       |          |                                      |
|     | Yap<br>Cash<br>(Being payment recorded as receipts) | 100   | 100<br>0 |                                      |



Why was the correcting figure **twice** 两倍 the **original amount** of RM 50?

| Purchases Ledger |    |      |      |
|------------------|----|------|------|
| Yap              |    |      |      |
|                  | RM |      | RM   |
| Cash             | 50 | Cash | 50 × |
| Cash             | 50 |      |      |

| General Ledger |      |     |    |
|----------------|------|-----|----|
| Cash           |      |     |    |
|                | RM   |     | RM |
| Yap            | 50 × | Yap | 50 |
|                |      | Yap | 50 |

Or

| Purchases Ledger |     |      |      |
|------------------|-----|------|------|
| Yap              |     |      |      |
|                  | RM  |      | RM   |
| Cash             | 100 | Cash | 50 × |

| General Ledger |      |     |     |
|----------------|------|-----|-----|
| Cash           |      |     |     |
|                | RM   |     | RM  |
| Yap            | 50 × | Yap | 100 |

## Practice 5

- (a) Receipts of cash RM 1,000 from Mei was debited to her account and credited to Cash account.
- (b) Rental receipts of RM 400 was entered as a rental payment.
- (c) Purchase of goods for cash RM 360 was wrongly entered on both sides of the accounts concerned.

You are required to prepare the correcting Journal entries and Ledger accounts for the above errors.



- ☞ Firstly, **cancel** the **entry** made wrongly;
- Secondly, **make** a correct **double entry**.
- ☞ The correcting amount was **double** the **value** of the **original entry**.

## 6. Compensating error

Where two or more **errors cancel out** / offset **each other**.



### Example 6



**Hint**

- There were **2 unrelated errors** with the **same amount understated**.
- The **2 errors cancelled out** each other.

Purchases and rental income accounts were both understated by RM 500.

#### Solution:

##### General Journal

|  |                                                               | Debit  | Credit |
|--|---------------------------------------------------------------|--------|--------|
|  | Purchases                                                     | RM 500 |        |
|  | Rental Income                                                 |        | RM 500 |
|  | (Being purchases and rental income accounts both understated) |        |        |

##### General Ledger

###### Rental Income

|           |       |
|-----------|-------|
| Bank      | RM xx |
| Purchases | 500   |

*Understated with the same amount*

###### Purchases

|       |
|-------|
| RM xx |
| 500   |

Bank

Rental Income

###### Bank

|       |
|-------|
| RM xx |
| 0     |

Rental Income

Purchases

|       |
|-------|
| RM xx |
|-------|



Why was the **Bank** account  
**not adjusted?**



## Practice 6



- (a) Sales account and Wages account were both **overlooked** 忽略 by RM 200.
- (b) Purchases Journal and Sales Journal were both **overcast** 多计 by RM 100 for the same period.
- (c) A payment of RM 110 to Kong (a creditor) was debited to his account as RM 100, while receipts of cash RM 710 from Beely (a debtor) was credited to her account as RM 700.

You are required to prepare the correcting Journal entries and Ledger accounts for the above errors.



## Practice 7

- (i) Purchase of goods of RM 899 on credit from Jing Wong was entered in Jing Wan's account.
- (ii) A cheque for RM 1,089 paid for advertisement was not recorded in the books.
- (iii) Sale of goods of RM 400 on credit to Wang was posted to Ng's account.
- (iv) Purchase of goods of RM 99 on credit from Susan was recorded in the books as RM 89.
- (v) A cheque for RM 89 issued to Henry was entered on the debit side of Cash Book and credit side of his account.
- (vi) An old furniture sold at book value RM 700 was wrongly recorded as a sale of goods.
- (vii) Sundry Expenses account and Sales Journal were both overcast by RM 200 each.

You are required to:

- (a) **match** 配对 the following transactions with the types of errors:

|      | Transactions                                                                                                      | Types of errors                |
|------|-------------------------------------------------------------------------------------------------------------------|--------------------------------|
| e.g. | (i) Purchase of goods of RM 899 on credit from Jing Wong was entered in Jing Wan's account.                       | <b>Reversal error</b>          |
|      | (ii) A cheque for RM 1,089 paid for advertisement was not recorded in the books.                                  | <b>Error of omission</b>       |
|      | (iii) Sale of goods of RM 400 on credit to Wang was posted to Ng's account.                                       | <b>Error of principle</b>      |
|      | (iv) Purchase of goods of RM 99 on credit from Susan was recorded in the books as RM 89.                          | <b>Error of original entry</b> |
|      | (v) A cheque for RM 89 issued to Henry was entered on the debit side of Cash Book and credit side of his account. | <b>Compensating error</b>      |
|      | (vi) An old furniture sold at book value RM 700 was wrongly recorded as a sale of goods.                          | <b>Error of commission</b>     |
|      | (vii) Sundry Expenses account and Sales Journal were both overcast by RM 200 each.                                |                                |

- (b) show the Journal entries needed to correct the above errors.

### 13.3 Errors Affecting Trial Balance Agreement

- When the **Trial Balance** totals are **not equal**, they can be **made to tally** by inserting the amount of the difference between the two totals in a **Suspense** account as shown below. After the correction of all the errors, the Suspense account can then be closed.

| Trial Balance               |               |               |
|-----------------------------|---------------|---------------|
| As At 31 December Year 1    |               |               |
|                             | Debit         | Credit        |
|                             | RM            | RM            |
| Office Equipment            | 3,000         |               |
| Inventory, 1 January Year 1 | 690           |               |
| Accounts Receivable         | 4,300         |               |
| Accounts Payable            |               | 3,800         |
| Bank                        | 4,200         |               |
| Drawings                    |               | 300           |
| Commission Income           |               | 500           |
| Rental Expenses             | 600           |               |
| Capital                     |               | 9,000         |
|                             | 12,790        | 13,600        |
| <b>Suspense</b>             | <b>810</b>    |               |
|                             | <u>13,600</u> | <u>13,600</u> |

**Hint** Difference on **Trial Balance totals** is temporarily recorded in **Suspense** account.

#### General Ledger

| Suspense                            |     |  |
|-------------------------------------|-----|--|
| Year 1                              | RM  |  |
| Dec 31 Difference per Trial Balance | 810 |  |

- There are **five main types of errors** which **affect** the balancing of **Trial Balance**:

- Error in calculation**

It includes the errors where:

- i. A **total** in a **book of original entry** 原始记录簿 is **wrongly added**;
- iii. The **amount** in a **Ledger account** is wrongly added or subtracted;
- iii. The total of **debit** or **credit** balances on **Trial Balance** is **wrongly added**.

**Input**

**Cast 加总:** Add up amount

**Undercast 少计:** Add up amount to a total **less** than its actual value.

**Overcast 多计:** Add up amount to a total **greater** than its actual value.



## Example 7

A total in Purchases Journal was **undercast** 少计 by RM 500.

### Solution:

#### General Journal

|  |                                              | Debit  | Credit |
|--|----------------------------------------------|--------|--------|
|  | Purchases                                    | RM 500 | RM     |
|  | Suspense                                     |        | 500    |
|  | (Being total in Purchases Journal undercast) |        |        |

#### Purchases Journal

Page 1

|  |                   | Folio | Amount     |
|--|-------------------|-------|------------|
|  | A                 | PL 1  | RM 1,000 ✓ |
|  | B                 | PL 2  | 500 ✓      |
|  | C                 | PL 3  | 1,000 ✓    |
|  | Purchases account | GL 1  | 2,000 ✗    |

#### General Ledger

##### Purchases

Page 1

| Total for the month | PJ | RM      |  |
|---------------------|----|---------|--|
|                     |    | 2,000 ✗ |  |
| Suspense            |    | 500     |  |

##### Suspense

RM

Purchases 500

#### Purchases Ledger

|   |           |              |
|---|-----------|--------------|
| A |           | Page 1       |
|   | Purchases | RM           |
|   |           | PJ 1 1,000 ✓ |
| B |           | Page 2       |
|   | Purchases | RM           |
|   |           | PJ 1 500 ✓   |
| C |           | Page 3       |
|   | Purchases | RM           |
|   |           | PJ 1 1,000 ✓ |



## Practice 8

- (a) Sales Journal was undercast by RM 200.
- (b) The debit side of bank column in Cash Book was overcast by RM 1,000.
- (c) Salaries account was undercast by RM 300.

You are required to prepare the correcting Journal entries and Ledger accounts for the above errors.

b. **Error in amount**

Where the **debit** and **credit** entries of a transaction are recorded with **different amounts**.



Goods of RM 580 purchased from Lee was posted to his account as RM 850.

**Solution:**

**General Journal**

|  |                                                                                               | Debit  | Credit |
|--|-----------------------------------------------------------------------------------------------|--------|--------|
|  | Lee<br>Suspense<br>(Being goods of RM 580 purchased from Lee posted to his account as RM 850) | RM 270 | RM 270 |
|  |                                                                                               |        |        |

**Purchases Ledger**

| Lee      |     | RM        |       |
|----------|-----|-----------|-------|
| Suspense | 270 | Purchases | 850 × |

**General Ledger**

| Purchases |       | RM |  |
|-----------|-------|----|--|
| Lee       | 580 ✓ |    |  |

**Suspense**

| Lee |     | RM |  |
|-----|-----|----|--|
|     | 270 |    |  |



## Practice 9

- (a) Car repairs of RM 230 shown in Cash Book was debited to Motor Expenses account as RM 320.
- (b) Cash sales of RM 2,000 was credited as RM 200.
- (c) A payment of RM 56 for postage was entered in Postage account as RM 65.

You are required to prepare the correcting Journal entries and Ledger accounts for the above errors.

**c. Error in posting to the wrong side of an account**

Where the debit and credit **entries** of a transaction are **both** recorded on **either** the **debit** or **credit** side.



### Example 9



**Hint**  
Post to the **wrong side** of a **correct account**.

Goods of RM 50 purchased from Ho was posted to the debit side of his account.

**Solution:**

**General Journal**

|     |                                                                                                                                 | Debit | Credit |
|-----|---------------------------------------------------------------------------------------------------------------------------------|-------|--------|
| (a) | Suspense<br>Ho                                                                                                                  | RM 50 | RM 50  |
| (b) | Suspense<br>Ho                                                                                                                  | 50    | 50     |
|     | <b>Or</b>  To combine 2 entries into 1 entry |       |        |
|     | Suspense<br>Ho<br>(Being goods of RM 50 purchased from Ho posted to debit side of his account)                                  | 100   | 100    |

### Purchases Ledger

|           | Ho         |                      |
|-----------|------------|----------------------|
| Purchases | RM<br>50 ✗ | RM<br>50<br>50<br>50 |
|           |            | (a)                  |

### General Ledger

|          | Purchases  |  |
|----------|------------|--|
| Ho       | RM<br>50 ✓ |  |
|          |            |  |
| Suspense | RM         |  |
| Ho       | 50         |  |
| Ho       | 50         |  |



**Hint** It was **twice** 两倍 the amount of the **original error**.

Or

### Purchases Ledger

|           | Ho         |           |
|-----------|------------|-----------|
| Purchases | RM<br>50 ✗ | RM<br>100 |
|           |            |           |

### General Ledger

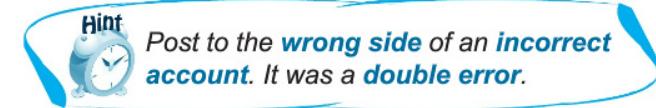
|          | Purchases  |  |
|----------|------------|--|
| Ho       | RM<br>50 ✓ |  |
|          |            |  |
| Suspense | RM         |  |
| Ho       | 100        |  |



## Practice 10

- (a) Rental expenses of RM 500 was posted to the wrong side of Rental Expenses account.
- (b) A cash payment of RM 200 for water and electricity bills was wrongly debited to Cash account, the other entry being correct.
- (c) The total of discounts received column in Cash Book amounting to RM 1,810 was posted to the debit side of Discounts Allowed account.

You are required to prepare the correcting Journal entries and Ledger accounts for the above errors.



### d. Error of omission of one entry / single entry

Where a **debit** or **credit** entry of a transaction is **omitted** in posting.



## Example 10



Payment of RM 800 by cheque for salaries was not posted from Cash Book.

### Solution:

**General Journal**

|  |                                                                 | Debit     | Credit    |
|--|-----------------------------------------------------------------|-----------|-----------|
|  | Salaries<br>Suspense                                            | RM<br>800 | RM<br>800 |
|  | (Being payment of salaries by cheque not posted from Cash Book) |           |           |

**Cash Book**

| Date | Particulars | Folio | Discounts Allowed | Cash | Bank | Date | Particulars | Folio | Discounts Received | Cash | Bank      |
|------|-------------|-------|-------------------|------|------|------|-------------|-------|--------------------|------|-----------|
|      |             |       |                   |      |      |      | Salaries    |       |                    |      | RM<br>800 |

*Not yet posted to GL*

**General Ledger**

Salaries

|          |     |
|----------|-----|
| RM       |     |
| Suspense | 800 |
| Suspense |     |
|          | RM  |
|          | 800 |



## Practice 11

- (a) A payment of RM 168 to Lee was not recorded in his account.
- (b) A cheque for RM 150 received from Kim had been entered in Cash Book only.
- (c) Goods of RM 200 bought by cheque was not posted to Purchases account.

You are required to prepare the correcting Journal entries and Ledger accounts for the above errors.

e. **Omission of account balance from Trial Balance / Incorrect listing on Trial Balance**

It includes the errors where:

- i. An account balance is **omitted** from Trial Balance;
- ii. An account balance is **recorded** on the **wrong side** of Trial Balance;
- iii. An account balance is **wrongly recorded** on Trial Balance.



## Example 11

Sales account of RM 1,800 was omitted from Trial Balance.

**Solution:**

**General Journal**

|  |                                                                                                                | Debit    | Credit   |
|--|----------------------------------------------------------------------------------------------------------------|----------|----------|
|  | Suspense<br><b>Trial Balance – Sales (no Ledger entry)</b><br>(Being Sales account omitted from Trial Balance) | RM 1,800 | RM 1,800 |



- Hint**
- ☞ It would **not** be **posted** to **General Ledger** as the **error** did **not** appear in the **Ledger** but on the **Trial Balance**;
  - ☞ The entry was for the **correction** of **Trial Balance**.

*It was recorded correctly but omitted from the Trial Balance.*

### General Ledger

| Sales                    |         | RM                                 |
|--------------------------|---------|------------------------------------|
| Accounts Receivable      |         | 1,800✓                             |
| Accounts Receivable      |         | RM                                 |
| Sales                    | 1,800 ✓ |                                    |
| Suspense                 |         | RM                                 |
| Extraction error – Sales | 1,800   | Difference per Trial Balance 1,800 |



The **correction** of error through **Suspense** account always involves **double entry**. However, in the **correction** of extraction error, only **one entry** is made in the **Suspense** account.

### Trial Balance (before correction) As At .....

|                     | Debit<br>RM | Credit<br>RM |
|---------------------|-------------|--------------|
| Accounts Receivable | 1,800       |              |
| Sales               |             | —            |
| Suspense            | xx          | xx           |
|                     | 1,800       |              |
|                     | xx          | xx           |

### Trial Balance (after correction) As At .....

|                     | Debit<br>RM | Credit<br>RM |
|---------------------|-------------|--------------|
| Accounts Receivable | 1,800       |              |
| Sales               |             | 1,800        |
| Suspense            | xx          | xx           |
|                     | —           |              |
|                     | xx          | xx           |



The errors which could be revealed by Trial Balance are listed in the following table. You are required to:

(a) **identify** 确认 the errors in column (a) by putting a number for each error:

- ① Error in calculation;
- ② Error in amount;
- ③ Error in posting to the wrong side of an account;
- ④ Error of omission of one entry;
- ⑤ Omission of account balance from Trial Balance / Incorrect listing on Trial Balance.

(b) show the correcting Journal entries in column (b).

| Errors revealed by Trial Balance |                                                                                                          | (a)<br>Identifying<br>types of<br>errors | (b)<br>Correcting Journal entries |        |        |
|----------------------------------|----------------------------------------------------------------------------------------------------------|------------------------------------------|-----------------------------------|--------|--------|
|                                  |                                                                                                          |                                          |                                   | Debit  | Credit |
| <b>e.g.</b>                      | (i) Cash of RM 300 received for commission was debited to Cash account only.                             | ④                                        | Suspense                          | RM 300 | RM 300 |
|                                  | (ii) Purchases Journal was undercast by RM 1,200.                                                        |                                          | Commission Income                 |        |        |
|                                  | (iii) Water and electricity bills paid for RM 210 was posted to Water And Electricity account as RM 120. |                                          |                                   |        |        |
|                                  | (iv) Discounts received of RM 100 was posted to the debit side of Discounts Received account.            |                                          |                                   |        |        |



## Practice 13

The following was a Trial Balance which was incorrectly drawn up:

| Trial Balance                 |                          | Hint<br>Incorrect listing of account balances |               |
|-------------------------------|--------------------------|-----------------------------------------------|---------------|
|                               | As At 31 January Year 13 | Debit                                         | Credit        |
|                               |                          | RM                                            | RM            |
| Capital, 1 February Year 12   |                          | 5,500                                         |               |
| Drawings                      |                          | 2,800                                         |               |
| Inventory, 1 February Year 12 |                          |                                               | 2,597         |
| Trade Receivables             |                          |                                               | 2,130         |
| Furniture And Fittings        |                          | 1,750                                         |               |
| Cash In Hand                  |                          | 1,020                                         |               |
| Trade Payables                |                          |                                               | 2,735         |
| Sales                         |                          |                                               | 7,430         |
| Returns Inwards               |                          |                                               | 85            |
| Discounts Received            |                          | 46                                            |               |
| Salaries                      |                          | 950                                           |               |
| Purchases                     |                          | 4,380                                         |               |
|                               |                          | <u>16,446</u>                                 | <u>14,977</u> |

 Think 4 Which of the errors would not be recorded in Suspense account? Why?

 Hint Total debit balances ≠ Total credit balances

After the preparation of the above Trial Balance, but before drawing up the financial statements, the following errors were discovered:

- (i) A payment of RM 75 made to a creditor was not posted to Purchases Ledger.
- (ii) A cheque for RM 56 received from a customer was posted to his account as RM 50.
- (iii) Purchase of furniture for RM 500 was included in Purchases account.
- (iv) The total of discounts allowed column in Cash Book of RM 38 was not posted to General Ledger.
- (v) A page of Sales Journal was correctly totalled as RM 564 but carried forward to the next page as RM 456.

You are required to:

- (a) show the correcting Journal entries for the items (i) to (v) above;
- (b) prepare a Suspense account and calculate the difference per Trial Balance;
- (c) redraft the Trial Balance after all the corrections were made.



For those account balances which were on the **wrong side** of the **Trial Balance**:

Firstly, **cancel the entry**; Secondly, **make a correct entry**.  
Thus, it **doubles the original amount**.

1. **Difference per Trial Balance**: RM 1,469.
2. **Suspense** account total: RM 11,206.
3. **Corrected Trial Balance** total: RM 15,744.

## 13.4 Effect of Errors

When **errors** are **corrected after** the preparation of **financial statements**:

1. If the errors **not affecting** profit ( i.e. errors affecting **Statement Of Financial Position items** only):
  - a. the **original net profit** will **not be corrected**;
  - b. only **Revised Statement Of Financial Position** is **needed** to correct the **affected assets and liabilities**.
2. If the errors **affecting** profit ( i.e. errors affecting **Income Statement items** only):
  - a. the **original net profit** will be **corrected** through **Statement Of Corrected Net Profit / Net Loss** showing the calculation of the **corrected net profit / net loss** for that period; **and**
  - b. **Revised Statement Of Financial Position** is **prepared** to correct the **net profit / net loss** in the **Equity** section.
3. If the errors **affecting** both **Income Statement** and **Statement Of Financial Position items**:
  - a. **Statement Of Corrected Net Profit / Net Loss**; **and**
  - b. **Revised Statement Of Financial Position** are required.



## Example 12

### Income Statement

For The Year Ended 31 December Year 12

|                         | RM            |                   | RM            |
|-------------------------|---------------|-------------------|---------------|
| Opening Inventory       | 5,000         | Sales             | 60,000        |
| Purchases               | 30,000        |                   |               |
|                         | 35,000        |                   |               |
| Less: Closing Inventory | (6,000)       |                   |               |
| Cost Of Sales           | 29,000        |                   |               |
| Gross Profit c/d        | 31,000        |                   |               |
|                         | <u>60,000</u> |                   | <u>60,000</u> |
| Salaries                | 2,200         | Gross Profit b/d  | 31,000        |
| Rental Expenses         | 600           | Commission Income | 4,500         |
| Water And Electricity   | 100           |                   |               |
| Depreciation            | 2,000         |                   |               |
| Net Profit              | 30,600        |                   |               |
|                         | <u>35,500</u> |                   | <u>35,500</u> |

### Statement Of Financial Position

As At 31 December Year 12

|                                | RM            | RM            |                            | RM            |
|--------------------------------|---------------|---------------|----------------------------|---------------|
| <b>Non-current Assets</b>      |               |               | <b>Owner's Equity</b>      |               |
| Motor Vehicles                 | 40,000        |               | Opening Capital            | 15,000        |
| Less: Accumulated Depreciation | (8,000)       |               | Add: Net Profit            | <u>30,600</u> |
|                                | <u>32,000</u> |               |                            | <u>45,600</u> |
| <b>Current Assets</b>          |               |               | Less: Drawings             | (1,600)       |
| Inventory                      | 7,000         |               | Closing Capital            | 44,000        |
| Accounts Receivable            | 9,000         |               |                            |               |
| Bank                           | 3,000         | 19,000        |                            |               |
|                                |               | <u>51,000</u> |                            |               |
|                                |               |               |                            |               |
|                                |               |               | <b>Current Liabilities</b> |               |
|                                |               |               | Accounts Payable           | 6,000         |
|                                |               |               | Suspense                   | <u>1,000</u>  |
|                                |               |               |                            | <u>51,000</u> |



- ☞ When preparing financial statements and errors have not been detected **detected** 查出, the Suspense account is shown on **Statement Of Financial Position**.
- ☞ It will be shown under **Current Assets** if it is a **debit** balance.



1. Errors **not affecting** profit
  - (a) Assume that the RM 1,000 credit balance on the Suspense account in **Example 12** was caused by:  
Receipts of RM 1,000 from a debtor Mei not credited to her account.

**Solution:**

**General Journal**

|                   |                                                                                   | Debit       | Credit      |
|-------------------|-----------------------------------------------------------------------------------|-------------|-------------|
| Year 12<br>Dec 31 | Suspense<br>Mei<br><br>(Being receipts from a debtor not credited to her account) | RM<br>1,000 | RM<br>1,000 |
|                   |                                                                                   |             |             |

**Sales Ledger**

Mei

|  |         |                   |
|--|---------|-------------------|
|  | Year 12 | RM                |
|  | Dec 31  | Suspense<br>1,000 |

**General Ledger**

Suspense

| Year 12 | RM           | Year 12 | RM                                    |
|---------|--------------|---------|---------------------------------------|
| Dec 31  | Mei<br>1,000 | Dec 31  | Difference per Trial Balance<br>1,000 |



Mei's account and **Suspense** account both appeared on the **Statement Of Financial Position**.

Thus, the **Net Profit** of RM 30,600 did **not** have to be **adjusted**, but a **Revised Statement Of Financial Position** was **needed** as shown below.



It was to correct the affected item.

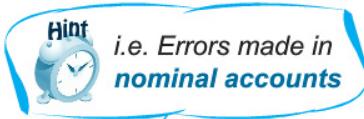
**Revised Statement Of Financial Position**

As At 31 December Year 12

|                                | RM    | RM      |                            | RM      |
|--------------------------------|-------|---------|----------------------------|---------|
| <b>Non-current Assets</b>      |       |         | <b>Owner's Equity</b>      |         |
| Motor Vehicles                 |       | 40,000  | Opening Capital            | 15,000  |
| Less: Accumulated Depreciation |       | (8,000) | Add: Net Profit            | 30,600  |
|                                |       | 32,000  |                            | 45,600  |
|                                |       |         | Less: Drawings             | (1,600) |
|                                |       |         | Closing Capital            | 44,000  |
| <b>Current Assets</b>          |       |         |                            |         |
| Inventory                      | 7,000 |         |                            |         |
| Accounts Receivable            | 8,000 |         | <b>Current Liabilities</b> |         |
| Bank                           | 3,000 | 18,000  | Accounts Payable           | 6,000   |
|                                |       | 50,000  |                            | 50,000  |

► Accounts Receivable = RM 9,000 – RM 1,000 = RM 8,000

Suspense account = RM 1,000 – RM 1,000 = 0



## 2. Errors affecting profit

- (b) Assume that the RM 1,000 credit balance on the Suspense account in **Example 12** was caused by:

The Salaries account in General Ledger was totalled incorrectly as RM 2,200 instead of RM 1,200.

### Solution:

**General Journal**

|                   |                                                                                                                                 | Debit       | Credit      |
|-------------------|---------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|
| Year 12<br>Dec 31 | Suspense<br><br>Profit And Loss – Salaries<br><br>(Being Salaries account totalled incorrectly as RM 2,200 instead of RM 1,200) | RM<br>1,000 | RM<br>1,000 |

**General Ledger**

| Suspense |                            |              |         |                                           |
|----------|----------------------------|--------------|---------|-------------------------------------------|
| Year 12  |                            | RM           | Year 12 | RM                                        |
| Dec 31   | Profit And Loss – Salaries | <u>1,000</u> | Dec 31  | Difference per Trial Balance <u>1,000</u> |



- ☞ The Salaries account should be decreased by RM 1,000. The **correction** could **not** be recorded in the **Salaries** account because it had been **closed**.
- ☞ The error would **increase** the **Net Profit** by RM 1,000. Thus, **(i) Statement Of Corrected Net Profit & (ii) Revised Statement Of Financial Position** were prepared as shown on the next page.



*It was to show the **calculation** of the corrected net profit for the year.*

(i)

**Statement Of Corrected Net Profit**  
For The Year Ended 31 December Year 12

|                                    | RM                   |
|------------------------------------|----------------------|
| Net Profit before adjustment       | 30,600               |
| <b>Add:</b> Salaries overcast      | 1,000                |
| <b>Net Profit after adjustment</b> | <b><u>31,600</u></b> |



*It was to correct the Net Profit in the **Equity** section.*

(ii)

**Revised Statement Of Financial Position**  
As At 31 December Year 12

|                                | RM      | RM     |                                  | RM      |
|--------------------------------|---------|--------|----------------------------------|---------|
| <b>Non-current Assets</b>      |         |        | <b>Owner's Equity</b>            |         |
| Motor Vehicles                 | 40,000  |        | Opening Capital                  | 15,000  |
| Less: Accumulated Depreciation | (8,000) | 32,000 | Add: Net Profit after adjustment | 31,600  |
|                                |         | 32,000 |                                  | 46,600  |
| <b>Current Assets</b>          |         |        | Less: Drawings                   | (1,600) |
| Inventory                      | 7,000   |        | Closing Capital                  | 45,000  |
| Accounts Receivable            | 9,000   |        |                                  |         |
| Bank                           | 3,000   | 19,000 | <b>Current Liabilities</b>       |         |
|                                |         | 51,000 | Accounts Payable                 | 6,000   |
|                                |         |        |                                  | 51,000  |

*Suspense account = RM 1,000 – RM 1,000 = 0*

3. Errors affecting both **Income Statement** and **Statement Of Financial Position** items
- (c) Assume that the RM 1,000 credit balance on the Suspense account in **Example 12** was caused by:
- Receipts of RM 600 from a debtor Mei not credited to her account.
  - The Salaries account in General Ledger was totalled incorrectly as RM 2,200 instead of RM 1,800.

**Solution:**

**General Journal**

|                   |                                                                                                                             | Debit     | Credit    |
|-------------------|-----------------------------------------------------------------------------------------------------------------------------|-----------|-----------|
| Year 12<br>Dec 31 | Suspense<br>Mei<br><br>(Being receipts from a debtor not credited to her account)                                           | RM<br>600 | RM<br>600 |
| 31                | Suspense<br>Profit And Loss – Salaries<br><br>(Being Salaries account totalled incorrectly as RM 2,200 instead of RM 1,800) | 400       | 400       |

**Sales Ledger**

| Mei | Year 12              | RM  |
|-----|----------------------|-----|
|     | Dec 31      Suspense | 600 |

**General Ledger**

| Suspense                      | Year 12 | RM    | Year 12                             | RM    |
|-------------------------------|---------|-------|-------------------------------------|-------|
| Year 12                       |         |       |                                     |       |
| Dec 31 Mei                    | 600     |       | Dec 31 Difference per Trial Balance | 1,000 |
| 31 Profit And Loss – Salaries | 400     |       |                                     |       |
|                               |         | 1,000 |                                     | 1,000 |



**Hint**

- Shaded areas are the **corrected items**.
- (i) & (ii) were prepared to reflect the **actual financial performance** and **position** of the business.

(i)

**Statement Of Corrected Net Profit**  
For The Year Ended 31 December Year 12

|                                    | RM                   |
|------------------------------------|----------------------|
| Net Profit before adjustment       | 30,600               |
| <b>Add:</b> Salaries overcast      | 400                  |
| <b>Net Profit after adjustment</b> | <b><u>31,000</u></b> |

(ii)

**Revised Statement Of Financial Position**  
As At 31 December Year 12

|                                | RM      | RM            |                                  | RM            |
|--------------------------------|---------|---------------|----------------------------------|---------------|
| <b>Non-current Assets</b>      |         |               | <b>Owner's Equity</b>            |               |
| Motor Vehicles                 | 40,000  |               | Opening Capital                  | 15,000        |
| Less: Accumulated Depreciation | (8,000) | <u>32,000</u> | Add: Net Profit after adjustment | <u>31,000</u> |
|                                |         |               |                                  | 46,000        |
| <b>Current Assets</b>          |         |               | Less: Drawings                   | (1,600)       |
| Inventory                      | 7,000   |               | Closing Capital                  | 44,400        |
| Accounts Receivable            | 8,400   |               |                                  |               |
| Bank                           | 3,000   | <u>18,400</u> | <b>Current Liabilities</b>       |               |
|                                |         | <u>50,400</u> | Accounts Payable                 | <u>6,000</u>  |
|                                |         |               |                                  | 50,400        |

► Accounts Receivable = RM 9,000 – RM 600 = RM 8,400

Suspense account = RM 1,000 – RM 600 – RM 400 = 0



## Practice 14

- (a) The following table shows a list of errors. You are required to complete the table by filling in columns (i) and (ii):

| Errors revealed after preparation of financial statements |                                                                                          | (i) Correcting Journal entries |        |        | (ii) Correction of Net Profit |      |
|-----------------------------------------------------------|------------------------------------------------------------------------------------------|--------------------------------|--------|--------|-------------------------------|------|
|                                                           |                                                                                          |                                | Debit  | Credit | Add                           | Less |
| e.g.                                                      | ① Purchases Journal was undercast by RM 500.                                             | Trading - Purchases Suspense   | RM 500 | RM 500 |                               | ✓    |
|                                                           | ② Credit purchases of RM 128 was entered in the books as RM 182.                         |                                |        |        |                               |      |
|                                                           | ③ Postage of RM 20 was not posted from Cash Book.                                        |                                |        |        |                               |      |
|                                                           | ④ Discounts allowed of RM 30 was posted to the credit side of Discounts Allowed account. |                                |        |        |                               |      |
|                                                           | ⑤ Drawings of goods of cost RM 100 was completely omitted from the books.                |                                |        |        |                               |      |
|                                                           | ⑥ Sale of RM 50 to Ng was posted to Eng's account.                                       |                                |        |        |                               |      |

- (b) From the **correcting Journal entries** you have done in column (i), identify the errors:

|      |                                                                                                                     | Transactions |
|------|---------------------------------------------------------------------------------------------------------------------|--------------|
| e.g. | Errors <b>not affecting</b> Trial Balance agreement                                                                 | ②, ⑤, ⑥      |
|      | Errors <b>affecting</b> Trial Balance agreement                                                                     |              |
|      | Effect of errors:                                                                                                   |              |
|      | (i) Errors <b>not affecting</b> profit<br>(i.e. Errors affecting <b>Statement Of Financial Position items</b> only) |              |
|      | (ii) Errors <b>affecting</b> profit<br>(i.e. Errors affecting <b>Income Statement items</b> only)                   |              |
|      | (iii) Errors <b>affecting</b> both <b>Income Statement &amp; Statement Of Financial Position items</b>              |              |



## Practice 15

The Trial Balance as at 31 December Year 15 was prepared. The debit total was more than the credit total by RM 81. The difference was entered in a Suspense account and the financial statements were drawn up for the year ended 31 December Year 15 showing a net profit of RM 5,320. Subsequently, the following errors were found:

- (i) A payment of RM 285 to Hee was debited to Bank account and credited to his account.
- (ii) RM 65 paid for advertising expenses was posted to Advertising Expenses account as RM 56.
- (iii) Returns inwards of RM 40 was posted to the wrong side of the account.
- (iv) RM 200 received from Ting was credited to Tang's account.
- (v) Goods of RM 70 returned to Chua was credited to Sales account.
- (vi) Discounts received of RM 85 was debited to Discounts Allowed account.
- (vii) Purchase of equipment by cheque RM 1,000 was completely omitted from the books.

You are required to prepare:

- (a) correcting Journal entries;
- (b) a Suspense account;
- (c) a statement showing the calculation of the corrected Net Profit for the period.



1. **Suspense** account total: RM 170.
2. **Net Profit after adjustment**: RM 5,401.



If the **correcting Journal entries** involved only the **income and expense accounts** without the **Suspense** account, would the errors be taken into account in the **calculation of corrected net profit**?



## Practice 16

The following was the **Statement Of Financial Position** of Winner as at 31 December Year 16:

|                        | RM            |                  | RM            |
|------------------------|---------------|------------------|---------------|
| Motor Vehicles         | 15,000        | Capital          | 50,000        |
| Furniture And Fixtures | 7,000         | Add: Net Profit  | <u>8,650</u>  |
| Office Equipment       | 33,000        |                  | <u>58,650</u> |
|                        |               | Less: Drawings   | (1,500)       |
| Inventory              | 5,840         |                  | 57,150        |
| Accounts Receivable    | 7,102         |                  |               |
| Cash                   | 123           | Accounts Payable | 5,840         |
|                        | <u>68,065</u> | Bank Overdraft   | 658           |
|                        |               | Suspense         | 4,417         |
|                        |               |                  | <u>68,065</u> |

After investigation, the following errors were discovered:

- (i) Goods of RM 200 drawn out as free gifts to customers were entered wrongly in Drawings account.
- (ii) Discounts received of RM 55 from Jessie had been credited to the personal account.
- (iii) A cheque for RM 180 received from a debtor, Shimin was dishonoured but no record was made in the books.
- (iv) The balance on Motor Vehicles account of RM 10,500 was incorrectly brought down as RM 15,000 and included in Trial Balance.
- (v) Goods of RM 258 returned by a customer was correctly entered in his account but was entered in Sales Returns account as RM 285.
- (vi) Interest received of RM 60 was debited to Interest Income account and credited to Cash account.

You are required to:

- (a) prepare Journal entries to correct the above errors;
- (b) show a Suspense account;
- (c) prepare a Statement Of Corrected Net Profit / Net Loss for the above errors;
- (d) a revised Statement Of Financial Position as at 31 December Year 16.



1. **Suspense** account total: RM 4,527.
2. **Net Profit after adjustment**: RM 8,597.
3. **Total Assets**: RM 63,865.



1.

## Correction of Errors

### Types of Errors

**Errors not affecting** Trial Balance agreement:

1. Error of omission 遗漏错误
2. Error of commission 账名调乱错误
3. Error of principle 原则性错误
4. Error of original entry 原始记录错误
5. Reversal error 颠倒错误
6. Compensating error 抵消性错误

**Errors affecting** Trial Balance agreement:

1. Error in calculation
2. Error in amount
3. Error in posting to the wrong side of an account
4. Error of omission of one entry / single entry
5. Omission of account balance from Trial Balance / Incorrect listing on Trial Balance

### Trial Balance (**balanced**)

Correcting Journal entries & Ledger accounts  
**without Suspense** account 暂记账户

### Trial Balance (**unbalanced**)

Correcting Journal entries & Ledger accounts  
**with Suspense** account

Errors corrected  
**after** preparation of  
financial statements

Errors **affecting profit**

No

Revised Statement Of Financial Position

Yes

Statement Of Corrected Net Profit / (Net Loss)  
Revised Statement Of Financial Position



#### **Suspense** account

- ☞ It is a **temporary account** for any **difference** on **Trial Balance**.
- ☞ It is **used only** when an **error affects** only **1 side** of the **double entry**.
- ☞ It will be **closed** after **correcting entries** are made.



**Hint** The corrections of errors affecting **nominal accounts** were made directly in the **Trading / Profit And Loss** account because the nominal accounts had been **closed off** in the preparation of Income Statement.

**Hint** If errors are corrected after the preparation of **financial statements**, errors affecting **profit** in Income Statement are amended through this **statement**.

Only the **income** and **expense accounts** are taken into account in the **calculation of corrected net profit**.

## 2. Preparing of **Statement Of Corrected Net Profit / (Net Loss)** from **General Journal:** **e.g.** **General Journal**

|       | Date |                                        | Debit    | Credit   |
|-------|------|----------------------------------------|----------|----------|
| (i)   |      | Hee<br>Bank                            | RM<br>xx | RM<br>xx |
| (ii)  |      | Profit And Loss - Advertising Expenses | xx       | .....    |
|       |      | Suspense                               |          | xx       |
| (iii) |      | Trading - Returns Inwards              | xx       | .....    |
|       |      | Suspense                               |          | xx       |
| (iv)  |      | Tang<br>Ting                           | xx       | xx       |
| (v)   |      | Trading - Sales                        | xx       | .....    |
|       |      | Trading - Returns Outwards             |          | xx       |
| (vi)  |      | Suspense                               | xx       | .....    |
|       |      | Trading - Discounts Allowed            |          | xx       |
|       |      | Trading - Discounts Received           |          | xx       |
| (vii) |      | Equipment<br>Bank                      | xx       | xx       |

**Statement Of Corrected Net Profit / (Net Loss)**更正后净利 / (净损)表  
For The Year Ended .....

|                                               | RM             | RM         |
|-----------------------------------------------|----------------|------------|
| Net Profit / (Net Loss) before adjustment     | xx             |            |
| <b>Add:</b> Returns Outwards understated      | (v) xx         |            |
| Discounts Allowed overstated                  | (vi) xx        |            |
| Discounts Received understated                | (vi) <u>xx</u> | xx<br>xx   |
| <b>Less:</b> Advertising Expenses understated | (ii) xx        |            |
| Returns Inwards understated                   | (iii) xx       |            |
| Sales overstated                              | (v) <u>xx</u>  | (xx)<br>xx |
| Net Profit / (Net Loss) after adjustment      |                | <u>xx</u>  |



**Dr**  
Expenses ↑ / Income ↓ ⇔ Net Profit ↓ ⇔ **Less**  
Expenses ↓ / Income ↑ ⇔ Net Profit ↑ ⇔ **Add**  
**Cr**

In real life, if a business uses **computerised accounting system** the **5 errors affecting Trial Balance agreement** would **rarely arise**.

Thus, **Suspense account** would **seldom be used** for the following reasons:

- a. Figures are automatically calculated by computer and thus **error in calculation** would be unlikely;
- b. **Error in amount, wrong-side posting** or **single entry** would not be allowed in computerised accounting system;
- c. A Trial Balance would be automatically generated. Thus, **omission of account balance** or **incorrect listing** on Trial Balance would rarely happen.

The **errors** would likely **occur** only when **bookkeeping** is prepared **manually**. However, students still need to learn how to correct these errors in order to **enhance** the understanding of the **double-entry bookkeeping**.

# Bank Reconciliation Statement



## Learning Objectives

After studying this chapter, you should be able to:

- ☛ read and interpret the transactions in Cash Book and Bank Statement;
- ☛ explain the causes of the difference between Cash Book balance and Bank Statement balance;
- ☛ understand the functions of Bank Reconciliation Statement;
- ☛ adjust Cash Book balance before reconciliation;
- ☛ prepare Bank Reconciliation Statement;
- ☛ know how bank overdraft affects reconciliation process.

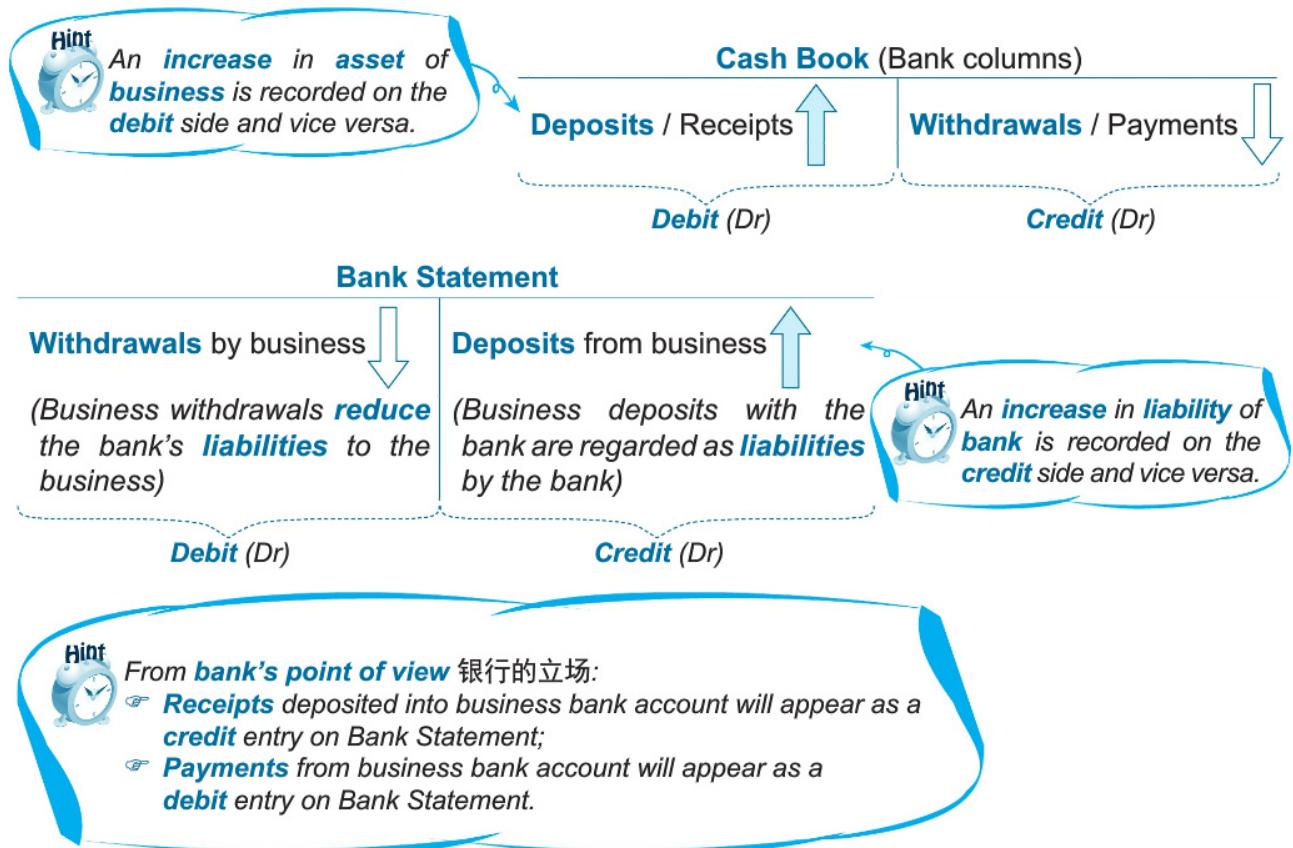


### 14.1

### Handling of Cash at Bank

1. Normally, a business will open a **current account** 往来户口 with a bank. Receipts of cash or cheques can then be deposited into the current account, and payments can be made by cheques instead of cash.
2. Whenever a business **deposits** or **withdraws** cash at the bank, its Cash Book will be **debited** or **credited**.
3. From the bank's point of view, the **bank** will **credit** the business current account for the **deposits** made and **debit** the account for the **cheques paid out**.
4. At the end of each month, the bank will send a copy of its records known as **Bank Statement** to the business.

5. The transactions in **Cash Book** and **Bank Statement** are illustrated below:



14-2

## Reasons for Difference between Cash Book Balance and Bank Statement Balance

Usually the balance of Cash Book does not agree with that shown on Bank Statement. The discrepancy 差异 may be due to:

1. Items recorded in business **Cash Book** but not shown on **Bank Statement**:

### Cash Book (Bank columns)

| Debit entries:                                                                                                                    | Credit entries:                                                                                                         |
|-----------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|
| a. ➤ <b>Uncredited deposits</b> / cheques or late lodgements 退延存款<br>(i.e. cash / cheques deposited but not yet credited by bank) | <b>Unpresented cheques</b> / cheques in transit ← b.<br>(i.e. cheques issued but not yet presented at bank for payment) |

2. Items shown on **Bank Statement** but not recorded in **Cash Book**:

**Bank Statement**

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                      |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Debit entries:</p> <p><b>Direct debits</b></p> <ul style="list-style-type: none"> <li>e.g. Water and electricity bills</li> <li>Telephone bills</li> </ul> <p>Bank charges and interest</p> <ul style="list-style-type: none"> <li>e.g. Fees for maintenance of account</li> <li>Stamp duties on cheque book</li> <li>Charges on dishonoured cheque</li> <li>Fees on stopping cheque payment</li> <li>Cheque processing fees</li> <li>Interest on bank overdraft</li> </ul> <p><b>Standing orders</b></p> <ul style="list-style-type: none"> <li>e.g. Monthly insurance premium</li> <li>Monthly housing loan instalment</li> </ul> <p><b>Deposited cheques returned / dishonoured</b></p> | <p>Credit entries:</p> <p><b>Credit transfers</b></p> <ul style="list-style-type: none"> <li>Dividends collected on behalf of business</li> <li>Interest on fixed deposit</li> </ul> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

**Input**

- ☞ **Credit transfers:** Deposits made directly into business bank account
- ☞ **Direct debits:** Instruction to bank to make payments of varying amounts from business bank account
- ☞ **Standing order:** Instruction to bank to make fixed payments at regular intervals  
It is also known as **banker's order**.
- ☞ **Deposited cheques returned / dishonoured** 拒付 by bank for the following reasons:
  - a. insufficient funds 存款不足
  - b. post-dated cheques 未到期支票
  - c. expired or stale cheques 过期支票 (i.e. cheques are more than 6 months old)
  - d. irregularities on cheque (i.e. words and figures do not tally)
  - e. no signature on cheque or signature differs from specimen signature
  - f. stopped payment / closed account by drawer
  - g. bankruptcy / death of drawer, etc.

3. Errors or omissions made by **business** or / and **bank**.

Illustrations for the above items 1. ~ 3.:

1. **Items not shown on Bank Statement:**

a. **Uncredited deposit**

| Cash Book (Bank columns)       |                        |              |        |              |
|--------------------------------|------------------------|--------------|--------|--------------|
| Year 1                         |                        | RM           | Year 1 | RM           |
| Aug 1                          | Balance b/d            | 4,500        | Aug 31 | Balance c/d  |
| 9                              | Cash                   | 2,000 ✓      |        | 8,685        |
| 19                             | Judy Trading           | 500 ✓        |        |              |
| 25                             | Sales                  | 700 ✓        |        |              |
| <i>Uncredited deposit</i> → 30 | <b>Shari &amp; Co.</b> | <b>985</b>   |        |              |
|                                |                        | <u>8,685</u> |        | <u>8,685</u> |
| Sept 1                         | Balance b/d            | <u>8,685</u> |        |              |

| Eastern Bank Bhd |                      |                                                        |              |               |
|------------------|----------------------|--------------------------------------------------------|--------------|---------------|
| Tan Seng         |                      | Account No.: 111-1234567-8<br>Date: 1 September Year 1 |              |               |
| Bank Statement   |                      |                                                        |              |               |
| Date             | Particulars          | Debit<br>RM                                            | Credit<br>RM | Balance<br>RM |
| Year 1           |                      |                                                        |              |               |
| Aug 1            | Balance brought down |                                                        |              | 4,500 Cr      |
| 9                | Cash                 | 2,000 ✓                                                |              | 6,500         |
| 22               | Deposit              | 500 ✓                                                  |              | 7,000         |
| 29               | Deposit              | 700 ✓                                                  |              | 7,700 Cr      |

b. **Unpresented cheque**

| Cash Book (Bank columns) |             |              |        |                         |
|--------------------------|-------------|--------------|--------|-------------------------|
| Year 1                   |             | RM           | Year 1 | Cheque No. RM           |
| Aug 1                    | Balance b/d | 4,500        | Aug 1  | Petty Cash 10110 200 ✓  |
|                          |             |              | 15     | Purchases 10111 1,200 ✓ |
|                          |             |              | 20     | Chen Co. 10112 270 ✓    |
|                          |             |              | 30     | <b>Lin 10113 250</b>    |
|                          |             |              | 31     | Balance c/d 2,580       |
|                          |             | <u>4,500</u> |        | <u>2,580</u>            |
| Sept 1                   | Balance b/d | <u>2,580</u> |        | <u>4,500</u>            |

*Unpresented cheque*

| Eastern Bank Bhd |                      |                                                        |              |               |
|------------------|----------------------|--------------------------------------------------------|--------------|---------------|
| Tan Seng         |                      | Account No.: 111-1234567-8<br>Date: 1 September Year 1 |              |               |
| Bank Statement   |                      |                                                        |              |               |
| Date             | Particulars          | Debit<br>RM                                            | Credit<br>RM | Balance<br>RM |
| Year 1           |                      |                                                        |              |               |
| Aug 1            | Balance brought down |                                                        |              | 4,500 Cr      |
| 3                | Cheque no. 10110     | 200 ✓                                                  |              | 4,300         |
| 25               | Cheque no. 10112     | 270 ✓                                                  |              | 4,030         |
| 30               | Cheque no. 10111     | 1,200 ✓                                                |              | 2,830 Cr      |

2. Items not recorded in Cash Book:  
c. Standing order & bank charges



The bank charges & standing order had not been recorded on the credit side of the Cash Book.

| Cash Book (Bank columns) |       |                    |       |
|--------------------------|-------|--------------------|-------|
| Year 1                   | RM    | Year 1             | RM    |
| Aug 1 Balance b/d        | 4,500 | Aug 31 Balance c/d | 4,500 |
| Sept 1 Balance b/d       | 4,500 |                    |       |

| Eastern Bank Bhd         |                            |       |        |          |
|--------------------------|----------------------------|-------|--------|----------|
| Tan Seng                 | Account No.: 111-1234567-8 |       |        |          |
| Date: 1 September Year 1 |                            |       |        |          |
| Bank Statement           |                            |       |        |          |
| Date                     | Particulars                | Debit | Credit | Balance  |
| Year 1                   |                            | RM    | RM     | RM       |
| Aug 1                    | Balance brought down       |       |        | 4,500 Cr |
| 5                        | Standing order - Insurance | 220   |        | 4,280    |
| 15                       | Bank charges               | 50    |        | 4,230 Cr |

- d. Credit transfer & interest on fixed deposit



The credit transfer & interest on fixed deposit had not been recorded on the debit side of the Cash Book.

| Cash Book (Bank columns) |       |                    |       |
|--------------------------|-------|--------------------|-------|
| Year 1                   | RM    | Year 1             | RM    |
| Aug 1 Balance b/d        | 4,500 | Aug 31 Balance c/d | 4,500 |
| Sept 1 Balance b/d       | 4,500 |                    |       |

| Eastern Bank Bhd         |                            |       |        |          |
|--------------------------|----------------------------|-------|--------|----------|
| Tan Seng                 | Account No.: 111-1234567-8 |       |        |          |
| Date: 1 September Year 1 |                            |       |        |          |
| Bank Statement           |                            |       |        |          |
| Date                     | Particulars                | Debit | Credit | Balance  |
| Year 1                   |                            | RM    | RM     | RM       |
| Aug 1                    | Balance brought down       |       |        | 4,500 Cr |
| 23                       | Credit transfer - Seni Bhd | 320   |        | 4,820    |
| 30                       | Interest on fixed deposit  | 150   |        | 4,970 Cr |



**Hint** The payment was overstated by RM 6 in the Cash Book.

3. Error made by business:

| Cash Book (Bank columns) |       |                       |       |
|--------------------------|-------|-----------------------|-------|
| Year 1                   | RM    | Year 1                | RM    |
| Aug 1 Balance b/d        | 4,500 | Aug 20 Chen Co. 10112 | 276   |
|                          |       | 31 Balance c/d        | 4,224 |
|                          | 4,500 |                       | 4,500 |
| Sept 1 Balance b/d       | 4,224 |                       |       |

| Eastern Bank Bhd |                                                        |       |          |
|------------------|--------------------------------------------------------|-------|----------|
| Tan Seng         | Account No.: 111-1234567-8<br>Date: 1 September Year 1 |       |          |
| Bank Statement   |                                                        |       |          |
| Date             | Particulars                                            | Debit | Credit   |
| Year 1           |                                                        | RM    | RM       |
| Aug 1            | Balance brought down                                   |       | 4,500 Cr |
| 25               | Cheque no. 10112                                       | 270   | 4,230 Cr |

### 14.3 Preparation of Bank Reconciliation Statement

1. A Bank Reconciliation Statement is prepared to prove the accuracy of the recording of business and bank, and to account for 解释 the difference between Cash Book balance and Bank Statement balance at a particular date.



**Hint** “credit balance in Cash Book / debit balance in Bank Statement” refers to an overdrawn 透支 circumstance.

2. Methods of bank reconciliation:
- starting with a debit / credit balance as per Cash Book;
  - starting with a credit / debit balance as per Bank Statement;
  - adjusting / updating Cash Book first, then
    - starting with an adjusted debit / credit balance as per Cash Book; or
    - starting with a credit / debit balance as per Bank Statement.
3. Steps of bank reconciliation:
- Tick (✓) the items which have been recorded in both the Cash Book and Bank Statement.
  - Identify the items not shown on Bank Statement but appear in Cash Book:
    - e.g. Uncredited deposits
    - Unpresented cheques
  - Identify the items not recorded in Cash Book but appear in Bank Statement:
    - e.g. Bank charges, standing orders, dishonoured cheques
    - Credit transfers, dividends collected on behalf, interest on fixed deposit
  - Prepare Bank Reconciliation Statement.



## Example 1



How will an **uncredited deposit** or **unpresented cheque** occur? Explain briefly.

The following were the Cash Book and Bank Statement of Tan Seng for the month of August Year 1:

| Cash Book (Bank columns) |         |                  |               |
|--------------------------|---------|------------------|---------------|
| Year 1                   | RM      | Year 1           | Cheque No. RM |
| Aug 1 Balance b/d        | 4,500   | Aug 1 Petty Cash | 10110 200 ✓   |
| 9 Cash                   | 2,000 ✓ | 15 Purchases     | 10111 1,200 ✓ |
| 19 Judy Trading          | 500 ✓   | 20 Chen Co.      | 10112 ▶ 276   |
| 25 Sales                 | 700 ✓   | 30 Lin           | 10113 250 ←   |
| → 30 Shari & Co.         | 985     | 31 Balance c/d   | 6,759         |
|                          | 8,685   |                  | 8,685         |
| Sept 1 Balance b/d       | 6,759   |                  |               |

4.e. Error: Payment overstated

4.b. Unpresented cheque

4.a. **Uncredited deposit**

→ Items not shown on **Bank Statement** ←



Why were the **items** on the **Bank Statement** shown on the **opposite side** of the **Cash Book**?

| Tan Seng |                                   | Eastern Bank Bhd                                       |              |               |
|----------|-----------------------------------|--------------------------------------------------------|--------------|---------------|
|          |                                   | Account No.: 111-1234567-8<br>Date: 1 September Year 1 |              |               |
|          |                                   | Bank Statement                                         |              |               |
| Date     | Particulars                       | Debit<br>RM                                            | Credit<br>RM | Balance<br>RM |
| Year 1   |                                   |                                                        |              |               |
| Aug 1    | Balance brought down              |                                                        |              | 4,500 Cr      |
| 3        | Cheque no. 10110                  | 200 ✓                                                  |              | 4,300         |
| 5        | <b>Standing order - Insurance</b> | 220 ←                                                  |              | 4,080         |
| 9        | Cash                              | 4.c. 2,000 ✓                                           |              | 6,080         |
| 15       | <b>Bank charges</b>               | 50 ←                                                   |              | 6,030         |
| 22       | Deposit                           |                                                        | 500 ✓        | 6,530         |
| 23       | <b>Credit transfer - Seni Bhd</b> |                                                        | → 320        | 6,850         |
| 25       | <b>Cheque no. 10112</b>           | 4.e. 270                                               |              | 6,580         |
| 29       | Deposit                           |                                                        | 4.d. 700 ✓   | 7,280         |
| 30       | <b>Interest on fixed deposit</b>  |                                                        | → 150        | 7,430         |
| 30       | Cheque no. 10111                  | 1,200 ✓                                                |              | 6,230 Cr      |

Items not recorded in **Cash Book**

### Explanation for the reconciliation:

1. The ticks (✓) indicate that those **items** have been **recorded** in both the **Cash Book** and **Bank Statement**.
2. If we start with the **Cash Book balance** to arrive at the Bank Statement balance, all the **unticked items** should be **added** to or **subtracted** from the **Cash Book balance**.
3. Each **unticked item** is to be considered **independently**.

4. The opening balances RM 4,500 of both the Cash Book (CB) and Bank Statement (BS) are the same:



- a. Effect of a cheque deposited but not yet credited by bank  
(i.e. **uncredited deposit**)

---- RM 985:



To reconcile, what should be done to the **Cash Book balance**?

We should **deduct** the uncredited deposit RM 985 from the **Cash Book balance**.

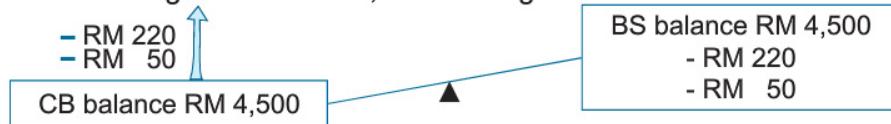
- b. Effect of a cheque issued but not yet presented at bank for payment  
(i.e. **unpresented cheque**)

---- RM 250:



To reconcile, we should **add** back the unpresented cheque RM 250 to the **Cash Book balance**.

- c. Effect of items debited in Bank Statement but not yet recorded in Cash book  
---- Standing order RM 220; Bank charges RM 50:



To reconcile, we should **deduct** standing order RM 220 and bank charges RM 50 from the **Cash Book balance**.

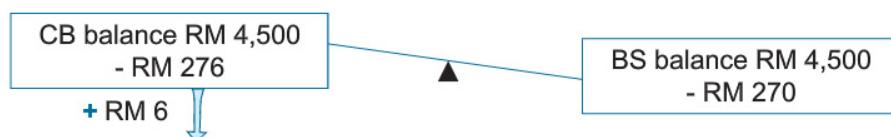
- d. Effect of items credited in Bank Statement but not yet recorded in Cash Book  
---- Credit transfer RM 320; Interest on fixed deposit RM 150:



To reconcile, we should **add** credit transfer RM 320 and interest on fixed deposit RM 150 to the **Cash Book balance**.

- e. Effect of error in Cash Book

---- payment of Cheque no. 10112 overstated by RM 6 (i.e. RM 276 - RM 270):



To reconcile, we should **add** RM 6 to the **Cash Book balance**.

*Items not shown on Bank Statement*

*Items not recorded in Cash Book*

*Error*

## Solution:

Methods of bank reconciliation:

### 1. Starting with Cash Book balance:

Bank Reconciliation Statement As At 31 August Year 1

|                                                   | RM  | RM              |
|---------------------------------------------------|-----|-----------------|
| Balance as per Cash Book                          |     | 6,759 Dr        |
| <b>Add:</b> Unpresented cheque - Cheque no. 10113 | 250 |                 |
| Credit transfer - Seni Bhd                        | 320 |                 |
| Interest on fixed deposit                         | 150 |                 |
| Cash Book's error - Payment overstated            | 6   | 726             |
|                                                   |     | 7,485           |
| <b>Less:</b> Uncredited deposit - Shari & Co.     | 985 |                 |
| Standing order - Insurance                        | 220 |                 |
| Bank charges                                      | 50  | (1,255)         |
| Balance as per Bank Statement                     |     | <u>6,230 Cr</u> |

### 2. Starting with Bank Statement balance:

Bank Reconciliation Statement As At 31 August Year 1

|                                                    | RM  | RM              |
|----------------------------------------------------|-----|-----------------|
| Balance as per Bank Statement                      |     | 6,230 Cr        |
| <b>Add:</b> Uncredited deposit - Shari & Co.       | 985 |                 |
| Standing order - Insurance                         | 220 |                 |
| Bank charges                                       | 50  | 1,255           |
|                                                    |     | 7,485           |
| <b>Less:</b> Unpresented cheque - Cheque no. 10113 | 250 |                 |
| Credit transfer - Seni Bhd                         | 320 |                 |
| Interest on fixed deposit                          | 150 |                 |
| Cash Book's error - Payment overstated             | 6   | (726)           |
| Balance as per Cash Book                           |     | <u>6,759 Dr</u> |

**Hint** The items under **Add** & **Less** as shown in 1. above are reversed here.

3. **Adjusting Cash Book** before reconciliation:
- Determine the adjusted Cash Book balance by:
    - entering in Cash Book those **unticked items** as shown on **Bank Statement**, i.e. **debiting the receipts** and **crediting the payments**;
    - correcting the **error** which was found in **Cash Book**.
  - Prepare Bank Reconciliation Statement starting with the adjusted Cash Book balance.



**Only the Cash Book's error (but not the banker's error) is corrected in the Cash Book.**

| Adjusted Cash Book (Bank columns)     |              |                                   |              |
|---------------------------------------|--------------|-----------------------------------|--------------|
| Year 1                                | RM           | Year 1                            | RM           |
| Aug 31 Balance b/d                    | 0            | Aug 31 Insurance - Standing order | 220          |
| 4.d. 31 Seni Bhd - Credit transfer    | 320          | 31 Bank Charges                   | 50           |
| 31 Interest On Fixed Deposit          | 150          | 31 Balance c/d                    | <b>6,965</b> |
| 4.e. 31 Chen Co. - Payment overstated | 6            |                                   |              |
|                                       | <b>7,235</b> |                                   | <b>7,235</b> |
| Sept 1 Balance b/d                    | <b>6,965</b> |                                   |              |

#### Bank Reconciliation Statement As At 31 August Year 1

Balance as per adjusted Cash Book

**Add:** Unpresented cheque - Cheque no. 10113

**Less:** Uncredited deposit - Shari & Co.

Balance as per Bank Statement

| Hint | 4. b.: CB + | RM      | Dr |
|------|-------------|---------|----|
|      |             | 250     |    |
|      |             | 7,215   |    |
| Hint | 4. a.: CB - | ( 985 ) | Cr |
|      |             | 6,230   |    |



**Only the unselected items recorded in Cash Book but not shown on Bank Statement are presented in the statement.**



What are the **reasons** for the **disagreement** between **Cash Book closing balance** and **Bank Statement closing balance**?



Why should a business regularly **prepare** **Bank Reconciliation Statement**?



## Practice 1

(Starting with **Cash Book balance**)

You are required to draw up Bank Reconciliation Statement as at 30 November Year 1 showing the items which had caused the difference between the Cash Book balance and the balance on the Bank Statement as shown below:

| Cash Book (Bank columns) |               |                     |            |               |               |
|--------------------------|---------------|---------------------|------------|---------------|---------------|
| Year 1                   | RM            | Year 1              | Cheque No. | RM            |               |
| Nov 1 Balance b/d        | 8,520         | Nov 8 Trend Sdn Bhd | 821        | 1,110         |               |
| 3 Wang                   | 1,200         | 12 Sarah            | 822        | 600           |               |
| 11 Sales                 | 1,650         | 21 Anna             | 823        | 450           |               |
| 16 Sales                 | 1,800         | 27 Susan            | 824        | 561           |               |
| 29 Daya Company          | 573           | 28 Fajar Trading    | 825        | 636           |               |
|                          |               | 30 Balance c/d      |            |               |               |
|                          | <u>13,743</u> |                     |            | <u>10,386</u> |               |
| Dec 1 Balance b/d        | <u>10,386</u> |                     |            |               | <u>13,743</u> |

| Bank Statement |                           |             |              |               |    |
|----------------|---------------------------|-------------|--------------|---------------|----|
| Date           | Particulars               | Debit<br>RM | Credit<br>RM | Balance<br>RM |    |
| Year 1         |                           |             |              |               |    |
| Nov 1          | Balance brought down      |             |              | 8,520         | Cr |
| 5              | Deposit - Wang            |             | 1,200        | 9,720         |    |
| 10             | Cheque no. 821            | 1,110       |              | 8,610         |    |
| 11             | Deposit                   |             | 1,650        | 10,260        |    |
| 15             | Cheque no. 822            | 600         |              | 9,660         |    |
| 16             | Deposit                   |             | 1,800        | 11,460        |    |
| 23             | Cheque no. 823            | 450         |              | 11,010        |    |
| 30             | Xin Ling Bhd - Dividend   |             | 270          | 11,280        |    |
| 30             | Stamp duty on cheque book | 15          |              | 11,265        | Cr |



- Steps:**
- “” the **items** which have been **recorded** in both the **Cash Book** and **Bank Statement**;
  - Identify the **items not** shown on the **Bank Statement**:  
Uncredited deposit & unpresented cheques;
  - Identify the **items not** recorded in the **Cash Book**:  
Dividend & stamp duty;
  - Prepare **Bank Reconciliation Statement**.





## Example 2

(**Adjusting Cash Book** before reconciliation & starting with **adjusted Cash Book balance**)

On 30 April Year 2, Mr Lee's Cash Book showed a debit balance of RM 3,072. On the same date, the Bank Statement had a credit balance of RM 1,932.

After checking the Cash Book against the Bank Statement, the following differences were found:

- (i) Cheques totalling RM 680 issued to creditors had not been presented to the bank for payment.
- (ii) A cheque for RM 1,420 was paid into the bank on 30 April Year 2 but not yet cleared.
- (iii) Mr Lee's account had been wrongly credited by the bank with RM 300 which should be credited to Mr Li, another account holder.
- (iv) The bank had made a standing order for fire insurance of RM 240. It had not been recorded by the business.
- (v) The bank had received from a customer a credit transfer of RM 120.
- (vi) A cheque for RM 400 had been returned by the bank marked "Refer to drawer", but it had not been recorded in the Cash Book.
- (vii) Bank interest of RM 180 in respect of an overdraft had been charged by the bank.

You are required to:

- (a) bring the Cash Book up to date and carry down the balance;
- (b) prepare Bank Reconciliation Statement reconciling the adjusted Cash Book balance with the balance on the Bank Statement.

### Solution:

| (a)    | Adjusted Cash Book (Bank columns)       |       |        |                                            |       |
|--------|-----------------------------------------|-------|--------|--------------------------------------------|-------|
|        | Year 2                                  | RM    | Year 2 | RM                                         |       |
| Apr 30 | Balance b/d                             | 3,072 | Apr 30 | Insurance - Standing order                 | 240   |
| 30     | Account Receivable<br>- Credit transfer | 120   | 30     | Account Receivable<br>- Dishonoured cheque | 400   |
|        |                                         |       | 30     | Interest On Bank Overdraft                 | 180   |
|        |                                         |       | 30     | Balance c/d                                | 2,372 |
|        |                                         | 3,192 |        | 3,192                                      |       |
| May 1  | Balance b/d                             | 2,372 |        |                                            |       |

| (b)                               | Bank Reconciliation Statement As At 30 April Year 2 |         |    |
|-----------------------------------|-----------------------------------------------------|---------|----|
|                                   | RM                                                  | RM      |    |
| Balance as per adjusted Cash Book |                                                     | 2,372   | Dr |
| <b>Add:</b> Unpresented cheques   | 680                                                 |         |    |
| Banker's error - Wrongly credited | 300                                                 | 980     |    |
|                                   |                                                     | 3,352   |    |
| <b>Less:</b> Uncredited deposit   |                                                     | (1,420) |    |
| Balance as per Bank Statement     |                                                     | 1,932   | Cr |



The **banker's error** should **not** be **adjusted** in the **Cash Book**.

It would be **corrected** by the bank in the **Bank Statement** of the **following month**.



## Practice 2

(**Adjusting Cash Book** before reconciliation & starting with **adjusted Cash Book balance**)

The Cash Book of Sin Trading showed a debit balance of RM 1,658 at 31 October Year 2.

On checking the Bank Statement as at that date against the Cash Book, it was discovered that:

- (i) Bank charges of RM 50 shown on the Bank Statement had not yet been entered in the Cash Book.
- (ii) A cheque for RM 158 banked had been returned by the bank, but it had not been written back in the Cash Book.
- (iii) A cheque for RM 60 drawn for stationery had been entered in the Cash Book as a receipts.
- (iv) Two cheques issued to creditors for RM 124 and RM 384 respectively had not yet been presented to the bank.
- (v) A lodgement of RM 481 made on the last day of the month had not yet been credited to the account by the bank.

You are required to:

- (a) make the necessary entries in the Cash Book and bring down the adjusted balance;
- (b) prepare Bank Reconciliation Statement to show the balance as per Bank Statement.



1. **Adjusted Cash Book** balance: RM 1,330 (Dr).
2. **Bank Statement** balance: RM 1,357 (Cr).



## Practice 3

(**Adjusting Cash Book** before reconciliation & starting with **adjusted Cash Book balance**)

XYZ Company received a Bank Statement which showed a credit balance of RM 5,490 at 30 September Year 3, whereas the business Cash Book showed a debit balance of RM 5,615 on the same date.

On comparing the Cash Book with the Bank Statement, the following differences were found:

- (i) Bank charges amounting to RM 125 had been made by the bank.
- (ii) An amount of RM 400 paid into the bank had not been credited.
- (iii) The bank had made a standing order for the hire purchase instalment of RM 100 which had not been recorded by the business.
- (iv) A cheque for RM 800 issued had not been presented for payment.
- (v) The bank had received a credit transfer of RM 150 for dividend due to the business.
- (vi) A cheque for RM 50 issued to Foam Sdn Bhd was entered correctly in the business books but had been recorded on the Bank Statement as RM 500.

You are required to:

- (a) open the Cash Book, make the necessary entries and show an adjusted balance;
- (b) prepare Bank Reconciliation Statement as at 30 September Year 3.



1. **Adjusted Cash Book** balance: RM 5,540 (Dr).



### Example 3

(Adjusting Cash Book before reconciliation, starting with Bank Statement balance & different opening balances)

ABC Company's Cash Book for the month of May Year 3 was as follows:

| Cash Book (Bank columns) |        |                |               |
|--------------------------|--------|----------------|---------------|
| Year 3                   | RM     | Year 3         | Cheque No. RM |
| May 1 Balance b/d        | 4,500* | May 1 Mr Ang   | 901 650       |
| 4 Cash                   | 1,000  | 15 Mr Chen     | 902 1,030     |
| 11 Mr Ong                | 470    | 22 Mr Brook    | 903 1,575     |
| 17 Mr Vale               | 355    | 25 Petty Cash  | 904 125       |
| 23 Cash                  | 500    | 30 Balance c/d | 3,895         |
| 30 Mr Wu                 | 450    |                |               |
|                          | 7,275  |                |               |
| June 1 Balance b/d       | 3,895  |                | 7,275         |



- The original entry of this dishonoured cheque of RM 355 should be reversed in the Cash Book.
- The entry had been reversed as shown on the Bank Statement below.



$$\text{RM } (5,050^* - 550^*) = \text{RM } 4,500^*$$

The following Bank Statement was received at the beginning of June Year 3:

| Date   | Particulars                     | Payments<br>RM | Receipts<br>RM | Balance<br>RM |
|--------|---------------------------------|----------------|----------------|---------------|
| Year 3 |                                 |                |                |               |
| May 1  | Balance brought down            |                |                | 5,050*        |
| 4      | Cash                            | 1,000          |                | 6,050         |
| 12     | Cheque no. 901                  | 650            |                | 5,400         |
| 13     | Cheque no. 895                  | 550*           |                | 4,850         |
| 14     | Deposit                         |                | 470            | 5,320         |
| 18     | Deposit                         |                | 355            | 5,675         |
| 18     | Standing order - Fire insurance | 490            |                | 5,185         |
| 21     | Cheque returned - Mr Vale       | 355            |                | 4,830         |
| 23     | Cash                            |                | 500            | 5,330         |
| 25     | Cheque no. 903                  | 1,575          |                | 3,755         |
| 26     | Cheque no. 904                  |                | 125            | 3,630         |
| 29     | Interest                        |                | 210            | 3,840         |

You are required to:

- bring the Cash Book up to date;
- draw up Bank Reconciliation Statement to reconcile the balance on the Bank Statement with the adjusted Cash Book balance.



\* The opening balance in the Cash Book (RM 4,500\*) differs from that on the Bank Statement (RM 5,050\*):

- The difference was caused by the cheque no. 895 of RM 550\* which was drawn in the previous month but presented for payment this month.
- This cheque had already been reconciled in the previous month as an unpresented cheque. Thus, it must not be considered again this month.

### Solution:

|        |                 | Adjusted Cash Book (Bank columns) |        |                              |        |
|--------|-----------------|-----------------------------------|--------|------------------------------|--------|
|        |                 | RM                                | Year 3 | RM                           | Year 3 |
| Year 3 |                 |                                   |        |                              |        |
| May 31 | Balance b/d     | 3,895                             | May 31 | Insurance - Standing order   | 490    |
| 31     | Interest Income | 210                               | 31     | Mr Vale - Dishonoured cheque | 355    |
|        |                 |                                   | 31     | Balance c/d                  | 3,260  |
|        |                 | 4,105                             |        |                              | 4,105  |
| June 1 | Balance b/d     | 3,260                             |        |                              |        |

### (b) Bank Reconciliation Statement As At 31 May Year 3

|                                                  | RM       |
|--------------------------------------------------|----------|
| Balance as per Bank Statement                    | 3,840 Cr |
| <b>Add:</b> Uncredited deposit - Mr Wu           | 450      |
|                                                  | 4,290    |
| <b>Less:</b> Unpresented cheque - Cheque no. 902 | (1,030)  |
| Balance as per adjusted Cash Book                | 3,260 Dr |

## 14.4 Bank Overdraft

1. A bank overdraft (**O/D**) will appear as a **credit** balance in **Cash Book**, but as a **debit** balance in **Bank Statement**.
2. When there is **bank overdraft**, the **adjustments** needed for reconciliation are **similar** to those where the **bank account is not overdrawn** if the **negative amount** with “( )” is used.



### Example 4

(**Adjusting Cash Book** before reconciliation & starting with **adjusted Cash Book balance in credit**)

On 31 May Year 4 Wang Trading's Cash Book showed a bank credit balance of RM 2,380.

On checking the Bank Statement of the same date, the following discrepancies were found:

- (i) Interest on deposit of RM 56 had been credited to the current account but it was not recorded in the Cash Book.
- (ii) A cheque for RM 1,600 was banked on 31 May. It had not been credited by the bank.
- (iii) Cheques totalling RM 1,840 had not yet been presented for payment.
- (iv) Bank charges for RM 36 were not recorded in the Cash Book.

You are required to:

- (a) bring the Cash Book up to date and carry down the balance;
- (b) draw up Bank Reconciliation Statement to determine the balance on the Bank Statement, and state whether it is a debit or credit balance.

**Solution:**

| (a) Adjusted Cash Book (Bank columns) |              |                    |              |
|---------------------------------------|--------------|--------------------|--------------|
| Year 4                                | RM           | Year 4             | RM           |
| May 31 Interest On Deposit            | 56           | May 31 Balance b/d | 2,380        |
| 31 Balance c/d                        | 2,360        | 31 Bank Charges    | 36           |
|                                       | <u>2,416</u> |                    | <u>2,416</u> |
|                                       |              | June 1 Balance b/d | 2,360        |



A **negative amount** with “( )”:  
Any **additions** will **reduce it**;  
Any **subtractions** will **increase it**.

(b) Bank Reconciliation Statement As At 31 May Year 4

Balance as per adjusted Cash Book

| RM             |    |
|----------------|----|
| (2,360)        | Cr |
| 1,840          |    |
| (520)          |    |
| (1,600)        |    |
| <u>(2,120)</u> | Dr |

**Add:** Unpresented cheques

**Less:** Uncredited deposit

Balance as per Bank Statement



The items under **Add & Less** are **similar** to those where the **bank account is not overdrawn**.



### Example 5

(Starting with **Bank Statement balance** in **debit**)

The Bank Statement of LCL Sdn Bhd for the month of January Year 5 showed an overdraft of RM 195 which differed from its Cash Book balance because of the following:

- A cheque for RM 650 had not been presented at the bank.
- A cheque for RM 1,250 deposited had not yet been credited by the bank.
- Bank charges of RM 25 and dividend of RM 90 had been collected but had not been recorded in the Cash Book.

You are required to draw up Bank Reconciliation Statement as at 31 January Year 5.



**Solution:**

Bank Reconciliation Statement As At 31 January Year 5

|                                 | RM    | RM       |           |
|---------------------------------|-------|----------|-----------|
| Balance as per Bank Statement   |       | (195) Dr | Overdraft |
| <b>Add:</b> Uncredited deposit  | 1,250 |          |           |
| Bank charges                    | 25    | 1,275    |           |
|                                 | <hr/> | <hr/>    |           |
|                                 |       | 1,080    |           |
| <b>Less:</b> Unpresented cheque | 650   |          |           |
| Dividend income                 | 90    | (740)    |           |
| Balance as per Cash Book        | <hr/> | <hr/>    | Dr        |
|                                 |       | 340      |           |



## Practice 4

(**Adjusting Cash Book** before reconciliation & starting with **adjusted Cash Book balance** in **credit**)

The Cash Book of Merlin Sdn Bhd showed a balance of RM 220 overdrawn on 30 June Year 4.

The Bank Statement on the same date was checked against the Cash Book and the following discrepancies were revealed:

- (i) Cheques drawn amounting to RM 600 had not been presented.
- (ii) Cheques totalling RM 500 paid into the bank had not yet been credited by the bank.
- (iii) A dividend of RM 180 from X Bhd paid directly to the bank had not been recorded in the Cash Book.
- (iv) Bank charges of RM 30 had not been recorded in the Cash Book.
- (v) A cheque for RM150 paid into the bank had been dishonoured.
- (vi) The stamp duty on cheque book of RM 15 had been charged in the Bank Statement.

You are required to:

- (a) bring the Cash Book up to date and carry down the balance;
- (b) draw up Bank Reconciliation Statement as at 30 June Year 4.



1. **Adjusted Cash Book** balance: RM 235 (Cr).
2. **Bank Statement** balance: RM 135 (Dr).



If both **Cash Book** and **Bank Statement** of **Merlin Sdn Bhd** showed an **overdrawn balance**, on what balances would they be respectively?



## Review



**Hint** Under **overdrawn** circumstance, if the **negative amount** is shown with “( )”, the items under **Add & Less** are **similar** to those where the **bank account is not overdrawn**.

### Methods of bank reconciliation:

- Starting with **Cash Book balance** 现金簿余额:

Bank Reconciliation Statement 银行往来调节表 As At.....

|    |    |           |
|----|----|-----------|
| 0  | RM | RM        |
| xx | Dr |           |
|    |    | <u>x</u>  |
|    |    | <u>xx</u> |

Balance as per Cash Book

|                                                                         |                                |
|-------------------------------------------------------------------------|--------------------------------|
| <b>Add:</b> Unpresented cheques 未兑现支票                                   | x                              |
| Credit transfers 贷项转账 / 信用转账                                            | x                              |
| Dividends collected on behalf of business                               | x                              |
| Interest on fixed deposit                                               | x                              |
| Cash Book's errors - Receipts(Dr) understated / Payments(Cr) overstated | x                              |
| Banker's errors - Receipts(Cr) overstated / Payments(Dr) understated    | <u>x</u> <u>x</u><br><u>xx</u> |

**Less:** Uncredited deposits 在途存款

|                                                                         |                                     |
|-------------------------------------------------------------------------|-------------------------------------|
| Direct debits 直接付款                                                      | x                                   |
| Bank charges 银行服务费                                                      | x                                   |
| Stamp duties on cheque book 支票簿印花税                                      | x                                   |
| Interest on bank overdraft 银行透支利息                                       | x                                   |
| Standing orders 定期支付指示                                                  | x                                   |
| Deposited cheques returned / dishonoured 拒付支票                           | x                                   |
| Cash Book's errors - Receipts(Dr) overstated / Payments(Cr) understated | x                                   |
| Banker's errors - Receipts(Cr) understated / Payments(Dr) overstated    | <u>x</u> <u>(x)</u><br><u>xx</u> Cr |

Balance as per Bank Statement



**hint** The items under **Add & Less** as shown in 1. are **reversed** here.

2. Starting with **Bank Statement balance** 银行月结单余额:

Bank Reconciliation Statement As At.....

|                                                                         | RM        | RM         |
|-------------------------------------------------------------------------|-----------|------------|
| Balance as per Bank Statement                                           |           | xx Cr      |
| <b>Add:</b> Uncredited deposits                                         | x         |            |
| Direct debits                                                           | x         |            |
| Bank charges                                                            | x         |            |
| Stamp duties on cheque book                                             | x         |            |
| Interest on bank overdraft                                              | x         |            |
| Standing orders                                                         | x         |            |
| Deposited cheques returned / dishonoured                                | x         |            |
| Cash Book's errors - Receipts(Dr) overstated / Payments(Cr) understated | x         |            |
| Banker's errors - Receipts(Cr) understated / Payments(Dr) overstated    | <u>x</u>  | <u>x</u>   |
|                                                                         |           | xx         |
| <b>Less:</b> Unpresented cheques                                        | x         |            |
| Credit transfers                                                        | x         |            |
| Dividends collected on behalf of business                               | x         |            |
| Interest on fixed deposit                                               | x         |            |
| Cash Book's errors - Receipts(Dr) understated / Payments(Cr) overstated | x         |            |
| Banker's errors - Receipts(Cr) overstated / Payments(Dr) understated    | <u>x</u>  | <u>(x)</u> |
| Balance as per Cash Book                                                | <u>xx</u> | Dr         |



### 3. Adjusting Cash Book before reconciliation:

Adjusted Cash Book (Bank columns)

|                                        | RM               |                                        | RM               |
|----------------------------------------|------------------|----------------------------------------|------------------|
| Balance b/d                            |                  | x Expenses - Direct debits             | x                |
| Accounts Receivable - Credit transfers |                  | x Bank Charges                         | x                |
| Dividend Income                        |                  | x Stamp Duties                         | x                |
| Interest On Fixed Deposit              |                  | x Interests On Bank Overdraft          | x                |
| <b>Cash Book's errors</b>              |                  | Insurance - Standing orders            | x                |
| - Receipts understated                 | x                | Accounts Receivable - Cheques returned | x                |
| - Payments overstated                  | x                | Cash Book's errors                     |                  |
|                                        |                  | - Receipts overstated                  | x                |
|                                        |                  | - Payments understated                 | x                |
|                                        | <u>XX</u>        | Balance c/d                            | <u><u>XX</u></u> |
| Balance b/d                            | <u><u>XX</u></u> |                                        | <u><u>XX</u></u> |



**Only the Cash Book's errors but *not* the banker's errors are corrected in Cash Book.**

#### a. Starting with **adjusted Cash Book balance**:

Bank Reconciliation Statement As At .....

|                                                                      | RM | RM                | Dr               | Or |
|----------------------------------------------------------------------|----|-------------------|------------------|----|
| Balance as per adjusted Cash Book                                    |    |                   | <u><u>xx</u></u> |    |
| <b>Add:</b> Unpresented cheques                                      | x  |                   |                  |    |
| Banker's errors - Receipts(Cr) overstated / Payments(Dr) understated | x  | <u><u>x</u></u>   | <u><u>xx</u></u> |    |
| <b>Less:</b> Uncredited deposits                                     | x  |                   |                  |    |
| Banker's errors - Receipts(Cr) understated / Payments(Dr) overstated | x  | <u><u>(x)</u></u> | <u><u>xx</u></u> | Cr |
| Balance as per Bank Statement                                        |    |                   |                  |    |

Or

#### b. Starting with **Bank Statement balance**:

Bank Reconciliation Statement As At .....

|                                                                      | RM | RM                | Cr               |
|----------------------------------------------------------------------|----|-------------------|------------------|
| Balance as per Bank Statement                                        |    |                   | <u><u>xx</u></u> |
| <b>Add:</b> Uncredited deposits                                      | x  |                   |                  |
| Banker's errors - Receipts(Cr) understated / Payments(Dr) overstated | x  | <u><u>x</u></u>   | <u><u>xx</u></u> |
| <b>Less:</b> Unpresented cheques                                     | x  |                   |                  |
| Banker's errors - Receipts(Cr) overstated / Payments(Dr) understated | x  | <u><u>(x)</u></u> | Dr               |
| Balance as per adjusted Cash Book                                    |    |                   |                  |



**After adjusting the Cash Book, the only items shown on the Bank Reconciliation Statement are:**

- a. Unpresented cheques;
- b. Uncredited deposits;
- c. Banker's errors.





## **Learning Objectives**

After studying this chapter, you should be able to:

- ☞ describe the characteristics of a partnership;
- ☞ understand the purpose of partnership agreement and Partnership Act;
- ☞ prepare opening Journal and Ledger entries for a new partnership;
- ☞ understand the purpose and the use of partners' capital and current accounts;
- ☞ explain and calculate interest on loan from partner and, interest on capital and drawings;
- ☞ make entries for partners' drawings and salaries, interest on capital and drawings;
- ☞ make entries for loan from partner and the interest payable;
- ☞ understand the use of Profit And Loss Appropriation account to distribute profit / loss among partners;
- ☞ prepare financial statements for a partnership.



### **15.1 Characteristics of Partnership**

1. For Chapters 15 to 17, the partnership refers to the conventional partnership which is under the registration of Business Act 1956 and is bound by the Partnership Act 1961.
2. A partnership is an organisation of **2 to 20** owners (identified as **partners** 合伙人) carrying on a business to **make a profit**.
3. Partners (except limited partners) are **fully liable** for the **debts** and **obligations** of the partnership, i.e. they have **unlimited liabilities** 无限责任.
4. The partners usually draw up a **partnership agreement** 合伙协议 to protect each other in case of any disagreements. It normally includes:
  - a. The capital that each partner is to contribute;
  - b. The ratio in which profit / loss is shared among partners;
  - c. The rate of interest, if any, is allowed on capital;
  - d. The rate of interest, if any, is charged on partners' drawings;
  - e. Salaries and drawings, if any, are allowed to partners;
  - f. The rate of interest is paid on loan / advance from partners, etc.

5. If the partners do not draw up a partnership agreement, all partners are bound by the **Partnership Act** 合伙法令1961, the main provisions are:
- Profit / loss is shared equally by partners;
  - No interest is allowed on capital;
  - No interest is charged on partners' drawings;
  - Salaries are not allowed to partners;
  - The rate of 8% interest per annum is paid on loan / advance from partners, etc.

## 15.2 Statement Of Financial Position

1. The Statement Of Financial Position of a partnership is the **same** as that of a sole proprietorship except the following items in the **Equity** and **Non-current Liabilities** sections:
- Capital accounts** 资本账户
    - They are used to record the **original amount** introduced into the business by partners in the form of cash, other assets or a combination of the two.
    - They remain fixed at the amount **brought in** as **capital**. Thus, they are known as **fixed capital** accounts 固定资本账户 as shown below:

| Capital - X        |    |            |    |
|--------------------|----|------------|----|
| Year 1             | RM | Year 1     | RM |
| Dec 31 Balance c/d | xx | Jan 1 Bank | xx |
|                    | xx | 1 Assets   | xx |
|                    | xx |            | xx |
| Year 2             |    |            |    |
| Jan 1 Balance b/d  |    |            | xx |

| Capital - Y        |    |            |    |
|--------------------|----|------------|----|
| Year 1             | RM | Year 1     | RM |
| Dec 31 Balance c/d | xx | Jan 1 Bank | xx |
|                    | xx | 1 Assets   | xx |
|                    | xx |            | xx |
| Year 2             |    |            |    |
| Jan 1 Balance b/d  |    |            | xx |

iii. Capital accounts can be shown in **columnar form** as follows:

| Capital            |    |    |    |    |                   |
|--------------------|----|----|----|----|-------------------|
| Year 1             | X  |    | Y  |    | Year 1            |
|                    | RM | RM | RM | RM |                   |
|                    | xx | xx | xx | xx |                   |
| Dec 31 Balance c/d | xx | xx | xx | xx | Jan 1 Bank        |
|                    | xx | xx | xx | xx | 1 Assets          |
|                    | xx | xx | xx | xx | Year 2            |
|                    |    |    |    |    | Jan 1 Balance b/d |
|                    |    |    |    |    | xx                |
|                    |    |    |    |    | xx                |

b. **Current accounts** 往来账户

- i. They are used to record the **items charged** and **attributed** to partners while the **fixed capital accounts** are **maintained**.
- ii. The **balance** on each **current account changes** as **profit is earned** and **withdrawn** as shown below:

| Current - X                                                |    |                                      |
|------------------------------------------------------------|----|--------------------------------------|
|                                                            | RM | RM                                   |
| Year 1                                                     |    | Year 1                               |
| Dec 31 Drawings                                            | xx | Dec 31 Profit And Loss Appropriation |
| 31 Profit And Loss Appropriation<br>- Interest On Drawings | xx | - Partner's Salaries xx              |
| 31 Balance c/d                                             | xx | - Interest On Capital xx             |
|                                                            | xx | - Balance Of Profit Shared xx        |
|                                                            |    |                                      |
| Year 2                                                     |    |                                      |
| Jan 1 Balance b/d                                          |    | xx                                   |

**Hint** The amount that the **partnership owes to partner X**.

| Current - Y                                                |    |                                      |
|------------------------------------------------------------|----|--------------------------------------|
|                                                            | RM | RM                                   |
| Year 1                                                     |    | Year 1                               |
| Dec 31 Drawings                                            | xx | Dec 31 Profit And Loss Appropriation |
| 31 Profit And Loss Appropriation<br>- Interest On Drawings | xx | - Partner's Salaries xx              |
|                                                            | xx | - Interest On Capital xx             |
|                                                            |    | - Balance Of Profit Shared xx        |
| Year 2                                                     |    |                                      |
| Jan 1 Balance b/d                                          | xx | xx                                   |

| Drawings - Y       |    |                    |
|--------------------|----|--------------------|
|                    | RM | RM                 |
| Year 1             |    | Year 1             |
| Mar 31 Cash / Bank | xx | Dec 31 Current - Y |
| Oct 31 Purchases   | xx | xx                 |
|                    | xx |                    |

**Hint** The **withdrawals of cash and goods by partner Y for personal use during the year.**

iii. Current accounts can be shown in **columnar form** as follows:

|                                  |  |    |    | Current |  |                                  |                               |  |   |    |    |
|----------------------------------|--|----|----|---------|--|----------------------------------|-------------------------------|--|---|----|----|
|                                  |  | X  | Y  |         |  | Year 1                           |                               |  | X | Y  |    |
|                                  |  | RM | RM |         |  | Dec 31                           | Profit And Loss Appropriation |  |   | RM | RM |
| Year 1                           |  | xx | xx |         |  | 31                               | - Partners' Salaries          |  |   | xx | xx |
| Dec 31 Drawings                  |  | xx | xx |         |  | 31 Profit And Loss Appropriation | - Interest On Capital         |  |   | xx | xx |
| 31 Profit And Loss Appropriation |  | xx | xx |         |  | - Interest On Drawings           | - Balance Of Profit Shared    |  |   | xx | xx |
| 31 Balance c/d                   |  | xx | -  |         |  | 31 Balance c/d                   |                               |  |   | -  | xx |
|                                  |  | xx | xx |         |  |                                  |                               |  |   | xx | xx |
| Year 2                           |  |    |    |         |  | Year 2                           |                               |  |   |    |    |
| Jan 1 Balance b/d                |  | -  | xx |         |  | Jan 1 Balance b/d                |                               |  |   | xx | -  |

c. **Loan / advance from partner** 合伙人贷款

It is the borrowings from a partner to the partnership other than the **capital** contributed.

2. **Vertical** format (**Equity** and **Non-current Liabilities** sections only):

X And Y

**Statement Of Financial Position (Extract)**

As At .....

RM RM

**Owners' Equity**

Capital

X

xx

Y

xx xx

Current

X

xx

Y

(xx) xx

*Total Equity*

xx

**Non-current Liabilities**

Loan From Partner

xx

*Total Equity And Liabilities*

xx



## Example 1

(Opening Journal & Ledger entries, Statement Of Financial Position)

Tang and Yang started a law firm on 1 January Year 1.

Tang and Yang paid RM 60,000 and RM 40,000 respectively into the new partnership bank account as their capital contributions.

Tang also made a loan of RM 10,000 to the business, and Yang brought in his personal motor car valued at RM 8,000.

You are required to prepare the following for the above newly established partnership:

- Opening Journal entries;
- Ledger accounts;
- Statement Of Financial Position as at 1 January Year 1.

### Solution:

(a)

#### General Journal

| Date   |                                                                                                     | Debit           | Credit           |
|--------|-----------------------------------------------------------------------------------------------------|-----------------|------------------|
|        |                                                                                                     | RM              | RM               |
| Year 1 |                                                                                                     |                 |                  |
| Jan 1  | Bank<br>Capital - Tang<br>Loan From Tang<br>(Being cash brought in and a loan made by partner Tang) | 70,000          | 60,000<br>10,000 |
| 1      | Bank<br>Motor Vehicle<br>Capital - Yang<br>(Being cash and a motor car brought in by partner Yang)  | 40,000<br>8,000 | 48,000           |

(b)

#### General Ledger

##### Bank

| Year 1               | RM     |
|----------------------|--------|
| Jan 1 Capital - Tang | 60,000 |
| 1 Capital - Yang     | 40,000 |
| 1 Loan From Tang     | 10,000 |

##### Motor Vehicle

| Year 1               | RM    |
|----------------------|-------|
| Jan 1 Capital - Yang | 8,000 |

|                |                      |                    |
|----------------|----------------------|--------------------|
| Loan From Tang |                      |                    |
|                | Year 1               | RM                 |
|                | Jan 1      Bank      | 10,000             |
| Capital - Tang |                      |                    |
|                | Year 1               | RM                 |
|                | Jan 1      Bank      | 60,000             |
| Capital - Yang |                      |                    |
|                | Year 1               | RM                 |
|                | Jan 1      Bank      | 40,000             |
|                | 1      Motor Vehicle | 8,000              |
| Or             |                      |                    |
| Capital        |                      |                    |
|                | Year 1               | Tang      Yang     |
|                | Jan 1      Bank      | RM      RM         |
|                | 1      Motor Vehicle | 60,000      40,000 |
|                |                      | -      8,000       |

(c) Tang And Yang  
**Statement Of Financial Position**  
As At 1 January Year 1

|                                | RM             | RM             |
|--------------------------------|----------------|----------------|
| <b>Non-current Assets</b>      |                |                |
| Motor Vehicle                  |                | <b>8,000</b>   |
| <b>Current Assets</b>          |                |                |
| Cash At Bank                   | <b>110,000</b> |                |
|                                | <u>118,000</u> |                |
| <b>Owners' Equity</b>          |                |                |
| Capital                        |                |                |
| Tang                           | 60,000         |                |
| Yang                           | <u>48,000</u>  | <b>108,000</b> |
| <b>Non-current Liabilities</b> |                |                |
| Loan From Tang                 | <b>10,000</b>  |                |
|                                | <u>118,000</u> |                |



This was the **first day** of the **business**, thus **no Current** accounts are shown.



## Practice 1

(Opening Journal entries, Statement Of Financial Position)

Yip and Low started a partnership to carry on a retail business on 1 January Year 1, and a loan of RM 20,000 was approved by a bank at the same date.

The cash and their personal resources brought into the business by the two partners were as follows:

|                      | Yip<br>RM | Low<br>RM |
|----------------------|-----------|-----------|
| Cash                 | 10,000    | 5,000     |
| Inventory            | 8,000     |           |
| Furniture            | 2,000     |           |
| Computer and printer | 10,000    |           |
| Delivery van         | 40,000    |           |
| Motor car            |           | 65,000    |

You are required to prepare the following for the new partnership:

- (a) Opening Journal entries;
- (b) Statement Of Financial Position as at 1 January Year 1.

**Answer Guide**

|                                        | RM      | Yip<br>RM | Low<br>RM |
|----------------------------------------|---------|-----------|-----------|
| 1. <b>Balances on Capital account:</b> |         | 70,000    | 70,000    |
| 2. <b>Total Assets:</b>                | 160,000 |           |           |
| 3. <b>Non-current Liabilities:</b>     | 20,000  |           |           |

### 15.3 Trading account and Profit And Loss account

- The **Trading** account and **Profit And Loss** account of a partnership are exactly the **same** as that of a sole proprietorship.  
i.e. All the **income** and **expense accounts** will be closed and transferred to **Trading** account or **Profit And Loss** account at the end of an accounting period.

However, in the **Profit And Loss** account there is an **expense** called **Interest on loan from partner** / Interest on partner's loan / Interest on loan.

It is the **interest payable** to a **partner** who makes a **loan** / an advance **to the partnership**.

It is same as the interest on amount borrowed from other parties, and is treated as an **expense** of the partnership.

- Accounting entries:**

Dr Profit And Loss - **Interest On Loan From Partner\***  
 Cr Current

**Note:**

The **item** (\*) is usually **credited** to partner's **current** account. It seldom involves actual **payment** to partner.

## 15.4 Profit And Loss Appropriation account

1. **Profit And Loss Appropriation** account / **Appropriation** account shows how the **net profit** / net loss is to be **appropriated** / distributed **to** the **partners** according to the partnership agreement:

Credit items:

- a. **Net profit** / (Net loss)

It is the net profit / (net loss) for the year transferred **from** the **Profit And Loss** account.

- b. **Interest on drawings**

An agreed percentage of interest may be **charged** on the **withdrawals** of cash and goods from the business. It is to discourage partners from taking out cash which is for the future expansion of the firm. It is to avoid excessive withdrawals and unfairness to any partners.

Debit items:

- c. **Interest on capital**

Partners may contribute unequal amounts of capital and profit may not be shared according to the ratio of their capital invested. As a compensation for this, each partner will receive an interest **calculated** on the **capital** at an agreed percentage. It represents a return on the partners' investment.

- d. **Partner's salaries**

A partner may **contribute** more **time** and take on more **responsibility** than others in the business. In return for his contribution, the partner will receive a **salary** / **commission** / **bonus** as a reward.



**Hint** These are the **performance-related payments** to the respective partners for their individual performance.

- e. **Balance of profit / (loss) shared**

It is the **net profit** / (net loss) **after appropriation** ( i.e. a. + b. - c. - d. ) to be shared among the partners in an agreed profit and loss sharing ratio.

2. **Accounting entries:**

|                                                                      |       |
|----------------------------------------------------------------------|-------|
| Dr Profit And Loss                                                   | 1. a. |
| Cr Profit And Loss Appropriation - Net Profit<br>or                  |       |
| Dr Profit And Loss Appropriation - Net Loss                          |       |
| Cr Profit And Loss                                                   |       |
| Dr Current                                                           | 1. b. |
| Cr Profit And Loss Appropriation - <b>Interest On Drawings</b> *     |       |
| Dr Profit And Loss Appropriation - <b>Interest On Capital</b> *      | 1. c. |
| Cr Current                                                           |       |
| Dr Profit And Loss Appropriation - <b>Partner's Salaries</b> *       | 1. d. |
| Cr Current / Bank                                                    |       |
| Dr Profit And Loss Appropriation - <b>Balance Of Profit Shared</b> * | 1. e. |
| Cr Current                                                           |       |
| or                                                                   |       |
| Dr Current                                                           |       |
| Cr Profit And Loss Appropriation - <b>Loss Shared</b> *              |       |

### Note:

The **items** (\*) are usually **debited** or **credited** to partners' **current** accounts. They seldom involve actual **receipts** from or **payments** to partners.

3. The format of a **Profit And Loss Appropriation** account is shown below:

| General Ledger                                |    |                                     |    |
|-----------------------------------------------|----|-------------------------------------|----|
| Profit And Loss Appropriation / Appropriation |    |                                     |    |
| Year 1                                        | RM | Year 1                              | RM |
| Dec 31 Profit And Loss - Net Loss             | xx | Dec 31 Profit And Loss - Net Profit | xx |
| 31 Current: Partners' Salaries                | Or | 31 Current: Interest On Drawings    |    |
| - X                                           | xx | - X                                 | xx |
| - Y                                           | xx | - Y                                 | xx |
| 31 Current: Interest On Capital               |    |                                     |    |
| - X                                           | xx |                                     |    |
| - Y                                           | xx |                                     |    |
| 31 Current: <b>Balance Of Profit Shared</b>   | Or | 31 Current: <b>Loss Shared</b>      |    |
| - X                                           | xx | - X                                 | xx |
| - Y                                           | xx | - Y                                 | xx |
|                                               | xx |                                     | xx |

 Besides the **salaries** given to an active partner, what other ways could the partner be **rewarded**?



### Example 2

(Partner's Salaries, Interest On Capital, Drawings)

Ding and Ng were in partnership sharing profits and losses according to the ratio of their invested capital. They brought in cash as their capital on 1 January Year 2: Ding RM 60,000; Ng RM 40,000.

According to the partnership agreement:

- (i) Annual salaries of RM 8,000 were to be rewarded to Ng for managing the business.
- (ii) Each partner was entitled to 6% interest per annum on fixed capital.

Partners' total drawings during the year: Ding RM 4,000; Ng RM 3,000. The net profit for the year ended 31 December Year 2 was RM 25,500.

You are required to prepare:

- (a) Profit And Loss Appropriation account;
- (b) partners' Capital account in columnar form;
- (c) partners' Current account in columnar form;
- (d) Income Statement (Profit And Loss Appropriation account section only) for the year ended 31 December Year 2;
- (e) Statement Of Financial Position (Owners' equity section only) as at 1 January Year 3.



**Calculate the share of the net profit for each partner if no partnership agreement existed.**



If the net profit was RM 10,000, was there any balance of profit to be shared by the partners? Show your Journal entry.

(a)

## Profit And Loss Appropriation

| Year 2                                              | RM            | Year 2                              | RM            |
|-----------------------------------------------------|---------------|-------------------------------------|---------------|
| Dec 31 Current: Partner's Salaries<br>- Ng          | 8,000         | Dec 31 Profit And Loss - Net Profit | 25,500        |
| 31 Current: Interest On Capital (W1)<br>- Ding      | 3,600         |                                     |               |
| - Ng                                                | 2,400         |                                     |               |
| 31 Current: Balance Of Profit Shared (W2)<br>- Ding | 6,900         |                                     |               |
| - Ng                                                | 4,600         |                                     |               |
|                                                     | <b>25,500</b> |                                     | <b>25,500</b> |

(b)

## Capital

| Year 2 | Ding        | Ng        | Year 2 | Ding      | Ng        |
|--------|-------------|-----------|--------|-----------|-----------|
| Dec 31 | Balance c/d |           | Jan 1  | Bank      |           |
|        | RM 60,000   | RM 40,000 |        | RM 60,000 | RM 40,000 |
|        |             |           |        |           |           |

| Year 3            | Ding   | Ng     |
|-------------------|--------|--------|
| Jan 1 Balance b/d | 60,000 | 40,000 |

(c)

## Current

| Year 2         | Ding          | Ng            | Year 2                        | Ding          | Ng            |
|----------------|---------------|---------------|-------------------------------|---------------|---------------|
| Dec 31         | RM            | RM            | Dec 31                        | RM            | RM            |
| Drawings       | 4,000         | 3,000         | Profit And Loss Appropriation |               |               |
| 31 Balance c/d | 6,500         | 12,000        | - Partner's Salaries          | -             | 8,000         |
|                |               |               | - Interest On Capital         | 3,600         | 2,400         |
|                |               |               | - Balance Of Profit Shared    | 6,900         | 4,600         |
|                | <b>10,500</b> | <b>15,000</b> |                               | <b>10,500</b> | <b>15,000</b> |
|                |               |               |                               |               |               |
|                |               |               | Year 3                        |               |               |
|                |               |               | Jan 1 Balance b/d             |               |               |
|                |               |               |                               | <b>6,500</b>  | <b>12,000</b> |

If the partner's salaries have been paid by the cheque of the business RM 6,000, the Profit And Loss Appropriation and Current accounts would be as follows:

(a)

## Profit And Loss Appropriation

| Year 2                                              | RM            | Year 2                              | RM            |
|-----------------------------------------------------|---------------|-------------------------------------|---------------|
| Dec 31 Bank: Partner's Salaries<br>- Ng             | 6,000         | Dec 31 Profit And Loss - Net Profit | 25,500        |
| 31 Current: Partner's Salaries<br>- Ng              | 2,000         |                                     |               |
| 31 Current: Interest On Capital (W1)<br>- Ding      | 3,600         |                                     |               |
| - Ng                                                | 2,400         |                                     |               |
| 31 Current: Balance Of Profit Shared (W2)<br>- Ding | 6,900         |                                     |               |
| - Ng                                                | 4,600         |                                     |               |
|                                                     | <b>25,500</b> |                                     | <b>25,500</b> |

|        |             | Current Account |       |                                      |       |
|--------|-------------|-----------------|-------|--------------------------------------|-------|
|        |             | Ding            | Ng    |                                      |       |
| Year 2 |             | RM              | RM    | Year 2                               |       |
| Dec 31 | Drawings    | 4,000           | 3,000 | Dec 31 Profit And Loss Appropriation | RM    |
| 31     | Balance c/d | 6,500           | 6,000 | - Partner's Salaries                 | 2,000 |
|        |             | 10,500          | 9,000 | - Interest On Capital                | 2,400 |
|        |             |                 |       | - Balance Of Profit Shared           | 4,600 |
|        |             |                 |       | 10,500                               | 9,000 |
|        |             |                 |       | Year 3                               |       |
|        |             |                 |       | Jan 1 Balance b/d                    |       |
|        |             |                 |       |                                      | 6,500 |
|        |             |                 |       |                                      | 6,000 |



**Hint** Only the salaries owed to partner Ng will be credited to his Current account.

(d)

**Ding And Ng  
Income Statement (Extract)**  
For The Year Ended 31 December Year 2

|                                 | RM    | RM            | RM              |
|---------------------------------|-------|---------------|-----------------|
| <b>Net Profit</b>               |       |               | 25,500          |
| Less: <b>Appropriations</b>     |       |               |                 |
| Partner's Salaries              |       |               |                 |
| - Ng                            |       | 8,000         |                 |
| Interest On Capital             |       |               |                 |
| - Ding                          | 3,600 |               |                 |
| - Ng                            | 2,400 | 6,000         | <b>(14,000)</b> |
|                                 |       |               | <b>11,500</b>   |
| <b>Balance Of Profit Shared</b> |       |               |                 |
| - Ding                          | 6,900 |               |                 |
| - Ng                            | 4,600 | <b>11,500</b> |                 |

(e)

**Ding And Ng  
Statement Of Financial Position (Extract)**  
As At 1 January Year 3

|                       | RM  | RM             |
|-----------------------|-----|----------------|
| <b>Owners' Equity</b> |     |                |
| Capital               | (b) |                |
| Ding                  |     | 60,000         |
| Ng                    |     | <b>40,000</b>  |
|                       |     | 100,000        |
| Current               | (c) |                |
| Ding                  |     | 6,500          |
| Ng                    |     | <b>12,000</b>  |
|                       |     | 18,500         |
| <b>Total Equity</b>   |     | <b>118,500</b> |

**Workings:**

|                                                                        | Ding |                                     | Ng |                                     |
|------------------------------------------------------------------------|------|-------------------------------------|----|-------------------------------------|
|                                                                        | RM   | RM                                  | RM | RM                                  |
| (1) Interest On Capital:                                               |      | 60,000 x 6% = <b>3,600</b>          |    | 40,000 x 6% = <b>2,400</b>          |
| (2) Balance Of Profit Shared:<br>RM(25,500 - 8,000 - 6,000) = RM11,500 |      | 11,500 x $\frac{6}{10} = \b{6,900}$ |    | 11,500 x $\frac{4}{10} = \b{4,600}$ |



## Practice 2

(Partner's Salaries, Interest On Capital)

Jing and Han were partners of an accounting firm for a few years, and they shared profits and losses equally. Each of them had contributed RM 10,000.

Interest of 5% per annum was allowed on the partners' fixed capital. Jing was entitled to a partnership salary of RM 4,800 annually.

Their current accounts as at 1 April Year 1 were:

|      |             |
|------|-------------|
| Jing | RM 1,180 Cr |
| Han  | RM 620 Dr   |

For the year ended 31 March Year 2 the firm made a net profit of RM 5,000.

You are required to prepare:

- (a) Profit And Loss Appropriation account;
- (b) partners' Capital account in columnar form;
- (c) partners' Current account in columnar form;
- (d) Income Statement (Profit And Loss Appropriation account section only) for the year ended 31 March Year 2;
- (e) Statement Of Financial Position (Owners' equity section only) as at 31 March Year 2.



1. **Loss Shared:**
2. **Balances on Current account:**
3. **Total Equity:**

| RM     | Jing     | Han    |
|--------|----------|--------|
|        | RM       | RM     |
|        | 400      | 400    |
| 25,560 | 6,080 Cr | 520 Dr |



Why didn't the partners **share profits / losses** in the **same ratio** as their **invested capital?**



## Example 3

(Partners' Salaries, Interest On Capital & Drawings, Drawings)

Fa Chai and Huan Xi were partners dealing in pottery for years sharing profits and losses in the ratio of 3:2.

Each partner was allowed a partnership salary of RM 3,200 yearly.

The partners were entitled to interest on capital at the rate of 8% per annum.

The partners were charged interest on drawings at 5% per annum calculated from the date of withdrawals.

Their personal account balances were as follows:

|                   | Fa Chai  | Huan Xi |
|-------------------|----------|---------|
|                   | RM       | RM      |
| 1 January Year 3: |          |         |
| Capital Accounts  | 100,000  | 50,000  |
| Current Accounts  | 2,500 Cr | 800 Dr  |

Drawings during Year 3:

|        |       |       |
|--------|-------|-------|
| 1 July | 2,400 | 2,800 |
| 1 Oct  | 1,600 | 1,200 |

The net profit for the financial year ended 31 December Year 3 was RM 40,500.

You are required to prepare:

- (a) Profit And Loss Appropriation account;
- (b) partners' Current account in columnar form.

### Solution:

| (a)                                       |               | Profit And Loss Appropriation         |        |  |               |
|-------------------------------------------|---------------|---------------------------------------|--------|--|---------------|
| Year 3                                    | RM            | Year 3                                | RM     |  |               |
| Dec 31 Current: Partners' Salaries        |               | Dec 31 Profit And Loss - Net Profit   | 40,500 |  |               |
| - Fa Chai                                 | 3,200         | 31 Current: Interest On Drawings (W1) |        |  |               |
| - Huan Xi                                 | 3,200         | - Fa Chai                             | 80     |  |               |
| 31 Current: Interest On Capital (W2)      |               | - Huan Xi                             | 85     |  |               |
| - Fa Chai                                 | 8,000         |                                       |        |  |               |
| - Huan Xi                                 | 4,000         |                                       |        |  |               |
| 31 Current: Balance Of Profit Shared (W3) |               |                                       |        |  |               |
| - Fa Chai                                 | 13,359        |                                       |        |  |               |
| - Huan Xi                                 | 8,906         |                                       |        |  |               |
|                                           | <u>40,665</u> |                                       |        |  |               |
|                                           |               |                                       |        |  | <u>40,665</u> |

| (b)                              |               | Current       |         |                                      |              |
|----------------------------------|---------------|---------------|---------|--------------------------------------|--------------|
| Year 3                           |               | Fa Chai       | Huan Xi | Year 3                               |              |
|                                  |               | RM            | RM      |                                      |              |
| Year 3                           |               |               |         | Year 3                               |              |
| Jan 1 Balance b/d                |               | -             | 800     | Jan 1 Balance b/d                    |              |
| Dec 31 Drawings (W1)             | 4,000         | 4,000         |         | Dec 31 Profit And Loss Appropriation |              |
| 31 Profit And Loss Appropriation |               |               |         | - Partners' Salaries                 | 3,200        |
| - Interest On Drawings           | 80            | 85            |         | - Interest On Capital                | 8,000        |
| 31 Balance c/d                   | 22,979        | 11,221        |         | - Balance Of Profit Shared           | 13,359       |
|                                  | <u>27,059</u> | <u>16,106</u> |         |                                      | <u>8,906</u> |
|                                  |               |               |         |                                      |              |
|                                  |               |               |         | Year 4                               |              |
|                                  |               |               |         | Jan 1 Balance b/d                    |              |
|                                  |               |               |         |                                      | 22,979       |
|                                  |               |               |         |                                      | 11,221       |

### Workings:

|                                                                                | Fa Chai                                                                                                                |                | Huan Xi                                                                                                                |                |
|--------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|----------------|------------------------------------------------------------------------------------------------------------------------|----------------|
|                                                                                | RM                                                                                                                     | RM             | RM                                                                                                                     | RM             |
| (1) Interest On Drawings:                                                      | $2,400 \times 5\% \times \frac{6}{12} =$<br><u><math>1,600 \times 5\% \times \frac{3}{12} =</math></u><br><b>4,000</b> | 60<br>20<br>80 | $2,800 \times 5\% \times \frac{6}{12} =$<br><u><math>1,200 \times 5\% \times \frac{3}{12} =</math></u><br><b>4,000</b> | 70<br>15<br>85 |
| (2) Interest On Capital:                                                       | $100,000 \times 8\% =$<br><b>8,000</b>                                                                                 |                | $50,000 \times 8\% =$<br><b>4,000</b>                                                                                  |                |
| (3) Balance Of Profit Shared:<br>RM(40,500+165 – 6,400 – 12,000)<br>=RM 22,265 | $22,265 \times \frac{3}{5} =$<br><b>13,359</b>                                                                         |                | $22,265 \times \frac{2}{5} =$<br><b>8,906</b>                                                                          |                |



(Partners' Salaries, Interest On Capital & Drawings, Drawings)

Tom and Mike were partners dealing in glassware for a few years. Their fixed capital and current accounts as at 1 April Year 2 were as follows:

|                        | Tom    | Mike   |
|------------------------|--------|--------|
|                        | RM     | RM     |
| Fixed capital accounts | 20,000 | 10,000 |
| Current accounts       | 500 Cr | 105 Dr |

The terms of the partnership agreement stated that:

- (i) Tom and Mike were to share profits and losses in the ratio of 2:1.
- (ii) Tom and Mike were entitled to salaries of RM 6,000 and RM 4,000 respectively.
- (iii) The interest on capital was to be paid at the rate of 6% per annum.
- (iv) The interest on drawings was charged at a fixed rate of 4% per annum.

The partners' total drawings for the year were: Tom RM 5,000; Mike RM 3,000.

During the year ended 31 March Year 3 the firm made a profit of RM 15,080.

You are required to prepare:

- (a) Profit And Loss Appropriation account;
- (b) partners' Current account in columnar form.



1. **Balance Of Profit Shared:** 2,400
2. **Balances on Current account:** 4,900 Cr

Tom  
RM  
1,200  
2,575 Cr



## Example 4

(Partners' Salaries & Bonus, Interest On Capital & Drawings, Drawings, Interest On Loan From Partner)

Kong, Liang and Ming were in partnership as wholesale merchants. The partnership agreement stated that:

- (i) The capital of Kong, Liang and Ming were fixed at RM 30,000, RM 20,000 and RM 10,000 respectively.
- (ii) Profits and losses were to be shared in the ratio of 3:1:1.
- (iii) Kong and Ming were entitled to an annual salary of RM 6,000 and RM 4,000 respectively.
- (iv) Liang was granted a bonus of RM 2,000 per annum for his competence.
- (v) Interest was allowed on capital at the rate of 8% per annum.
- (vi) Interest was charged on partners' drawings at 5% per annum.

Additional information:

- (i) The current account balances at 1 July Year 3:  
Kong RM 1,200(Dr); Liang RM 1,750(Cr); Ming RM 100(Dr).
- (ii) Drawings during the year:

| Date          | Kong | Liang | Ming |
|---------------|------|-------|------|
|               | RM   | RM    | RM   |
| Year 3 Dec 31 | 800  | 400   | 200  |
| Year 4 Mar 31 | 400  | 800   | 400  |
| Jun 30        | 200  | 100   | 200  |

- (iii) Ming made a loan to the business on 1 January Year 4 for RM 10,000 with an interest of 10% per annum.
- (iv) The interest was still unpaid on the loan from Ming.
- (v) The profit for the year ended 30 June Year 4 before accounting for the above items was RM 32,000.

You are required to prepare:

- (a) Profit And Loss Appropriation account;
- (b) partners' Current account in columnar form.



**Hint** Interest on loan from partner was an **expense** & should be **accrued**.

### Solution:

(a)

#### Profit And Loss Appropriation

| Year 4                                      | RM            | Year 4                              | RM            |
|---------------------------------------------|---------------|-------------------------------------|---------------|
| Jun 30 Current: Partners' Salaries          |               | Jun 30 Profit And Loss - Net Profit | (W1) 31,500   |
| - Kong                                      | 6,000         | 30 Current: Interest On Drawings    | (W2) 25       |
| - Ming                                      | 4,000         | - Kong                              | 20            |
| 30 Current: Partner's Bonus                 |               | - Liang                             | 10            |
| - Liang                                     | 2,000         | - Ming                              |               |
| 30 Current: Interest On Capital             |               |                                     |               |
| - Kong                                      | (W3) 2,400    |                                     |               |
| - Liang                                     | 1,600         |                                     |               |
| - Ming                                      | 800           |                                     |               |
| 30 Current: <b>Balance Of Profit Shared</b> | (W4) 8,853    |                                     |               |
| - Kong                                      | 8,853         |                                     |               |
| - Liang                                     | 2,951         |                                     |               |
| - Ming                                      | 2,951         |                                     |               |
|                                             | <u>31,555</u> |                                     | <u>31,555</u> |

(b)

|                                  | Current       |              |              | Year 3 | Year 4            | Current                          | Kong          | Liang        | Ming         |
|----------------------------------|---------------|--------------|--------------|--------|-------------------|----------------------------------|---------------|--------------|--------------|
|                                  | Kong          | Liang        | Ming         |        |                   |                                  |               |              |              |
| Year 3                           | RM            | RM           | RM           | 1,200  | Jul 1 Balance b/d | Jul 1 Balance b/d                | RM            | RM           | RM           |
| Jul 1 Balance b/d                | 1,200         | -            | 100          |        |                   |                                  | -             | 1,750        | -            |
| Year 4                           |               |              |              |        | Year 4            | Jun 30 Profit And Loss           |               |              |              |
| Jun 30 Drawings                  | (W2) 1,400    | 1,300        | 800          |        |                   | - Interest On Loan (W1)          | -             | -            | 500          |
| 30 Profit And Loss Appropriation |               |              |              |        |                   | 30 Profit And Loss Appropriation |               |              |              |
| - Interest On Drawings           | 25            | 20           | 10           |        |                   | - Partners' Salaries             | 6,000         | -            | 4,000        |
| 30 Balance c/d                   | 14,628        | 6,981        | 7,341        |        |                   | - Partner's Bonus                | -             | 2,000        | -            |
|                                  | <u>17,253</u> | <u>8,301</u> | <u>8,251</u> |        |                   | - Interest On Capital            | 2,400         | 1,600        | 800          |
|                                  |               |              |              |        |                   | - Balance Of Profit Shared       | 8,853         | 2,951        | 2,951        |
|                                  |               |              |              |        |                   |                                  | <u>17,253</u> | <u>8,301</u> | <u>8,251</u> |
|                                  |               |              |              |        |                   |                                  |               |              |              |
|                                  |               |              |              |        |                   | Jul 1 Balance b/d                | 14,628        | 6,981        | 7,341        |



If the **interest on loan** from Ming had been **paid** by the business, show your **Journal entry**.

### Workings:

(1) Net Profit:

$$\text{RM } 32,000 - (\text{RM } 10,000 \times 10\% \times \frac{6}{12})$$

$$= \text{RM } (32,000 - 500)$$

$$= \text{RM } 31,500$$

|                                                                                          | Kong                                   |              | Liang                                  |              | Ming                                   |              |    |
|------------------------------------------------------------------------------------------|----------------------------------------|--------------|----------------------------------------|--------------|----------------------------------------|--------------|----|
|                                                                                          | RM                                     | RM           | RM                                     | RM           | RM                                     | RM           | RM |
| (2) Interest On Drawings:                                                                | $800 \times 5\% \times \frac{6}{12} =$ | 20           | $400 \times 5\% \times \frac{6}{12} =$ | 10           | $200 \times 5\% \times \frac{6}{12} =$ | 5            |    |
|                                                                                          | $400 \times 5\% \times \frac{3}{12} =$ | 5            | $800 \times 5\% \times \frac{3}{12} =$ | 10           | $400 \times 5\% \times \frac{3}{12} =$ | 5            |    |
|                                                                                          | 200                                    | -            | 100                                    | -            | 200                                    | -            |    |
|                                                                                          | <b>1,400</b>                           | <u>25</u>    | <b>1,300</b>                           | <u>20</u>    | <b>800</b>                             | <u>10</u>    |    |
| (3) Interest On Capital:                                                                 | $30,000 \times 8\% =$                  | <b>2,400</b> | $20,000 \times 8\% =$                  | <b>1,600</b> | $10,000 \times 8\% =$                  | <b>800</b>   |    |
| (4) Balance Of Profit Shared:<br>RM(31,500 + 55 - 10,000<br>- 2,000 - 4,800) = RM 14,755 | $14,755 \times \frac{3}{5} =$          | <b>8,853</b> | $14,755 \times \frac{1}{5} =$          | <b>2,951</b> | $14,755 \times \frac{1}{5} =$          | <b>2,951</b> |    |



## Practice 4

(Partner's Salaries, Interest On Capital & Drawings, Drawings, Interest On Loan From Partner)

Lee, Yap and Tan were in partnership as retail merchants sharing profits and losses in the ratio of 5:2:3. The partnership agreement was as follows:

- Interest of 5% per annum was allowed on capital.
- Interest of 3% per annum was charged on partners' drawings.
- Interest of 5% per annum was allowed on loan from partner.
- Yap was allowed salaries of RM 2,000 per month.

The following information was taken from the books and records of the partnership on 31 December Year 4 after the preparation of Trading and Profit And Loss accounts except the Profit And Loss Appropriation account:

|                                | Lee<br>RM | Yap<br>RM | Tan<br>RM |
|--------------------------------|-----------|-----------|-----------|
| Capital accounts, 1 Jan Year 4 | 80,000    | 100,000   | 120,000   |
| Current accounts, 1 Jan Year 4 | 5,800 Cr  | 3,500 Dr  | 2,100 Cr  |
| Drawings                       | 30,000    | 10,000    | 9,000     |
| Interest on drawings           | 900       | 300       | 270       |

Net trading profit for the year (before charging interest on loan from partner) was RM 99,050.

On 1 July Year 4 by mutual agreement, Lee increased his capital by paying a further RM 20,000 into the partnership bank account, while Yap reduced his capital to RM 60,000 but left his withdrawn capital in the partnership as a loan.

Partner's salaries had been paid to Yap at the end of each month except for the month of December Year 4.

You are required to prepare:

- Profit And Loss Appropriation account;
- partners' Capital account in columnar form;
- partners' Current account in columnar form.

**Answer Guide**

|                                        | RM     | Lee<br>RM | Yap<br>RM | Tan<br>RM |
|----------------------------------------|--------|-----------|-----------|-----------|
| 1. <b>Adjusted Net Profit:</b>         | 98,050 |           |           |           |
| 2. <b>Balance Of Profit Shared:</b>    |        | 30,510    | 12,204    | 18,306    |
| 3. <b>Balances on Capital account:</b> |        | 100,000   | 60,000    | 120,000   |
| 4. <b>Balances on Current account:</b> |        | 9,910 Cr  | 5,404 Cr  | 17,136 Cr |



What was the amount **credited** to Yap's **Current** account for the partner's salaries?



## Practice 5

(Partner's Salaries, Interest On Capital, Interest On Loan From Partner)

Jia and Kai were in partnership under an agreement which provided that:

- Profits and losses were to be shared in proportion to their original capital.
- Jia would receive an annual salary of RM 9,000.
- 5% interest p. a. was allowed on partners' capital.
- Loan interest at 8% p. a. was to be paid on partner's loan.

The following balances were extracted from the books of partnership as at 30 September Year 5:

|                                    | RM       |
|------------------------------------|----------|
| Capital Accounts, 1 October Year 4 |          |
| Jia                                | 45,000   |
| Kai                                | 30,000   |
| Current Accounts, 1 October Year 4 |          |
| Jia                                | 2,550 Cr |
| Kai                                | 1,950 Dr |
| Partner's Salaries – Jia           | 7,500    |
| Premises                           | 56,600   |
| Machinery                          | 25,000   |
| Accounts Receivable                | 3,260    |
| Accounts Payable                   | 8,400    |
| Inventory, 30 September Year 5     | 25,500   |
| Cash At bank                       | 14,000   |
| Loan From Kai                      | 10,000   |
| Rates And Insurance                | 17,600   |
| Bad Debts                          | 1,200    |
| Gross Profit                       | 56,660   |

You are required to prepare:

- partnership Income Statement (extract) for the year ended 30 September Year 5;
- Current account of Jia and Kai in columnar form;
- partnership Statement Of Financial Position as at 30 September Year 5.



|                                 | RM      | Jia<br>RM | Kai<br>RM |
|---------------------------------|---------|-----------|-----------|
| 1. Net Profit:                  | 37,060  |           |           |
| 2. Balance Of Profit Shared:    |         | 14,586    | 9,724     |
| 3. Balances on Current account: |         | 20,886 Cr | 10,074 Cr |
| 4. Total Assets:                | 124,360 |           |           |
| 5. Total Equity:                | 105,960 |           |           |
| 6. Total Liabilities:           | 18,400  |           |           |



(Interest On Capital, Drawings, financial statements)

Long and Short went into partnership on 1 July Year 5, each contributing RM 48,000 and RM 32,000 respectively as their capital. The partnership agreement provided that:

- (i) Profits and losses were to be shared equally.
- (ii) Short had to transfer RM 4,000 annually on 30 June from his Current account to his Capital account until his capital was equal to that of Long. The first transfer started on 30 June Year 6.
- (iii) Interest on capital was to be allowed at 10% per annum based on the initial capital.

The following was their Trial Balance taken on 30 June Year 6:

|                                          | Debit          | Credit         |
|------------------------------------------|----------------|----------------|
|                                          | RM             | RM             |
| Freehold Premises                        | 50,000         |                |
| Office Equipment                         | 14,000         |                |
| Motor Vehicles                           | 20,080         |                |
| Purchases and Sales                      | 254,700        | 315,200        |
| Accounts Receivable and Accounts Payable | 21,780         | 23,000         |
| Bank                                     | 4,820          |                |
| Salaries                                 | 25,200         |                |
| Insurance Expenses                       | 6,600          |                |
| Advertising Expenses                     | 980            |                |
| Carriage Inwards                         | 1,040          |                |
| Bad Debts                                | 380            |                |
| Water And Electricity                    | 3,440          |                |
| Discounts                                | 460            | 280            |
| Capital                                  |                |                |
| Long                                     |                | 48,000         |
| Short                                    |                | 32,000         |
| Drawings                                 |                |                |
| Long                                     | 7,000          |                |
| Short                                    | 8,000          |                |
|                                          | <u>418,480</u> | <u>418,480</u> |

The following matters were to be taken into consideration:

- (i) Inventory on 30 June Year 6 was valued at RM 10,130.
- (ii) The insurance expenses had been paid for 12 months ended 30 September Year 6.
- (iii) RM100 was owed for the advertising expenses.
- (iv) Office equipment and motor vehicles were to be depreciated at 20% per annum.
- (v) Short was to receive a commission of 1% on gross sales. The sum had not yet been included in the account.

You are required to prepare:

- (a) partnership Income Statement for the year ended 30 June Year 6;
- (b) Current account of Long and Short in columnar form;
- (c) partnership Statement Of Financial Position as at 30 June Year 6.



☞ Treat the **commission** as the **performance-related payment** to partner Short.

|                                        | RM      | Long<br>RM | Short<br>RM |
|----------------------------------------|---------|------------|-------------|
| 1. <b>Gross Profit:</b>                | 69,410  |            |             |
| 2. <b>Net Profit:</b>                  | 27,544  |            |             |
| 3. <b>Balance Of Profit Shared:</b>    |         | 8,196      | 8,196       |
| 4. <b>Balances on Current account:</b> |         | 5,996 Cr   | 2,548 Cr    |
| 5. <b>Total Assets:</b>                | 115,644 |            |             |
| 6. <b>Total Equity:</b>                | 92,544  |            |             |
| 7. <b>Current Liabilities:</b>         | 23,100  |            |             |



1. Items charged and attributed to partners' **Current** account are illustrated below:

### General Ledger

#### Profit And Loss Appropriation / Appropriation 损益分配/分配

| Year 1                                      | RM        | Year 1                              | RM        |
|---------------------------------------------|-----------|-------------------------------------|-----------|
| Dec 31 Current: Partners' Salaries          |           | Dec 31 Profit And Loss - Net Profit | xx        |
| - X                                         | xx        | 31 Current: Interest On Drawings    |           |
| - Y                                         | xx        | - X                                 |           |
| 31 Current: Interest On Capital             |           | - Y                                 |           |
| - X                                         | xx        |                                     |           |
| - Y                                         | xx        |                                     |           |
| 31 Current: <b>Balance Of Profit Shared</b> |           |                                     |           |
| - X                                         | xx        |                                     |           |
| - Y                                         | xx        |                                     |           |
|                                             | <u>XX</u> |                                     | <u>XX</u> |

| Current                                 |                               |        |           |
|-----------------------------------------|-------------------------------|--------|-----------|
| X                                       | Y                             | X      | Y         |
| Year 1                                  | RM                            | RM     | RM        |
| Dec 31 Drawings                         | xx                            | xx     | xx        |
| 31 <b>Profit And Loss Appropriation</b> |                               |        |           |
| - Interest On Drawings                  | xx                            | xx     | xx        |
| 31 Balance c/d                          | xx                            | -      | xx        |
|                                         | <u>XX</u>                     |        | <u>XX</u> |
| Year 2                                  |                               |        |           |
| Jan 1 Balance b/d                       | -                             | xx     | xx        |
|                                         |                               |        |           |
| Year 1                                  | Dec 31 <b>Profit And Loss</b> | Year 1 | RM        |
|                                         | - Interest On Loan            |        | xx        |
| 31 <b>Profit And Loss Appropriation</b> |                               |        | -         |
| - Partners' Salaries                    | xx                            |        | xx        |
| - Interest On Capital                   | xx                            |        | xx        |
| - Balance Of Profit Shared              | xx                            |        | xx        |
| 31 Balance c/d                          | -                             | xx     | <u>XX</u> |
|                                         |                               |        | <u>XX</u> |
| Year 2                                  |                               |        |           |
| Jan 1 Balance b/d                       |                               |        |           |



Partner Y's  
overdrawn profit.



Partner X's  
undrawn profit.

| Drawings           |                |    |           |
|--------------------|----------------|----|-----------|
| X                  | Y              | X  | Y         |
| Year 1             | RM             | RM | RM        |
| Mar 31 Cash / Bank | xx             | xx | xx        |
| Oct 31 Purchases   | xx             | xx | xx        |
|                    | <u>XX</u>      |    | <u>XX</u> |
| Year 1             | Dec 31 Current |    |           |



If the following items **have been paid** by the partnership to the partners concerned, their **current accounts** should **not be credited** for the amounts paid:  
a. **Interest On Loan From Partner**; b. **Partners' Salaries**; c. **Interest On Capital**.

2. **Vertical / Statement** format of **financial statements** of a partnership:

a.

X And Y

**Income Statement / Statement Of Profit Or Loss 损益表**  
For The Year Ended .....

RM RM RM

**Sales**

**xx**

Less: **Cost Of Sales**

**(xx)**  
**xx**

**Gross Profit / (Gross Loss)**

**xx**  
**xx**  
**xx**

**Other Income**

Less: **Expenses**

**xx**  
**xx**  
**xx**  
**(xx)**  
**xx**

Interest On Loan From Partner 贷自合伙人款项的利息

**Net Profit / (Net Loss)**

Interest On Drawings 提取利息

- X  
- Y

**xx**  
**xx**  
**xx**

Less: **Appropriations 分配**

Partners' Salaries 合伙人薪金

- X  
- Y

**xx**  
**xx**

Interest On Capital 资本利息

- X  
- Y

**xx**  
**xx**  
**(xx)**  
**xx**

**Balance Of Profit / (Loss) Shared 剩余利润 /(亏损)分配**

- X  
- Y

**xx**  
**xx**



**Hint** The **net profit / (net loss)** after appropriation is shared in the profit and loss sharing ratio.



**Hint** It shows how the **net profit / (net loss)** is **shared** between the **partners**.

**Trading account 营业账户 section**

**Profit And Loss account 损益账户 section**

**Profit And Loss Appropriation account 损益分配账户 section**

b.

X And Y  
**Statement Of Financial Position 财务状况表**  
As At .....

|                                     | RM        | RM                          | RM                 |
|-------------------------------------|-----------|-----------------------------|--------------------|
|                                     | Cost      | Accumulated<br>Depreciation | Carrying<br>Amount |
| <b>Non-current Assets</b>           |           |                             |                    |
| ▪                                   | xx        | -                           | xx                 |
| ▪                                   | xx        | (xx)                        | xx                 |
|                                     | <u>xx</u> | <u>(xx)</u>                 | <u>xx</u>          |
| <b>Current Assets</b>               |           |                             |                    |
| ▪                                   |           | xx                          |                    |
| ▪                                   |           | xx                          | <u>xx</u>          |
| <i>Total Assets</i>                 |           |                             | <u>xx</u>          |
| <br><b>Owners' Equity</b>           |           |                             |                    |
| Capital 资本                          |           |                             |                    |
| X                                   |           | xx                          |                    |
| Y                                   |           | xx                          | xx                 |
| <br>Current 往来                      |           |                             |                    |
| X                                   |           | xx                          |                    |
| Y                                   |           | (xx)                        | <u>xx</u>          |
| <i>Total Equity</i>                 |           |                             | <u>xx</u>          |
| <br><b>Non-current Liabilities</b>  |           |                             |                    |
| Loan From X 贷自X的款项                  |           |                             | xx                 |
| <br><b>Current Liabilities</b>      |           |                             |                    |
| ▪                                   | xx        |                             |                    |
| ▪                                   | <u>xx</u> | <u>xx</u>                   |                    |
| <i>Total Liabilities</i>            |           |                             | xx                 |
| <i>Total Equity And Liabilities</i> |           |                             | <u>xx</u>          |

3. T / Horizontal format of financial statements of a partnership:

a.

|                                                       |           | X And Y                                |           |  |  |
|-------------------------------------------------------|-----------|----------------------------------------|-----------|--|--|
| <b>Income Statement / Statement Of Profit Or Loss</b> |           |                                        |           |  |  |
| For The Year Ended .....                              |           |                                        |           |  |  |
|                                                       | RM        |                                        | RM        |  |  |
| .                                                     |           | <b>Sales</b>                           |           |  |  |
| .                                                     |           |                                        | <b>xx</b> |  |  |
| <b>Cost Of Sales</b>                                  | <b>xx</b> |                                        |           |  |  |
| <b>Gross Profit / (Gross Loss) c/d</b>                | <b>xx</b> |                                        | <b>xx</b> |  |  |
|                                                       | <b>xx</b> |                                        |           |  |  |
| Expenses                                              | xx        | <b>Gross Profit / (Gross Loss) b/d</b> | <b>xx</b> |  |  |
| <b>Net Profit / (Net Loss) c/d</b>                    | <b>xx</b> | Other Income                           | <b>xx</b> |  |  |
|                                                       | <b>xx</b> |                                        | <b>xx</b> |  |  |
| Partners' Salaries                                    |           | <b>Net Profit / (Net Loss) b/d</b>     | <b>xx</b> |  |  |
| - X                                                   | xx        | Interest On Drawings                   |           |  |  |
| - Y                                                   | xx        | - X                                    | <b>xx</b> |  |  |
| Interest On Capital                                   |           | - Y                                    | <b>xx</b> |  |  |
| - X                                                   | xx        |                                        |           |  |  |
| - Y                                                   | xx        |                                        |           |  |  |
| <b>Balance Of Profit / (Loss) Shared</b>              | <b>xx</b> |                                        |           |  |  |
| - X                                                   | <b>xx</b> |                                        |           |  |  |
| - Y                                                   | <b>xx</b> |                                        |           |  |  |
|                                                       | <b>xx</b> |                                        | <b>xx</b> |  |  |

*Trading account section*      *Profit And Loss account section*      *Profit And Loss Appropriation account section*

b.

|                                        |           | X And Y   |           |  |  |
|----------------------------------------|-----------|-----------|-----------|--|--|
| <b>Statement Of Financial Position</b> |           |           |           |  |  |
| As At 31 December .....                |           |           |           |  |  |
|                                        | RM        | RM        | RM        |  |  |
| <b>Non-current Assets</b>              |           |           | <b>RM</b> |  |  |
| .                                      | xx        |           |           |  |  |
| .                                      | <b>xx</b> | <b>xx</b> |           |  |  |
|                                        |           |           |           |  |  |
| <b>Current Assets</b>                  |           |           |           |  |  |
| .                                      | xx        |           |           |  |  |
| .                                      | <b>xx</b> | <b>xx</b> |           |  |  |
|                                        |           |           |           |  |  |
|                                        |           |           |           |  |  |
| <b>Owners' Equity</b>                  |           |           |           |  |  |
|                                        |           |           |           |  |  |
|                                        |           |           |           |  |  |
| Capital                                |           |           |           |  |  |
|                                        | X         |           | <b>xx</b> |  |  |
|                                        | Y         |           | <b>xx</b> |  |  |
|                                        |           |           |           |  |  |
|                                        |           |           |           |  |  |
|                                        |           |           |           |  |  |
| <b>Current</b>                         |           |           |           |  |  |
|                                        | X         |           | <b>xx</b> |  |  |
|                                        | Y         |           | <b>xx</b> |  |  |
|                                        |           |           |           |  |  |
|                                        |           |           |           |  |  |
| <b>Non-current Liabilities</b>         |           |           |           |  |  |
| .                                      |           |           | <b>xx</b> |  |  |
| .                                      |           |           | <b>xx</b> |  |  |
|                                        |           |           |           |  |  |
|                                        |           |           |           |  |  |
|                                        |           |           |           |  |  |
| <b>Current Liabilities</b>             |           |           |           |  |  |
| .                                      |           |           | <b>xx</b> |  |  |
| .                                      |           |           | <b>xx</b> |  |  |
|                                        |           |           |           |  |  |
|                                        |           |           |           |  |  |
| <b>xx</b>                              |           |           |           |  |  |



## Chapter 16

# Partnership Accounts (2) — Change In Profit And Loss Sharing Ratio, Withdrawal And Admission



### Learning Objectives

After studying this chapter, you should be able to:

- ☞ define goodwill and describe the factors affecting goodwill;
- ☞ understand the methods of calculating goodwill;
- ☞ make entries for change in profit and loss sharing ratio, withdrawal and admission of partner, including assets revaluation and goodwill adjustment.



### 16.1 Goodwill

1. **Goodwill** 商誉 is the **value** given to the **good reputation** of a business. Thus, it is an **intangible asset** 无形资产 which cannot be seen or touched.  
The value of goodwill of a business is derived from the **future economic benefits** generated by its **established operations, satisfied customers**, etc.
2. **Factors** giving rise to goodwill are as follows:
  - a. Reliable goods and services given to customers;
  - b. Good relationship with employees, suppliers and customers;
  - c. Efficient, reliable, skilled and experienced management team and employees;
  - d. Research and development to produce high quality products;
  - e. Well-known brand name and trademark of its products;
  - f. Market share 市场占有率 or monopoly of the industry;
  - g. Favourable location, etc.
3. Usually, a partner entitles to his **share of goodwill** in the **same ratio** as he **shares profits or losses**.



Does a **new firm** have **goodwill**?  
Explain briefly.

Input

#### Goodwill

☞ **Purchased goodwill** 购买商誉

*It occurs when there is a sale and purchase of business.*

☞ **Inherent goodwill** 内在商誉

*It occurs when there is a change in partnership.*

## 16.2 Methods of Calculating Goodwill

There is no fixed and accurate method of calculating goodwill. It is an estimation agreed by the parties concerned. The common methods used are as follows:

1. **Method 1** (Business value method)

Goodwill is the **difference** between the **value** of a **business** (i.e. purchase price) as a whole and its separable **net assets** taken over.

$$\begin{aligned}\text{Goodwill} &= \text{Purchase Price} - \text{Net Assets} \\ &= \text{Purchase Price} - (\text{Total Assets} - \text{Total Liabilities})\end{aligned}$$

2. **Method 2** (Average annual net profit method)

Goodwill is a **given number** of **years' purchase** of the **average annual net profit** of the business for the **past given number** of **years**.

$$\text{Goodwill} = X \text{ Years' Purchase} \times \text{Average Annual Net Profit}$$



A **given number** is the **number agreed** between the parties concerned.



### Other Methods of Calculating Goodwill:

#### ☛ Average sales method

Goodwill is a **given figure** of the **average (weekly / monthly / yearly) sales** for the **past year / past given number of years**.

It is commonly used in retail businesses such as grocery stores 杂货店 / supermarkets 超级市场.

$$\text{Goodwill} = X \times \text{Average Sales}$$

#### ☛ Average annual fee method

Goodwill is a **given figure** of the **average annual fee** received (before charging any expenses) for the **past given number of years**.

It is commonly used in professional firms such as accounting or consulting firms.

$$\text{Goodwill} = X \times \text{Average Annual Fee}$$



## Example 1 (Method 2)

The net profits of a partnership for the last 5 years were as follows:

| Year | RM     |
|------|--------|
| 1    | 5,600  |
| 2    | 8,700  |
| 3    | 6,300  |
| 4    | 10,100 |
| 5    | 12,300 |

You are required to calculate the goodwill of the partnership on the basis of 3 years' purchase of the average annual net profit for the past 5 years.

### Solution:

Net profits for the last 5 years:

| Year | RM            |
|------|---------------|
| 1    | 5,600         |
| 2    | 8,700         |
| 3    | 6,300         |
| 4    | 10,100        |
| 5    | 12,300        |
|      | <u>43,000</u> |

$$\text{Average annual net profit} = \text{RM } 43,000 \div 5 \\ = \text{RM } 8,600$$

$$\therefore \text{Goodwill} = 3 \text{ Years' Purchase} \times \text{Average Annual Net Profit} \\ = 3 \times \text{RM } 8,600 \\ = \text{RM } \mathbf{25,800}$$



## Practice 1

### (Method 2)

Tan and Yee were partners and had the following annual net profits:

| Year | RM     |
|------|--------|
| 1    | 3,000  |
| 2    | 4,000  |
| 3    | 5,000  |
| 4    | 7,000  |
| 5    | 12,000 |

ABC Company agreed to purchase the partnership and pay the goodwill based on 2 years' purchase of the average annual net profit of the last 3 years.

You are required to calculate the goodwill of the partnership.



1. **Goodwill:** RM 16,000.

### 16.3 Accounting Entries for Assets Revaluation

- When there is a change in partnership, **assets** recorded are revalued and **goodwill** is taken into account to reflect what the business is worth, so that no partner gains or suffers loss under the following circumstances:
  - change in profit and loss sharing ratio among existing partners;
  - withdrawal of existing partner;
  - admission of new partner.
- The accounting entries for the revaluation of **assets** for the change in partnership mentioned above are as follows:

| No. | Transactions                                                                                                                                                                                                 | Accounting entries                                                                                                |
|-----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|
| a.  | Revalue <b>assets</b> to reflect their current / true values:<br>i. If assets are increased in value.                                                                                                        | Dr Assets (with amount of increase)<br>Cr Revaluation                                                             |
|     | ii. If assets are decreased in value.                                                                                                                                                                        | Dr Revaluation<br>Cr Assets (with amount of decrease)                                                             |
| b.  | Close <b>Revaluation</b> account by transferring the <b>profit</b> or <b>loss on revaluation</b> to partners' <b>Capital</b> account using <b>old</b> profit and loss sharing ratio for the partners' share. | Dr Revaluation - Profit On Revaluation Capital<br><b>Or</b><br>Dr Capital<br>Cr Revaluation - Loss On Revaluation |

### 16.4 Change in Profit And Loss Sharing Ratio

- The change in profit and loss sharing ratio among partners may be due to the following reasons:
  - The time or capital contributed by a partner is more or less than that in the past;
  - The ability or skill of a partner has changed, etc.
- Accounting entries for a **change in profit and loss sharing ratio** among **existing partners**:

| No. | Transactions                                                                                                                                                                         | Accounting entries    |
|-----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| a.  | Revalue <b>assets</b> .                                                                                                                                                              | (Refer to: 16.3 2.a.) |
| b.  | Close <b>Revaluation</b> account by transferring the <b>profit</b> or <b>loss on revaluation</b> to partners' <b>Capital</b> account using <b>old</b> profit and loss sharing ratio. | (Refer to: 16.3 2.b.) |

|    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                 |
|----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| c. | <b>Adjust goodwill:</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Dr Goodwill (with total value)                                                                                                                                                                                                                                                                                  |
|    | ① If Goodwill account is <b>opened</b> .                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Cr Capital – A<br>Cr Capital – B } <i>using old sharing ratio</i><br>Cr Capital – C                                                                                                                                                                                                                             |
|    | ② If Goodwill account is <b>opened</b> and then <b>written off</b> .                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Dr Goodwill (with total value)<br>Cr Capital – A<br>Cr Capital – B } <i>using old sharing ratio</i><br>Cr Capital – C                                                                                                                                                                                           |
|    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Dr Capital – A<br>Dr Capital – B } <i>using new sharing ratio</i><br>Dr Capital – C<br>Cr Goodwill – Written Off (with total value)                                                                                                                                                                             |
|    | ③ If Goodwill account is <b>not opened</b> .                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Dr Capital – C } <i>with increased share of goodwill</i><br>Cr Capital – A } <i>with decreased share of goodwill</i><br><b>Or</b><br>Dr Capital – A<br>Dr Capital – B } <i>using new sharing ratio</i><br>Dr Capital – C<br>Cr Capital – A<br>Cr Capital – B } <i>using old sharing ratio</i><br>Cr Capital – C |
|    | Compare partners' <b>share of goodwill</b> in <b>old &amp; new</b> sharing ratio:<br><br>If, new share of goodwill > old share of goodwill = <b>gain</b> ;<br><br>If, new share of goodwill < old share of goodwill = <b>lose</b> .<br><br>Partner <b>gains</b> from the change has to be charged, & his Capital account is <b>debited</b> with the <b>increased</b> share of goodwill;<br><br>Partners <b>lose</b> from the change have to be compensated, & their Capital accounts are <b>credited</b> with the <b>decreased</b> share of goodwill. |                                                                                                                                                                                                                                                                                                                 |



According to the **prudence concept** 谨慎概念, business prefers **not** to open Goodwill account in the books so as not to **inflate** its assets.



- ① If Goodwill account is **opened**.

Wong, Lee and Lim were partners and their profit and loss sharing ratio was 1:1:2. The latest Statement Of Financial Position was as follows:

| Wong, Lee And Lim<br>Statement Of Financial Position<br>As At 31 December Year 2 | RM            | RM            |
|----------------------------------------------------------------------------------|---------------|---------------|
| <b>Non-current Assets</b>                                                        |               |               |
| Fixtures And Fittings                                                            | 10,000        |               |
| Motor Vehicles                                                                   | <u>20,000</u> |               |
|                                                                                  | <u>30,000</u> |               |
| <b>Current Assets</b>                                                            |               |               |
| Inventory                                                                        | 3,000         |               |
| Accounts Receivable                                                              | 4,000         |               |
| Bank                                                                             | <u>1,000</u>  | 8,000         |
| <i>Total Assets</i>                                                              |               | <u>38,000</u> |
| <b>Owners' Equity</b>                                                            |               |               |
| Capital                                                                          |               |               |
| Wong                                                                             | 20,000        |               |
| Lee                                                                              | 10,000        |               |
| Lim                                                                              | <u>6,000</u>  |               |
|                                                                                  | <u>36,000</u> |               |
| <b>Current Liabilities</b>                                                       |               |               |
| Accounts Payable                                                                 | 2,000         |               |
| <i>Total Equity And Liabilities</i>                                              |               | <u>38,000</u> |

On 1 January Year 3, they decided to alter their profit and loss sharing ratio to 2:3:1, and the following assets were revalued:

|                       | RM     |
|-----------------------|--------|
| Fixtures and fittings | 9,000  |
| Motor vehicles        | 23,000 |
| Inventory             | 2,000  |

The partners agreed to create a goodwill of RM 6,000.

You are required to prepare:

- (a) Goodwill account;
- (b) Revaluation account;
- (c) partners' Capital account in columnar form;
- (d) Statement Of Financial Position as at 1 January Year 3.



**Hint** The **goodwill** was **credited** to partners' **Capital** account in the **old sharing ratio**.

**Solution:**

| Goodwill          |              |                   |              |
|-------------------|--------------|-------------------|--------------|
| Year 3            | RM           | Year 3            | RM           |
| Jan 1 Capital     | (W1)         | Jan 1 Balance c/d | 6,000        |
| - Wong            | 1,500        |                   |              |
| - Lee             | 1,500        |                   |              |
| - Lim             | 3,000        |                   |              |
|                   | <u>6,000</u> |                   | <u>6,000</u> |
| Jan 1 Balance b/d | 6,000        |                   |              |

| Revaluation                      |              |                      |              |
|----------------------------------|--------------|----------------------|--------------|
| Year 3                           | RM           | Year 3               | RM           |
| Jan 1 Fixtures And Fittings      | (W2)         | Jan 1 Motor Vehicles | (W3)         |
| 1 Inventory                      | 1,000        |                      | 3,000        |
| 1 Capital: Profit On Revaluation | (W5)         |                      |              |
| - Wong                           | 250          |                      |              |
| - Lee                            | 250          |                      |              |
| - Lim                            | 500          |                      |              |
|                                  | <u>3,000</u> |                      | <u>3,000</u> |



Why was the **goodwill credited** to partners' **capital** account?

| Capital           |               |               |              |                         |               |               |              |
|-------------------|---------------|---------------|--------------|-------------------------|---------------|---------------|--------------|
| Year 3            | Wong          | Lee           | Lim          | Year 3                  | Wong          | Lee           | Lim          |
| Jan 1 Balance c/d | 21,750        | 11,750        | 9,500        | Jan 1 Balance b/d       | 20,000        | 10,000        | 6,000        |
|                   |               |               |              | 1 Goodwill              | 1,500         | 1,500         | 3,000        |
|                   |               |               |              | 1 Revaluation           |               |               |              |
|                   |               |               |              | - Profit On Revaluation | 250           | 250           | 500          |
|                   | <u>21,750</u> | <u>11,750</u> | <u>9,500</u> |                         | <u>21,750</u> | <u>11,750</u> | <u>9,500</u> |
|                   |               |               |              | 1 Balance b/d           | <b>21,750</b> | <b>11,750</b> | <b>9,500</b> |

(d)

Wong, Lee And Lim  
**Statement Of Financial Position**  
As At 1 January Year 3

|                                     | RM    | RM                   |
|-------------------------------------|-------|----------------------|
| <b>Non-current Assets</b>           |       |                      |
| Fixtures And Fittings               |       | 9,000                |
| Motor Vehicles                      |       | <u>23,000</u>        |
|                                     |       | 32,000               |
| Goodwill                            |       | <u>6,000</u>         |
|                                     |       | 38,000               |
| <b>Current Assets</b>               |       |                      |
| Inventory                           |       | 2,000                |
| Accounts Receivable                 |       | 4,000                |
| Bank                                | 1,000 | <u>7,000</u>         |
| <i>Total Assets</i>                 |       | <u><u>45,000</u></u> |
| <b>Owners' Equity</b>               |       |                      |
| Capital                             |       | (c)                  |
| Wong                                |       | 21,750               |
| Lee                                 |       | 11,750               |
| Lim                                 |       | <u>9,500</u>         |
|                                     |       | 43,000               |
| <b>Current Liabilities</b>          |       |                      |
| Accounts Payable                    |       | <u>2,000</u>         |
| <i>Total Equity And Liabilities</i> |       | <u><u>45,000</u></u> |

**Workings:**

(1) Goodwill:

$$\text{RM } 6,000 \times \frac{1}{4} = \text{RM } 1,500$$

$$\text{RM } 6,000 \times \frac{1}{4} = \text{RM } 1,500$$

$$\text{RM } 6,000 \times \frac{2}{4} = \text{RM } 3,000$$

(2)

|                   | Fixtures And Fittings |                   |               |
|-------------------|-----------------------|-------------------|---------------|
|                   | RM                    | RM                |               |
| Year 3            |                       | Year 3            |               |
| Jan 1 Balance b/d | 10,000                | Jan 1 Revaluation | <b>1,000</b>  |
|                   |                       | 1 Balance c/d     | 9,000         |
|                   | <u>10,000</u>         |                   | <u>10,000</u> |
| 1 Balance b/d     | <u>9,000</u>          |                   |               |

| (3)               |               | Motor Vehicles    |        |               |
|-------------------|---------------|-------------------|--------|---------------|
|                   | RM            | Year 3            | RM     | Year 3        |
| Jan 1 Balance b/d | 20,000        | Jan 1 Balance c/d | 23,000 |               |
| 1 Revaluation     | <b>3,000</b>  |                   |        |               |
|                   | <b>23,000</b> |                   |        | <b>23,000</b> |
| 1 Balance b/d     | 23,000        |                   |        |               |

| (4)               |              | Inventory         |              |        |
|-------------------|--------------|-------------------|--------------|--------|
|                   | RM           | Year 3            | RM           | Year 3 |
| Year 3            |              |                   |              |        |
| Jan 1 Balance b/d | 3,000        | Jan 1 Revaluation | <b>1,000</b> |        |
|                   |              | 1 Balance c/d     | 2,000        |        |
|                   | <b>3,000</b> |                   | <b>3,000</b> |        |
| 1 Balance b/d     | 2,000        |                   |              |        |

(5) Profit On Revaluation:

$$\text{RM } (3,000 - 1,000 - 1,000) = \text{RM } 1,000$$

$$\text{RM } 1,000 \times \frac{1}{4} = \text{RM } 250$$

$$\text{RM } 1,000 \times \frac{1}{4} = \text{RM } 250$$

$$\text{RM } 1,000 \times \frac{2}{4} = \text{RM } 500$$



② If Goodwill account is **opened** and then **written off**.

You are required to prepare only:

- (a) Goodwill account;
- (c) partners' Capital account in columnar form;
- (d) Statement Of Financial Position as at 1 January Year 3.





**New sharing ratio** was used to write off the Goodwill Account.

### Solution:

(a)

| Goodwill                                  |                                                 |                                                 |
|-------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| Year 3                                    | RM                                              | Year 3                                          |
| Jan 1 Capital<br>- Wong<br>- Lee<br>- Lim | (W1)<br>1,500<br>1,500<br>3,000<br><u>6,000</u> | Jan 1 Capital<br>- Wong<br>- Lee<br>- Lim       |
|                                           |                                                 | (W6)<br>2,000<br>3,000<br>1,000<br><u>6,000</u> |

(c)

| Capital                         |               |               |              |                                          |               |
|---------------------------------|---------------|---------------|--------------|------------------------------------------|---------------|
| Year 3                          | Wong          | Lee           | Lim          | Year 3                                   |               |
|                                 | RM            | RM            | RM           |                                          |               |
| Jan 1 Goodwill<br>- Written Off | 2,000         | 3,000         | 1,000        | Jan 1 Balance b/d                        | 20,000        |
| 1 Balance c/d                   | 19,750        | 8,750         | 8,500        | 1 Goodwill                               | 1,500         |
|                                 | <u>21,750</u> | <u>11,750</u> | <u>9,500</u> | 1 Revaluation<br>- Profit On Revaluation | 250           |
|                                 |               |               |              |                                          | <u>21,750</u> |
|                                 |               |               |              | 1 Balance b/d                            | <u>19,750</u> |
|                                 |               |               |              |                                          | <u>8,750</u>  |
|                                 |               |               |              |                                          | <u>8,500</u>  |

(d)

### Wong, Lee And Lim Statement Of Financial Position

As At 1 January Year 3

|                              | RM    | RM            |
|------------------------------|-------|---------------|
| <b>Non-current Assets</b>    |       |               |
| Fixtures And Fittings        |       | 9,000         |
| Motor Vehicles               |       | <u>23,000</u> |
|                              |       | <u>32,000</u> |
| <b>Current Assets</b>        |       |               |
| Inventory                    | 2,000 |               |
| Accounts Receivable          | 4,000 |               |
| Bank                         | 1,000 | <u>7,000</u>  |
| Total Assets                 |       | <u>39,000</u> |
| <b>Owners' Equity</b>        |       |               |
| Capital                      | (c)   |               |
| Wong                         |       | 19,750        |
| Lee                          |       | 8,750         |
| Lim                          |       | <u>8,500</u>  |
|                              |       | <u>37,000</u> |
| <b>Current Liabilities</b>   |       |               |
| Accounts Payable             |       | 2,000         |
| Total Equity And Liabilities |       | <u>39,000</u> |

### Workings (continued from Example 2 ①):

(6) Goodwill - Written Off:

$$\text{RM } 6,000 \times \frac{2}{6} = \text{RM } 2,000$$

$$\text{RM } 6,000 \times \frac{3}{6} = \text{RM } 3,000$$

$$\text{RM } 6,000 \times \frac{1}{6} = \text{RM } 1,000$$



What is the **difference** between the **Statement Of Financial Position** under ① and ②?



### Example 2

③ If Goodwill account is **not opened**.

You are required to prepare only:

(c) partners' Capital account in columnar form.



- (a) is **not needed**;
- (b) will be the **same** as that under Example 2 ①;
- (d) will be the **same** as that under Example 2 ②.

### Solution:

|        |                 | Capital |        |       |
|--------|-----------------|---------|--------|-------|
|        |                 | Wong    | Lee    | Lim   |
| Year 3 |                 | RM      | RM     | RM    |
| Jan 1  | Goodwill        |         |        |       |
|        | Adjustment (W7) | 500     | 1,500  | -     |
| 1      | Balance c/d     | 19,750  | 8,750  | 8,500 |
|        |                 | 20,250  | 10,250 | 8,500 |

|        |                         | Wong   | Lee    | Lim   |
|--------|-------------------------|--------|--------|-------|
| Year 3 |                         | RM     | RM     | RM    |
| Jan 1  | Balance b/d             | 20,000 | 10,000 | 6,000 |
| 1      | Goodwill                |        |        |       |
|        | Adjustment (W7)         | -      | -      | 2,000 |
| 1      | Revaluation             |        |        |       |
|        | - Profit On Revaluation | 250    | 250    | 500   |
|        |                         | 20,250 | 10,250 | 8,500 |
| 1      | Balance b/d             | 19,750 | 8,750  | 8,500 |



The **balances** on **Capital** account are the **same** as those under ②.

**Workings** (continued from **Example 2 ②**):

(7) Goodwill adjustment:

|      | Share of goodwill                |                                  |  | Adjustment<br>(Capital account was.....) |
|------|----------------------------------|----------------------------------|--|------------------------------------------|
|      | Before change                    | After change                     |  |                                          |
| Wong | RM 6,000 x $\frac{1}{4}$ = 1,500 | RM 6,000 x $\frac{2}{6}$ = 2,000 |  | RM 500 Debited                           |
| Lee  | RM 6,000 x $\frac{1}{4}$ = 1,500 | RM 6,000 x $\frac{3}{6}$ = 3,000 |  | RM 1,500 Debited                         |
| Lim  | RM 6,000 x $\frac{2}{4}$ = 3,000 | RM 6,000 x $\frac{1}{6}$ = 1,000 |  | RM 2,000 Credited                        |
|      | 6,000                            | 6,000                            |  |                                          |



☞ Wong & Lee were debited for the charging / paying of the increased share of goodwill.  
☞ Lim was credited for the compensation of the decreased share of goodwill.

Or

| Goodwill (2 : 3 : 1) | Capital |       |     | Goodwill (1: 1 : 2) | Capital |       |     |
|----------------------|---------|-------|-----|---------------------|---------|-------|-----|
|                      | Wong    | Lee   | Lim |                     | Wong    | Lee   | Lim |
|                      | RM      | RM    | RM  |                     | RM      | RM    | RM  |
| 2,000                | 3,000   | 1,000 |     | 1,500               | 1,500   | 3,000 |     |

| Goodwill Adjustment | Capital |     |     | Goodwill Adjustment | Capital  |     |       |
|---------------------|---------|-----|-----|---------------------|----------|-----|-------|
|                     | Wong    | Lee | Lim |                     | Wong     | Lee | Lim   |
|                     | RM      | RM  | RM  |                     | RM       | RM  | RM    |
| 500                 | 1,500   | -   |     | 500 Dr              | 1,500 Dr | -   | 2,000 |

Or

| Goodwill account is opened (1:1:2) :     | Wong          | Lee             | Lim             |
|------------------------------------------|---------------|-----------------|-----------------|
| Goodwill account is written off (2:3:1): | 1,500 Cr      | 1,500 Cr        | 3,000 Cr        |
| Net change in share of goodwill:         | 2,000 Dr      | 3,000 Dr        | 1,000 Dr        |
|                                          | <u>500 Dr</u> | <u>1,500 Dr</u> | <u>2,000 Cr</u> |

???

Think 4

Is the **Revaluation** account the same under ①, ② and ③? Why?

???

Think 5

Is the **Statement Of Financial Position** the same under ② and ③? Why?



Abu, Bala and Siti were partners for a number of years. Their profit and loss sharing ratio was 5:4:1. Their Statement Of Financial Position as at 31 December Year 2 was as follows:

|                                          | RM | RM            | RM |
|------------------------------------------|----|---------------|----|
| <b>Non-current Assets</b>                |    |               |    |
| Land And Building (Land cost RM 200,000) |    | 300,000       |    |
| Machinery                                |    | <u>20,000</u> |    |
|                                          |    | 320,000       |    |

|                                    | RM             | RM           | RM             |
|------------------------------------|----------------|--------------|----------------|
| <b>Current Assets</b>              |                |              |                |
| Inventory                          |                | 30,000       |                |
| Accounts Receivable                | 20,000         |              |                |
| Less: Allowance For Doubtful Debts | <u>(3,000)</u> | 17,000       |                |
| Bank                               |                | <u>3,000</u> | <u>50,000</u>  |
| <i>Total Assets</i>                |                |              | <u>370,000</u> |

### Owners' Equity

|         |  |               |  |
|---------|--|---------------|--|
| Capital |  |               |  |
| Abu     |  | 180,000       |  |
| Bala    |  | 100,000       |  |
| Siti    |  | <u>80,000</u> |  |
|         |  | 360,000       |  |

### Current Liabilities

|                                     |  |        |                |
|-------------------------------------|--|--------|----------------|
| Accounts Payable                    |  | 10,000 |                |
| <i>Total Equity And Liabilities</i> |  |        | <u>370,000</u> |

With effect from 1 January Year 3, Abu and Bala were both active partners. They agreed to change their profit sharing ratio to 2:2:1.

Goodwill was valued at RM 100,000 and to be kept in the books, but it was to be written off immediately.

Assets were revalued as follows:

|           | RM     |
|-----------|--------|
| Building  | 91,000 |
| Machinery | 25,000 |
| Inventory | 25,000 |

Allowance for doubtful debts was increased to RM 4,000.

You are required to prepare:

- (a) Goodwill account;
- (b) Revaluation account;
- (c) partners' Capital account in columnar form;
- (d) Statement Of Financial Position as at 1 January Year 3.



1. **Loss On Revaluation:** RM 10,000
2. **Balances on Capital account:** Abu RM 185,000
3. **Total Assets:** 360,000 Bala RM 96,000 Siti RM 69,000



- a. What is the Journal entry for the **goodwill adjustment** if **goodwill is not to be recorded** in the new partnership books?
- b. Is the **goodwill adjustment** of a. above the **same** as that in **Practice 2**?

## 16.5 Withdrawal of Existing Partner

1. An existing partner may withdraw due to retirement / old age, ill-health or death.
2. Goodwill has to be considered as the **outgoing partner** is entitled to his **share of goodwill** which has been built up by the business.
3. The amount owed to the outgoing partner can be:
  - a. paid by **cash** and / or business **assets**; or
  - b. transferred wholly / partly to a **Loan** account of the new partnership at a certain interest rate.

4. Accounting entries for a **withdrawal** of an **existing partner** (e.g. partner **C**):

| No. | Transactions                                                                                                                                                                                 | Accounting entries                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|-----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| a.  | Revalue <b>assets</b> .                                                                                                                                                                      | (Refer to: 16.3 2.a.)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| b.  | Close <b>Revaluation</b> account by transferring the <b>profit or loss on revaluation</b> to partners' <b>Capital</b> account using <b>old</b> profit and loss sharing ratio.                | (Refer to: 16.3 2.b.)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| c.  | Adjust <b>goodwill</b> :<br>① If Goodwill account is <b>opened</b> .<br>② If Goodwill account is <b>opened</b> and then <b>written off</b> .<br>③ If Goodwill account is <b>not opened</b> . | <p>Dr Goodwill (with total value)<br/>           Cr Capital - A<br/>           Cr Capital - B } using <b>old</b> sharing ratio<br/>           Cr Capital - C</p> <p>Dr Goodwill (with total value)<br/>           Cr Capital - A<br/>           Cr Capital - B } using <b>old</b> sharing ratio<br/>           Cr Capital - C</p> <p>Dr Capital - A } using <b>new</b> sharing ratio<br/>           Dr Capital - B<br/>           Cr Goodwill - Written Off (with total value)</p> <p>Dr Capital - A } <b>Purchase of C's share of goodwill</b><br/>           Dr Capital - B } by <b>A &amp; B</b> using <b>new</b> sharing ratio<br/>           Cr Capital - C } <b>C's share of goodwill</b><br/>           using <b>old</b> sharing ratio</p> <p><b>Or</b></p> <p>Dr Capital - A } using <b>new</b> sharing ratio<br/>           Dr Capital - B<br/>           Cr Capital - A }<br/>           Cr Capital - B } using <b>old</b> sharing ratio<br/>           Cr Capital - C</p> |
| d.  | Transfer balance on the outgoing partner's <b>Current</b> account to his <b>Capital</b> account.                                                                                             | Dr Current - C (with <b>credit</b> balance)<br>Cr Capital - C<br><b>Or</b><br>Dr Capital - C<br>Cr Current - C (with <b>debit</b> balance)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| e.  | Pay off the outgoing partner.                                                                                                                                                                | Dr Capital - C<br>Cr Cash / Bank / Assets / Loan From C                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |



### Example 3

- ① If Goodwill account is **opened**.

Wong, Lee and Lim were partners and their profit and loss sharing ratio was 1:1:2. The latest Statement Of Financial Position was as follows:

Wong, Lee And Lim  
**Statement Of Financial Position**  
As At 31 December Year 3

|                                     | RM            | RM             | RM |
|-------------------------------------|---------------|----------------|----|
| <b>Non-current Assets</b>           |               |                |    |
| Premises                            | 120,000       |                |    |
| Fixtures And Fittings               | 10,000        |                |    |
| Office Equipment                    | <u>20,000</u> |                |    |
|                                     | 150,000       |                |    |
| <b>Current Assets</b>               |               |                |    |
| Inventory                           | 3,000         |                |    |
| Accounts Receivable                 | 4,000         |                |    |
| Less: Allowance For Doubtful Debts  | <u>(500)</u>  | 3,500          |    |
| Bank                                | <u>5,000</u>  | 11,500         |    |
| <i>Total Assets</i>                 |               | <u>161,500</u> |    |
| <b>Owners' Equity</b>               |               |                |    |
| Capital                             |               |                |    |
| Wong                                | 80,000        |                |    |
| Lee                                 | 40,000        |                |    |
| Lim                                 | <u>39,500</u> |                |    |
|                                     |               | 159,500        |    |
| <b>Current Liabilities</b>          |               |                |    |
| Accounts Payable                    | 2,000         |                |    |
| <i>Total Equity And Liabilities</i> |               | <u>161,500</u> |    |

On 1 January Year 4, Lee decided to retire from the business. The following matters were agreed:

- (i) The assets were revalued as follows:
  - Premises were increased to RM 156,000;
  - Fixtures and fittings were decreased to RM 9,000;
  - Office equipment was decreased by RM 3,000;
  - Inventory was decreased by RM 1,000.
- (ii) The allowance for doubtful debts was increased to RM 600.
- (iii) The partners agreed to create a goodwill valued at RM 6,000.
- (iv) Lee took a computer valued at RM 5,000.
- (v) They agreed that part of the amount owing to Lee would be paid by cheque of RM 4,225, and the balance was treated as a loan to the new partnership.
- (vi) The new profit and loss sharing ratio for Wong and Lim was 1:2.

You are required to prepare:

- (a) Goodwill account;
- (b) Revaluation account;
- (c) partners' Capital account in columnar form;
- (d) Statement Of Financial Position as at 1 January Year 4.

### Solution:

| (a)    |                   | Goodwill |              |
|--------|-------------------|----------|--------------|
| Year 4 |                   | Year 4   | RM           |
| Jan 1  | Capital (W1)      | Jan 1    | Balance c/d  |
|        | - Wong 1,500      |          | 6,000        |
|        | - Lee 1,500       |          |              |
|        | - Lim 3,000       |          |              |
|        |                   |          | <u>6,000</u> |
| 1      | Balance b/d 6,000 |          | <u>6,000</u> |

| (b)    |                                       | Revaluation |                      |
|--------|---------------------------------------|-------------|----------------------|
| Year 4 |                                       | Year 4      | RM                   |
| Jan 1  | Fixtures And Fittings (W3)            | Jan 1       | Premises (W2) 36,000 |
| 1      | Office Equipment 3,000                |             |                      |
| 1      | Inventory 1,000                       |             |                      |
| 1      | Allowance For Doubtful Debts (W6) 100 |             |                      |
| 1      | Capital: Profit On Revaluation (W7)   |             |                      |
|        | - Wong 7,725                          |             |                      |
|        | - Lee 7,725                           |             |                      |
|        | - Lim 15,450                          |             |                      |
|        |                                       |             | <u>36,000</u>        |

(c)

|                                     |        |        | Capital |                                      |        |        |        |     |     |
|-------------------------------------|--------|--------|---------|--------------------------------------|--------|--------|--------|-----|-----|
|                                     |        |        | Wong    | Lee                                  | Lim    | Year 4 | Wong   | Lee | Lim |
| Year 4                              | RM     | RM     | RM      | Year 4                               | RM     | RM     | RM     |     |     |
| Jan 1 Office Equipment - Taken Over | -      | 5,000  | -       | Jan 1 Balance b/d                    | 80,000 | 40,000 | 39,500 |     |     |
| 1 Bank                              | -      | 4,225  | -       | 1 Goodwill                           | 1,500  | 1,500  | 3,000  |     |     |
| 1 Loan From Lee                     | -      | 40,000 | -       | 1 Revaluation -Profit On Revaluation | 7,725  | 7,725  | 15,450 |     |     |
| 1 Balance c/d                       | 89,225 | -      | 57,950  |                                      |        |        |        |     |     |
|                                     | 89,225 | 49,225 | 57,950  |                                      |        |        |        |     |     |
|                                     |        |        |         | 1 Balance b/d                        | 89,225 | 49,225 | 57,950 |     |     |
|                                     |        |        |         |                                      | 89,225 | -      | 57,950 |     |     |

**Hint** *Balancing figure*

(d)

Wong And Lim  
**Statement Of Financial Position**  
As At 1 January Year 4

|                                     | RM    | RM    | RM      |
|-------------------------------------|-------|-------|---------|
| <b>Non-current Assets</b>           |       |       |         |
| Premises                            |       |       | 156,000 |
| Fixtures And Fittings               |       |       | 9,000   |
| Office Equipment                    | (W4)  |       | 12,000  |
|                                     |       |       | 177,000 |
| Goodwill                            |       |       | 6,000   |
|                                     |       |       | 183,000 |
| <b>Current Assets</b>               |       |       |         |
| Inventory                           | (W5)  |       | 2,000   |
| Accounts Receivable                 |       | 4,000 |         |
| Less: Allowance For Doubtful Debts  | (600) |       | 3,400   |
| Bank                                | (W8)  | 775   | 6,175   |
| <i>Total Assets</i>                 |       |       | 189,175 |
| <b>Owners' Equity</b>               |       |       |         |
| Capital                             | (c)   |       |         |
| Wong                                |       |       | 89,225  |
| Lim                                 |       |       | 57,950  |
|                                     |       |       | 147,175 |
| <b>Non-current Liabilities</b>      |       |       |         |
| Loan From Lee                       |       |       | 40,000  |
| <b>Current Liabilities</b>          |       |       |         |
| Accounts Payable                    |       | 2,000 |         |
| <i>Total Liabilities</i>            |       |       | 42,000  |
| <i>Total Equity And Liabilities</i> |       |       | 189,175 |

### **Workings:**

(1) Goodwill:

$$\text{RM } 6,000 \times \frac{1}{4} = \text{RM } 1,500$$

$$\text{RM } 6,000 \times \frac{1}{4} = \text{RM } 1,500$$

$$\text{RM } 6,000 \times \frac{2}{4} = \text{RM } 3,000$$

(2) Premises:

$$\text{RM } (156,000 - 120,000) = \text{RM } 36,000$$

(3) Fixtures And Fittings:

$$\text{RM } (10,000 - 9,000) = \text{RM } 1,000$$

(4) Office Equipment:

$$\text{RM } (20,000 - 3,000 - 5,000) = \text{RM } 12,000$$

(5) Inventory:

$$\text{RM } (3,000 - 1,000) = \text{RM } 2,000$$

(6) Allowance For Doubtful Debts:

$$\text{RM } (600 - 500) = \text{RM } 100$$

(7) Profit On Revaluation:

$$\text{RM } (36,000 - 1,000 - 3,000 - 1,000 - 100) = \text{RM } 30,900$$

$$\text{RM } 30,900 \times \frac{1}{4} = \text{RM } 7,725$$

$$\text{RM } 30,900 \times \frac{1}{4} = \text{RM } 7,725$$

$$\text{RM } 30,900 \times \frac{2}{4} = \text{RM } 15,450$$

(8) Bank:

$$\text{RM } (5,000 - 4,225) = \text{RM } 775$$



### Example 3

② If Goodwill account is **opened** and then **written off**.

You are required to prepare only:

- (a) Goodwill account;
- (c) partners' Capital account in columnar form;
- (d) Statement Of Financial Position as at 1 January Year 4.

#### Solution:

(a)

| Goodwill           |       |                    |       |
|--------------------|-------|--------------------|-------|
| Year 4             | RM    | Year 4             | RM    |
| Jan 1 Capital (W1) |       | Jan 1 Capital (W9) |       |
| - Wong 1,500       |       | - Wong 2,000       |       |
| - Lee 1,500        |       | - Lim 4,000        |       |
| - Lim 3,000        |       |                    |       |
|                    | 6,000 |                    |       |
|                    |       |                    | 6,000 |

(c)

| Capital                                 |        |        |        | Wong          | Lee    | Lim           |
|-----------------------------------------|--------|--------|--------|---------------|--------|---------------|
| Year 4                                  | Wong   | Lee    | Lim    | RM            | RM     | RM            |
| Jan 1 Goodwill - Written Off 2,000      |        |        | 4,000  | 80,000        | 40,000 | 39,500        |
| 1 Office Equipment - Taken Over - 5,000 |        |        |        | 1,500         | 1,500  | 3,000         |
| 1 Bank - 4,225                          |        |        |        |               |        |               |
| 1 Loan From Lee - 40,000                |        |        |        |               |        |               |
| 1 Balance c/d 87,225                    |        |        | 53,950 | 7,725         | 7,725  | 15,450        |
|                                         | 89,225 | 49,225 | 57,950 |               |        |               |
|                                         |        |        |        | 89,225        | 49,225 | 57,950        |
|                                         |        |        |        | <b>87,225</b> | -      | <b>53,950</b> |
|                                         |        |        |        |               |        |               |
|                                         |        |        |        | 1 Balance b/d |        |               |



(d)

Wong And Lim  
**Statement Of Financial Position**  
As At 1 January Year 4

|                                     | RM   | RM            | RM             |
|-------------------------------------|------|---------------|----------------|
| <b>Non-current Assets</b>           |      |               |                |
| Premises                            |      | 156,000       |                |
| Fixtures And Fittings               |      | 9,000         |                |
| Office Equipment                    | (W4) |               | <u>12,000</u>  |
|                                     |      |               | <u>177,000</u> |
| <b>Current Assets</b>               |      |               |                |
| Inventory                           | (W5) | 2,000         |                |
| Accounts Receivable                 |      | 4,000         |                |
| Less: Allowance For Doubtful Debts  |      | <u>(600)</u>  | 3,400          |
| Bank                                | (W8) |               | <u>775</u>     |
| <i>Total Assets</i>                 |      |               | <u>6,175</u>   |
|                                     |      |               | <u>183,175</u> |
| <b>Owners' Equity</b>               |      |               |                |
| Capital                             | (c)  |               |                |
| Wong                                |      | 87,225        |                |
| Lim                                 |      | <u>53,950</u> |                |
|                                     |      |               | <u>141,175</u> |
| <b>Non-current Liabilities</b>      |      |               |                |
| Loan From Lee                       |      | 40,000        |                |
| <b>Current Liabilities</b>          |      |               |                |
| Accounts Payable                    |      | <u>2,000</u>  |                |
| <i>Total Liabilities</i>            |      |               | <u>42,000</u>  |
| <i>Total Equity And Liabilities</i> |      |               | <u>183,175</u> |

**Workings** (continued from **Example 3 ①**):

(9) Goodwill - Written Off:

$$\text{RM } 6,000 \times \frac{1}{3} = \text{RM } 2,000$$

$$\text{RM } 6,000 \times \frac{2}{3} = \text{RM } 4,000$$



### Example 3

③ If Goodwill account is **not opened**.

You are required to prepare only:

(c) partners' Capital account in columnar form.

**Solution:**

|                    |        |        | Capital |       |     |                         |  |  |               |        |               |
|--------------------|--------|--------|---------|-------|-----|-------------------------|--|--|---------------|--------|---------------|
| Year 4             |        |        | Wong    | Lee   | Lim | Year 4                  |  |  | Wong          | Lee    | Lim           |
| Jan 1              |        |        | RM      | RM    | RM  | Jan 1                   |  |  | RM            | RM     | RM            |
| Goodwill           |        |        |         |       |     | Balance b/d             |  |  | 80,000        | 40,000 | 39,500        |
| Adjustment (W10)   | 500    | -      |         | 1,000 |     | 1 Goodwill              |  |  | -             | 1,500  | -             |
| 1 Office Equipment |        |        |         |       |     | Adjustment (W10)        |  |  |               |        |               |
| - Taken Over       | -      | 5,000  |         | -     |     | 1 Revaluation           |  |  |               |        |               |
| 1 Bank             | -      | 4,225  |         | -     |     | - Profit On Revaluation |  |  | 7,725         | 7,725  | 15,450        |
| 1 Loan From Lee    | -      | 40,000 |         | -     |     |                         |  |  |               |        |               |
| 1 Balance c/d      | 87,225 | -      | 53,950  |       |     |                         |  |  | 87,725        | 49,225 | 54,950        |
|                    | 87,725 | 49,225 | 54,950  |       |     |                         |  |  | <b>87,225</b> | -      | <b>53,950</b> |
|                    |        |        |         |       |     | 1 Balance b/d           |  |  |               |        |               |



The **balances** on **Capital** account were the **same** as those under ②.

**Workings** (continued from **Example 3 ②**):

(10) Lee's share of goodwill using **old** sharing ratio(1:1:2):

$$RM\ 6,000 \times \frac{1}{4} = RM\ 1,500$$

Purchase of Lee's share of goodwill by Wong and Lim using **new** sharing ratio(1:2):

$$RM\ 1,500 \times \frac{1}{3} = RM\ 500$$

$$RM\ 1,500 \times \frac{2}{3} = RM\ 1,000$$

**Or**

|                     |       |   | Capital |     |     |                     |  |  |       |       |       |
|---------------------|-------|---|---------|-----|-----|---------------------|--|--|-------|-------|-------|
| Goodwill (1:2)      |       |   | Wong    | Lee | Lim | Goodwill (1:1:2)    |  |  | Wong  | Lee   | Lim   |
|                     |       |   | RM      | RM  | RM  |                     |  |  | RM    | RM    | RM    |
|                     | 2,000 | - | 4,000   |     |     |                     |  |  | 1,500 | 1,500 | 3,000 |
|                     |       |   |         |     |     |                     |  |  |       |       |       |
|                     |       |   |         |     |     |                     |  |  |       |       |       |
|                     |       |   |         |     |     |                     |  |  |       |       |       |
|                     |       |   | Capital |     |     |                     |  |  |       |       |       |
| Goodwill Adjustment |       |   | Wong    | Lee | Lim | Goodwill Adjustment |  |  | Wong  | Lee   | Lim   |
|                     |       |   | RM      | RM  | RM  |                     |  |  | RM    | RM    | RM    |
|                     | 500   | - | 1,000   |     |     |                     |  |  | -     | 1,500 | -     |
|                     |       |   |         |     |     |                     |  |  |       |       |       |
|                     |       |   |         |     |     |                     |  |  |       |       |       |





## Practice 3

Ang, Boon and Chin were in partnership sharing profits and losses in the ratio 3:2:1. The books of the partnership had the following balances as at 31 December Year 3:

|                        | RM     |                  | RM      |
|------------------------|--------|------------------|---------|
| Building               | 65,000 | Capital          |         |
| Furniture And Fixtures | 11,900 | Ang              | 36,000  |
| Motor Vehicles         | 42,900 | Boon             | 48,000  |
| Inventory              | 6,850  | Chin             | 20,000  |
| Accounts Receivable    | 7,210  | Current          |         |
| Cash At Bank           | 2,250  | Ang              | 4,940   |
|                        |        | Boon             | (1,150) |
|                        |        | Chin             | 2,250   |
|                        |        | Bank Loan        | 23,000  |
|                        |        | Accounts Payable | 3,070   |

On 1 January Year 4, Ang decided to retire from the partnership, and they agreed on the following terms:

- (a) The goodwill was valued at RM 12,000 which would not be recorded in the books.
- (b) Increase the value of building by 20%.
- (c) Furniture and fixtures were reduced to RM 11,000.
- (d) Motor vehicles were revalued at RM 39,800.
- (e) The current accounts were to be transferred to capital accounts.
- (f) Ang took over one of the motor vehicles at the revised value of RM 20,115. He agreed to take RM 10,325 in cash, and any further balance due to him was to be transferred to a Loan account.
- (g) Boon and Chin decided to continue the partnership sharing profits and losses in the ratio 2:1.

You are required to prepare:

- (a) Revaluation account;
- (b) partners' Capital account in columnar form;
- (c) Statement Of Financial Position of the new partnership Boon and Chin as at 1 January Year 4.



|                                 | RM      | Ang<br>RM | Boon<br>RM | Chin<br>RM |
|---------------------------------|---------|-----------|------------|------------|
| 1. Profit On Revaluation:       | 9,000   |           |            |            |
| 2. Balances on Capital account: |         | -         | 45,850     | 21,750     |
| 3. Total Assets:                | 122,745 |           |            |            |
| 4. Total Liabilities:           | 55,145  |           |            |            |



What are the Journal entries for the goodwill adjustment

- a. if it is to be **recorded** in the new partnership books?
- b. if it is to be **written off** immediately from the books?

## 16.6 Admission of New Partner

1. An admission of a new partner may be due to the following reasons:
  - a. To replace the outgoing partner;
  - b. The need of capital, ability or skill of the incoming partner;
  - c. The need for expansion and growth of the business, etc.
2. A new partner is entitled to a share of the future profits. Thus, he is required to bring in **cash** and / or **other** form of **assets** as his **capital**. In addition, he has to pay for his **share of goodwill** of the business which has been **built up** and **belonged** entirely to the **existing partners**.
3. The additional cash brought in by a new partner for his **share of goodwill** is known as **premium** 溢价.
4. When the **total value of goodwill** is unknown, it can be calculated from the **premium** (with given future profit and loss sharing ratio) brought in by an incoming partner.
5. Accounting entries for an **admission** of a **new partner** (e.g. partner **D**):

| No. | Transactions                                                                                                                                                                                                                                     | Accounting entries                                                                                                                                                                                                                                                                                                                                                |
|-----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| a.  | Revalue <b>assets</b> .                                                                                                                                                                                                                          | (Refer to: 16.3 2.a.)                                                                                                                                                                                                                                                                                                                                             |
| b.  | Close <b>Revaluation</b> account by transferring the <b>profit</b> or <b>loss on revaluation</b> to partners' <b>Capital</b> account using <b>old</b> profit and loss sharing ratio.                                                             | (Refer to: 16.3 2.b.)                                                                                                                                                                                                                                                                                                                                             |
| c.  | Adjust <b>goodwill</b> :<br>① If Goodwill account is <b>opened</b> , & <b>no extra cash</b> is brought in for premium.<br>② If Goodwill account is <b>opened</b> and then <b>written off</b> , & <b>no extra cash</b> is brought in for premium. | Dr Goodwill (with total value)<br>Cr Capital - A } using <b>old</b> sharing ratio<br>Cr Capital - B }<br><br>Dr Goodwill (with total value)<br>Cr Capital - A } using <b>old</b> sharing ratio<br>Cr Capital - B }<br><br>Dr Capital - A } using <b>new</b> sharing ratio<br>Dr Capital - B }<br>Dr Capital - D }<br>Cr Goodwill - Written Off (with total value) |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                           |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|
| <p>③ If Goodwill account is <b>not opened</b>, &amp; an <b>extra cash</b> is brought in for premium.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | <p>If the <b>sharing ratio</b> of existing partners <b>remains the same</b> after the change:</p>         |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | <p>Dr Cash / Bank } <b>D pays for his share of goodwill / premium using new sharing ratio</b></p>         |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | <p>Cr Capital - A } <b>D's share of goodwill shared by A &amp; B using old sharing ratio</b></p>          |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | <p>Or</p>                                                                                                 |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | <p>If the <b>sharing ratio</b> of existing partners does <b>not remain the same</b> after the change:</p> |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | <p>Dr Capital - D } <b>with increased share of goodwill</b></p>                                           |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | <p>Cr Capital - A } <b>with decreased share of goodwill</b></p>                                           |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | <p>Dr Cash / Bank } <b>D pays for his share of goodwill / premium using new sharing ratio</b></p>         |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | <p>Cr Capital - D }</p>                                                                                   |
| <p>Compare partners' <b>share of goodwill</b> using <b>old</b> &amp; <b>new</b> sharing ratio:<br/> If, new share of goodwill &gt;<br/> old share of goodwill = <b>gain</b>;<br/> If, new share of goodwill &lt;<br/> old share of goodwill = <b>lose</b>.<br/> Partner <b>gains</b> from the change has to be charged, &amp; his Capital account is <b>debited</b> with the <b>increased</b> share of goodwill;<br/> Partners <b>lose</b> from the change have to be compensated, &amp; their Capital accounts are <b>credited</b> with the <b>decreased</b> share of goodwill.</p> | <p>(No entry in partnership books)</p>                                                                    |
| <p>④ If <b>private payment</b> is made to old partners.<br/> <b>D</b> will <b>pay</b> for his <b>share of goodwill</b> using <b>new</b> sharing ratio, not to the partnership, but to the <b>old partners privately</b>.</p>                                                                                                                                                                                                                                                                                                                                                         | <p>Dr Cash / Bank / Assets<br/> Cr Capital - D</p>                                                        |
| <p>d. New partner brings in <b>cash</b> and / or <b>other</b> form of <b>assets</b> as his <b>capital</b>.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | <p>Dr Cash / Bank / Assets<br/> Cr Capital - D</p>                                                        |



④ above is the **least advantageous** to the **incoming partner** as the amount paid by him for his **share of goodwill** (i.e. premium) is **not recorded** in the partnership books.



### Example 4

- ① If Goodwill account is opened.

Wong and Lim were partners and their profit and loss sharing ratio was 1:2. The latest Statement Of Financial Position was as follows:

Wong And Lim  
**Statement Of Financial Position**  
As At 31 December Year 4

|                                     | RM            | RM             | RM |
|-------------------------------------|---------------|----------------|----|
| <b>Non-current Assets</b>           |               |                |    |
| Premises                            | 155,000       |                |    |
| Fixtures And Fittings               | 10,000        |                |    |
| Office Equipment                    | <u>20,000</u> |                |    |
|                                     | 185,000       |                |    |
| <b>Current Assets</b>               |               |                |    |
| Inventory                           | 3,000         |                |    |
| Accounts Receivable                 | 5,000         |                |    |
| Less: Allowance For Doubtful Debts  | <u>(500)</u>  | 4,500          |    |
| Bank                                | <u>5,000</u>  | 12,500         |    |
| <i>Total Assets</i>                 |               | <u>197,500</u> |    |
| <b>Owners' Equity</b>               |               |                |    |
| Capital                             |               |                |    |
| Wong                                | 100,000       |                |    |
| Lim                                 | <u>94,500</u> |                |    |
|                                     |               | 194,500        |    |
| <b>Current Liabilities</b>          |               |                |    |
| Accounts Payable                    | 3,000         |                |    |
| <i>Total Equity And Liabilities</i> |               | <u>197,500</u> |    |

On 1 January Year 5, they admitted Lo as a new partner. The following matters were agreed:

- (i) The assets were revalued as follows:

|                       | RM      |
|-----------------------|---------|
| Premises              | 160,200 |
| Fixtures and fittings | 9,500   |
| Office equipment      | 19,000  |
| Inventory             | 2,500   |

- (ii) The allowance for doubtful debts was decreased by RM 100.  
 (iii) The partners agreed to create a goodwill of value RM 6,000.  
 (iv) Lo brought in RM 12,000 cash and her private motor vehicle valued at RM 8,000 as her capital.  
 (v) The new profit and loss sharing ratio of Wong, Lim and Lo was 1:2:1.

You are required to prepare:

- Goodwill account;
- Revaluation account;
- partners' Capital account in columnar form;
- Statement Of Financial Position as at 1 January Year 5.

### Solution:

|        |             |       | Goodwill          |       |
|--------|-------------|-------|-------------------|-------|
|        |             | RM    | Year 5            | RM    |
| Year 5 |             |       |                   |       |
| Jan 1  | Capital     | (W1)  | Jan 1 Balance c/d | 6,000 |
|        | - Wong      | 2,000 |                   |       |
|        | - Lim       | 4,000 |                   |       |
|        |             | 6,000 |                   |       |
| 1      | Balance b/d | 6,000 |                   | 6,000 |

|        |                                     |       | Revaluation                    |            |
|--------|-------------------------------------|-------|--------------------------------|------------|
|        |                                     | RM    | Year 5                         | RM         |
| Year 5 |                                     |       |                                |            |
| Jan 1  | Fixtures And Fittings               | (W3)  | Jan 1 Premises                 | (W2) 5,200 |
| 1      | Office Equipment                    | (W4)  | 1 Allowance For Doubtful Debts | 100        |
| 1      | Inventory                           | (W5)  |                                |            |
| 1      | Capital: Profit On Revaluation (W6) |       |                                |            |
|        | - Wong                              | 1,100 |                                |            |
|        | - Lim                               | 2,200 |                                |            |
|        |                                     | 5,300 |                                | 5,300      |



|                   |         |         | Capital |                         |                               |
|-------------------|---------|---------|---------|-------------------------|-------------------------------|
|                   | Wong    | Lim     | Lo      | Year 5                  |                               |
| Year 5            | RM      | RM      | RM      | Jan 1 Balance b/d       | Wong                          |
| Jan 1 Balance c/d | 103,100 | 100,700 | 20,000  |                         | 100,000                       |
|                   |         |         |         | 1 Goodwill              | 2,000                         |
|                   |         |         |         | 1 Revaluation           | 4,000                         |
|                   |         |         |         | - Profit On Revaluation | -                             |
|                   |         |         |         | 1 Bank                  | 1,100                         |
|                   |         |         |         | 1 Motor Vehicle         | 2,200                         |
|                   |         |         |         |                         | -                             |
|                   |         |         |         |                         | 12,000                        |
|                   |         |         |         |                         | 8,000                         |
|                   |         |         |         | 1 Balance b/d           | 103,100                       |
|                   |         |         |         |                         | 100,700                       |
|                   |         |         |         |                         | 20,000                        |
|                   |         |         |         |                         | <b>103,100 100,700 20,000</b> |



(d)

Wong, Lim And Lo  
**Statement Of Financial Position**  
As At 1 January Year 5

|                                     | RM   | RM             | RM             |
|-------------------------------------|------|----------------|----------------|
| <b>Non-current Assets</b>           |      |                |                |
| Premises                            |      | 160,200        |                |
| Fixtures And Fittings               |      | 9,500          |                |
| Office Equipment                    |      | 19,000         |                |
| Motor Vehicle                       |      | 8,000          |                |
|                                     |      | <u>196,700</u> |                |
| Goodwill                            |      | 6,000          |                |
|                                     |      | <u>202,700</u> |                |
| <b>Current Assets</b>               |      |                |                |
| Inventory                           |      | 2,500          |                |
| Accounts Receivable                 |      | 5,000          |                |
| Less: Allowance For Doubtful Debts  | (W7) | <u>(400)</u>   | 4,600          |
| Bank                                | (W8) | <u>17,000</u>  | <u>24,100</u>  |
| <i>Total Assets</i>                 |      |                | <u>226,800</u> |
| <b>Owners' Equity</b>               |      |                |                |
| Capital                             |      | (c)            | 103,100        |
| Wong                                |      |                | 100,700        |
| Lim                                 |      |                | 20,000         |
| Lo                                  |      |                | <u>223,800</u> |
| <b>Current Liabilities</b>          |      |                |                |
| Accounts Payable                    |      | 3,000          |                |
| <i>Total Equity And Liabilities</i> |      |                | <u>226,800</u> |

**Workings:**

(1) Goodwill:

$$\text{RM } 6,000 \times \frac{1}{3} = \text{RM } 2,000$$

$$\text{RM } 6,000 \times \frac{2}{3} = \text{RM } 4,000$$

(2) Premises:

$$\text{RM } (160,200 - 155,000) = \text{RM } 5,200$$

(3) Fixtures And Fittings:

$$\text{RM } (10,000 - 9,500) = \text{RM } 500$$

(4) Office Equipment:

$$\text{RM } (20,000 - 19,000) = \text{RM } 1,000$$

(5) Inventory:

$$\text{RM } (3,000 - 2,500) = \text{RM } 500$$

(6) Profit On Revaluation:

$$\text{RM } (5,200 + 100 - 500 - 1,000 - 500) = \text{RM } 3,300$$

$$\text{RM } 3,300 \times \frac{1}{3} = \text{RM } 1,100$$

$$\text{RM } 3,300 \times \frac{2}{3} = \text{RM } 2,200$$

(7) Allowance For Doubtful Debts:

$$\text{RM } (500 - 100) = \text{RM } 400$$

(8) Bank:

$$\text{RM } (5,000 + 12,000) = \text{RM } 17,000$$



② If Goodwill account is **opened** and then **written off**.

You are required to prepare only:

- (a) Goodwill account;
- (c) partners' Capital account in columnar form;
- (d) Statement Of Financial Position as at 1 January Year 5.



Why was the **new profit and loss sharing ratio** (but not the old sharing ratio) used to write off the **Goodwill** account?

### Solution:

| Goodwill      |              |               |
|---------------|--------------|---------------|
| Year 5        | RM           | Year 5        |
| Jan 1 Capital | (W1)         | Jan 1 Capital |
| - Wong        | 2,000        | - Wong        |
| - Lim         | 4,000        | - Lim         |
|               |              | - Lo          |
|               | <u>6,000</u> | <u>1,500</u>  |
|               |              | <u>3,000</u>  |
|               |              | <u>1,500</u>  |
|               |              | <u>6,000</u>  |

| Capital        |         |        |        |                         |                |
|----------------|---------|--------|--------|-------------------------|----------------|
| Wong           | Lim     | Lo     | Wong   | Lim                     | Lo             |
| Year 5         | RM      | RM     | RM     | Year 5                  | RM             |
| Jan 1 Goodwill |         |        |        | Jan 1 Balance b/d       | 100,000        |
| - Written Off  | 1,500   | 3,000  | 1,500  | 1 Goodwill              | 2,000          |
| 1 Balance c/d  | 101,600 | 97,700 | 18,500 | 1 Revaluation           |                |
|                |         |        |        | - Profit On Revaluation | 1,100          |
|                |         |        |        | 1 Bank                  | 2,200          |
|                |         |        |        | 1 Motor Vehicle         | -              |
|                |         |        |        |                         | 12,000         |
|                |         |        |        |                         | 8,000          |
|                |         |        |        | 1 Balance b/d           | 103,100        |
|                |         |        |        |                         | 100,700        |
|                |         |        |        |                         | 20,000         |
|                |         |        |        |                         | <b>101,600</b> |
|                |         |        |        |                         | <b>97,700</b>  |
|                |         |        |        |                         | <b>18,500</b>  |

(d)

Wong, Lim And Lo  
**Statement Of Financial Position**  
As At 1 January Year 5

|                                     | RM          | RM             | RM             |
|-------------------------------------|-------------|----------------|----------------|
| <b>Non-current Assets</b>           |             |                |                |
| Premises                            |             | 160,200        |                |
| Fixtures And Fittings               |             | 9,500          |                |
| Office Equipment                    |             | 19,000         |                |
| Motor Vehicle                       |             | <u>8,000</u>   |                |
|                                     |             | <u>196,700</u> |                |
| <b>Current Assets</b>               |             |                |                |
| Inventory                           |             | 2,500          |                |
| Accounts Receivable                 | 5,000       |                |                |
| Less: Allowance For Doubtful Debts  | (W7) (400)  | 4,600          |                |
| Bank                                | (W8) 17,000 |                | 24,100         |
| <i>Total Assets</i>                 |             |                | <u>220,800</u> |
| <b>Owners' Equity</b> (c)           |             |                |                |
| Capital                             |             |                |                |
| Wong                                |             | 101,600        |                |
| Lim                                 |             | 97,700         |                |
| Lo                                  |             | <u>18,500</u>  |                |
|                                     |             |                | <u>217,800</u> |
| <b>Current Liabilities</b>          |             |                |                |
| Accounts Payable                    |             | 3,000          |                |
| <i>Total Equity And Liabilities</i> |             |                | <u>220,800</u> |

**Workings** (continued from **Example 4 ①**):

(9) Goodwill - Written Off:

$$\text{RM } 6,000 \times \frac{1}{4} = \text{RM } 1,500$$

$$\text{RM } 6,000 \times \frac{2}{4} = \text{RM } 3,000$$

$$\text{RM } 6,000 \times \frac{1}{4} = \text{RM } 1,500$$



③ If Goodwill account is **not opened**.

Lo had to bring in additional cash for his share of goodwill.

You are required to prepare only:

- (c) partners' Capital account in columnar form;
- (d) Statement Of Financial Position as at 1 January Year 5.

### Solution:

(c)

|                   |         |        | Capital |                                          |    |         |        |        |
|-------------------|---------|--------|---------|------------------------------------------|----|---------|--------|--------|
|                   |         |        | Wong    | Lim                                      | Lo | Wong    | Lim    | Lo     |
| Year 5            | RM      | RM     | RM      |                                          |    | RM      | RM     | RM     |
| Jan 1 Balance c/d | 101,600 | 97,700 | 20,000  |                                          |    | 100,000 | 94,500 | -      |
|                   |         |        |         | 1 Bank (W10)<br>- Goodwill Adjustment    |    | 500     | 1,000  | -      |
|                   |         |        |         | 1 Revaluation<br>- Profit On Revaluation |    | 1,100   | 2,200  | -      |
|                   |         |        |         | 1 Bank                                   |    | -       | -      | 12,000 |
|                   |         |        |         | 1 Motor Vehicle                          |    | -       | -      | 8,000  |
|                   | 101,600 | 97,700 | 20,000  |                                          |    | 101,600 | 97,700 | 20,000 |
|                   |         |        |         | 1 Balance b/d                            |    | 101,600 | 97,700 | 20,000 |



What was the difference between the final balances on partners' Capital account under ② and ③? Explain briefly.

(d)

### Wong, Lim And Lo Statement Of Financial Position As At 1 January Year 5

|                                     | RM   | RM    | RM             |
|-------------------------------------|------|-------|----------------|
| <b>Non-current Assets</b>           |      |       |                |
| Premises                            |      |       | 160,200        |
| Fixtures And Fittings               |      |       | 9,500          |
| Office Equipment                    |      |       | 19,000         |
| Motor Vehicle                       |      |       | 8,000          |
|                                     |      |       | 196,700        |
| <b>Current Assets</b>               |      |       |                |
| Inventory                           |      |       | 2,500          |
| Accounts Receivable                 |      | 5,000 |                |
| Less: Allowance For Doubtful Debts  | (W7) | (400) | 4,600          |
| Bank                                | (W8) |       | 18,500         |
| <i>Total Assets</i>                 |      |       | <u>25,600</u>  |
|                                     |      |       | <u>222,300</u> |
| <b>Owners' Equity</b>               |      |       |                |
| (c)                                 |      |       |                |
| Capital                             |      |       |                |
| Wong                                |      |       | 101,600        |
| Lim                                 |      |       | 97,700         |
| Lo                                  |      |       | 20,000         |
|                                     |      |       | 219,300        |
| <b>Current Liabilities</b>          |      |       |                |
| Accounts Payable                    |      |       | 3,000          |
| <i>Total Equity And Liabilities</i> |      |       | <u>222,300</u> |



**Bank & Capital account - Lo** were the only items which were different from those in the **Statement Of Financial Position** under ②.



**Workings** (continued from **Example 4** ② & ①):

(10) Lo paid for his share of goodwill using new sharing ratio:

$$\text{RM } 6,000 \times \frac{1}{4} = \text{RM } 1,500$$

Lo's share of goodwill shared by Wong & Lim using old sharing ratio:

$$\text{RM } 1,500 \times \frac{1}{3} = \text{RM } 500$$

$$\text{RM } 1,500 \times \frac{2}{3} = \text{RM } 1,000$$

(8) Bank:

$$\text{RM } (5,000 + 12,000 + 1,500) = \text{RM } 18,500$$

## Practice 4

Long and Weng were partners with a capital of RM 50,000 and RM 30,000 respectively. Profits and losses were to be shared in proportion to their capital.

On 1 January Year 4 they admitted Ming who brought into the business RM 35,000 cash, of which RM 25,000 representing Ming's capital and the balance was his premium for the admission.

The premium is to be paid into the new partnership and left in the business.

You are required to prepare the partners' Capital account in columnar form.



1. **Balances on Capital account:** Long RM 56,250 Weng RM 33,750 Ming RM 25,000



How do you record the **premium** if Ming **paid** the amount **directly** to **Long and Weng**?



### Example 5

(Withdrawal and admission)

Lau, Lam and Lu were partners and their profit and loss sharing ratio was 2:3:5. The latest Statement Of Financial Position was as follows:

Lau, Lam And Lu  
**Statement Of Financial Position**  
As At 31 December Year 5

|                                     | RM           | RM             | RM             |
|-------------------------------------|--------------|----------------|----------------|
| <b>Non-current Assets</b>           |              |                |                |
| Land And Building                   |              | 80,000         |                |
| Machinery                           |              | 12,000         |                |
| Motor Vehicles                      |              | 20,000         |                |
|                                     |              | <u>112,000</u> |                |
| <b>Current Assets</b>               |              |                |                |
| Inventory                           |              | 3,000          |                |
| Trade Receivables                   | 4,500        |                |                |
| Less: Allowance For Doubtful Debts  | <u>(500)</u> | 4,000          |                |
| Cash And Bank                       |              | 5,000          | <u>12,000</u>  |
| <i>Total Assets</i>                 |              |                | <u>124,000</u> |
| <b>Owners' Equity</b>               |              |                |                |
| Capital                             |              |                |                |
| Lau                                 |              | 30,000         |                |
| Lam                                 |              | 40,000         |                |
| Lu                                  |              | 50,000         |                |
|                                     |              | <u>120,000</u> |                |
| Current                             |              |                |                |
| Lau                                 | 1,000        |                |                |
| Lam                                 | 500          |                |                |
| Lu                                  | 500          | <u>2,000</u>   |                |
| <i>Total Equity</i>                 |              |                | <u>122,000</u> |
| <b>Current Liabilities</b>          |              |                |                |
| Trade Payables                      |              |                | 2,000          |
| <i>Total Equity And Liabilities</i> |              |                | <u>124,000</u> |

On 1 January Year 6, Lau decided to retire from the partnership. The following matters were agreed:

- (i) The assets were revalued as follows:
  - Land and building were increased to RM 104,000;
  - Machinery was decreased to RM 10,000;
  - Motor vehicles were decreased by RM 2,000;
  - Inventory was decreased by RM 1,000.
- (ii) Allowance for doubtful debts was decreased to RM 400.
- (iii) The partners agreed to create and record a goodwill of RM 10,000 but it was not to be retained in the books of the new partnership.
- (iv) Current accounts were to be transferred to capital accounts.
- (v) Lau took over a van valued at RM 6,000.
- (vi) They agreed that the total amount due to Lau would be treated as a loan to the business.

On the same date, Wee was admitted as a new partner. He introduced furniture valued at RM 7,000, inventory RM 2,000 and cash RM 14,000.

The new profit and loss sharing ratio of Lam, Lu and Wee was 3:5:2.

You are required to prepare:

- (a) Goodwill account;
- (b) Revaluation account;
- (c) partners' Capital account in columnar form;
- (d) Statement Of Financial Position as at 1 January Year 6.



On **withdrawal** & **admission** of partner:

- ☞ The **goodwill built up** by old partners should be **credited** to old partners' capital accounts by using **old** sharing ratio.
- ☞ The **goodwill** to be **written off** is decided by new partnership. Thus, it is **debited** to the capital accounts of the continuing & new partners by using **new** sharing ratio.

### Solution:

(a)

| Goodwill      |      |               |               |               |
|---------------|------|---------------|---------------|---------------|
| Year 6        |      | RM            | Year 6        | RM            |
| Jan 1 Capital | (W1) |               | Jan 1 Capital | (W2)          |
| - Lau         |      | 2,000         | - Lam         | 3,000         |
| - Lam         |      | 3,000         | - Lu          | 5,000         |
| - Lu          |      | 5,000         | - Wee         | 2,000         |
|               |      | <u>10,000</u> |               | <u>10,000</u> |

(b)

| Revaluation                      |      |               |                                |               |
|----------------------------------|------|---------------|--------------------------------|---------------|
| Year 6                           |      | RM            | Year 6                         | RM            |
| Jan 1 Machinery                  | (W4) | 2,000         | Jan 1 Land And Building        | (W3) 24,000   |
| 1 Motor Vehicles                 |      | 2,000         | 1 Allowance For Doubtful Debts | (W5) 100      |
| 1 Inventory                      |      | 1,000         |                                |               |
| 1 Capital: Profit On Revaluation | (W6) |               |                                |               |
| - Lau                            |      | 3,820         |                                |               |
| - Lam                            |      | 5,730         |                                |               |
| - Lu                             |      | 9,550         |                                |               |
|                                  |      | <u>24,100</u> |                                | <u>24,100</u> |

(c)

| Capital          |               |               |               |               |                         |               |               |               |               |
|------------------|---------------|---------------|---------------|---------------|-------------------------|---------------|---------------|---------------|---------------|
| Year 6           | Lau           | Lam           | Lam           | Wee           | Year 6                  | Lau           | Lam           | Lu            | Wee           |
|                  | RM            | RM            | RM            | RM            |                         | RM            | RM            | RM            | RM            |
| Jan 1 Goodwill   |               |               |               |               | Jan 1 Balance b/d       | 30,000        | 40,000        | 50,000        | -             |
| - Written Off    | -             | 3,000         | 5,000         | 2,000         | 1 Goodwill              | 2,000         | 3,000         | 5,000         | -             |
| 1 Motor Vehicles |               |               |               |               | 1 Revaluation           |               |               |               |               |
| - Taken Over     | 6,000         | -             | -             | -             | - Profit On Revaluation | 3,820         | 5,730         | 9,550         | -             |
| 1 Loan From Lau  | 30,820        | -             | -             | -             | 1 Current               | 1,000         | 500           | 500           | -             |
| 1 Balance c/d    | -             | 46,230        | 60,050        | 21,000        | 1 Office Furniture      | -             | -             | -             | 7,000         |
|                  | <u>36,820</u> | <u>49,230</u> | <u>65,050</u> | <u>23,000</u> | 1 Inventory             | -             | -             | -             | 2,000         |
|                  |               |               |               |               | 1 Cash                  | -             | -             | -             | 14,000        |
|                  |               |               |               |               |                         | <u>36,820</u> | <u>49,230</u> | <u>65,050</u> | <u>23,000</u> |
|                  |               |               |               |               | 1 Balance b/d           | -             | <u>46,230</u> | <u>60,050</u> | <u>21,000</u> |

(d)

Lam, Lu And Wee  
**Statement Of Financial Position**  
As At 1 January Year 6

|                                     | RM   | RM            | RM             |
|-------------------------------------|------|---------------|----------------|
| <b>Non-current Assets</b>           |      |               |                |
| Land And Building                   |      | 104,000       |                |
| Machinery                           |      | 10,000        |                |
| Office Furniture                    |      | 7,000         |                |
| Motor Vehicles                      | (W7) |               | <u>12,000</u>  |
|                                     |      |               | 133,000        |
| <b>Current Assets</b>               |      |               |                |
| Inventory                           | (W8) | 4,000         |                |
| Trade Receivables                   |      | 4,500         |                |
| Less: Allowance For Doubtful Debts  |      | <u>(400)</u>  | 4,100          |
| Cash And Bank                       | (W9) |               | <u>19,000</u>  |
| <i>Total Assets</i>                 |      |               | <u>27,100</u>  |
|                                     |      |               | <u>160,100</u> |
| <b>Owners' Equity</b>               |      |               |                |
| Capital                             | (c)  |               |                |
| Lam                                 |      | 46,230        |                |
| Lu                                  |      | 60,050        |                |
| Wee                                 |      | <u>21,000</u> |                |
|                                     |      |               | 127,280        |
| <b>Non-current Liabilities</b>      |      |               |                |
| Loan From Lau                       |      | 30,820        |                |
| <b>Current Liabilities</b>          |      |               |                |
| Trade Payables                      |      | <u>2,000</u>  |                |
| <i>Total Liabilities</i>            |      |               | <u>32,820</u>  |
| <i>Total Equity And Liabilities</i> |      |               | <u>160,100</u> |



Why is it necessary to **value** the **goodwill** of the business on the **withdrawal** and **admission** of a partner?

**Workings:**

(1) Goodwill:

$$\text{RM } 10,000 \times \frac{2}{10} = \text{RM } 2,000$$

$$\text{RM } 10,000 \times \frac{3}{10} = \text{RM } 3,000$$

$$\text{RM } 10,000 \times \frac{5}{10} = \text{RM } 5,000$$

(2) Goodwill - Written Off:

$$\text{RM } 10,000 \times \frac{3}{10} = \text{RM } 3,000$$

$$\text{RM } 10,000 \times \frac{5}{10} = \text{RM } 5,000$$

$$\text{RM } 10,000 \times \frac{2}{10} = \text{RM } 2,000$$

(3) Land And Building:

$$\text{RM } (104,000 - 80,000) = \text{RM } 24,000$$

(4) Machinery:

$$\text{RM } (12,000 - 10,000) = \text{RM } 2,000$$

(5) Allowance For Doubtful Debts:

$$\text{RM } (500 - 400) = \text{RM } 100$$

(6) Profit On Revaluation:

$$\text{RM } (24,000 + 100 - 2,000 - 2,000 - 1,000) = \text{RM } 19,100$$

$$\text{RM } 19,100 \times \frac{2}{10} = \text{RM } 3,820$$

$$\text{RM } 19,100 \times \frac{3}{10} = \text{RM } 5,730$$

$$\text{RM } 19,100 \times \frac{5}{10} = \text{RM } 9,550$$

(7) Motor Vehicles:

$$\text{RM } (20,000 - 2,000 - 6,000) = \text{RM } 12,000$$

(8) Inventory:

$$\text{RM } (3,000 - 1,000 + 2,000) = \text{RM } 4,000$$

(9) Cash And Bank:

$$\text{RM } (5,000 + 14,000) = \text{RM } 19,000$$



## Practice 5

(Withdrawal and admission)

Ally, Brian and Chris were partners sharing profits and losses in the ratio 3:2:1.

The balances extracted from the partnership Statement Of Financial Position as at 30 June Year 5 were as follows:

| <u>Assets</u>       | RM             | <u>Liabilities</u> | RM             |
|---------------------|----------------|--------------------|----------------|
| Premises            | 90,000         | Capital            |                |
| Office Equipment    | 17,000         | Ally               | 85,000         |
| Office Furniture    | 2,000          | Brian              | 65,000         |
| Motor Vehicles      | 35,000         | Chris              | 35,000         |
| Inventory           | 62,379         | Current            |                |
| Accounts Receivable | 34,980         | Ally               | 3,714          |
|                     |                | Brian              | (2,510)        |
|                     |                | Chris              | 4,678          |
|                     |                | Bank Loan          | 28,000         |
|                     |                | Accounts Payable   | 19,037         |
|                     |                | Bank Overdraft     | 3,440          |
|                     | <u>241,359</u> |                    | <u>241,359</u> |

On 1 July Year 5, Chris retired from business and Dick was admitted as a partner.

The following matters were agreed:

- Certain assets were created or revalued: Goodwill RM 30,000; Premises RM 110,000; Office equipment RM 15,500; Inventory RM 54,279; Accounts Receivable were to be reduced by RM 500.
- All the current accounts were to be transferred to the capital accounts.
- Chris took over one of the motor vehicles at its book value of RM 6,000. He also agreed to leave RM 20,000 of his capital as a loan to the new partnership and the balance due to him was paid by cheque.
- Ally and Brian were to share profits and losses in the same ratio as before, and Dick was to have the same share of profits and losses as Ally.
- Dick introduced capital in the form of cash equal to the capital of Ally after adjustment.

You are required to prepare:

- Goodwill account;
- Revaluation account;
- partners' Capital account in columnar form;
- Statement Of Financial Position as at 1 July Year 5.



If the goodwill is to be written off, what sharing ratio will be used?



1. **Profit On Revaluation:**

2. **Balances on Capital account:**

3. **Total Assets:**

4. **Total Liabilities:**

| RM      | Ally<br>RM | Brian<br>RM | Dick<br>RM |
|---------|------------|-------------|------------|
| 9,900   |            |             |            |
| 108,664 | 75,790     | 108,664     |            |
| 360,155 |            |             |            |
| 67,037  |            |             |            |



1. Goodwill and **assets revaluation** are taken into account when there is a **change in partnership** such as:
  - a. change in profit and loss sharing ratio 损益分配比例改变;
  - b. withdrawal of existing partner 现有合伙人退出; and
  - c. admission of new partner 新合伙人加入.
2. **Revaluation** account is opened to record the **increase** and / or **decrease** in the value of **assets** as shown below:

| Revaluation 重估                                      |    |                                                   |    |
|-----------------------------------------------------|----|---------------------------------------------------|----|
|                                                     | RM |                                                   | RM |
| Assets ↓                                            | xx | Assets ↑                                          | xx |
| Capital: Profit On Revaluation<br>- A<br>- B<br>- C | Or | Capital: Loss On Revaluation<br>- A<br>- B<br>- C | xx |
|                                                     | xx |                                                   | xx |



☞ The **profit / loss on revaluation** is transferred to partners' **Capital** account using **old profit and loss sharing ratio**.

☞ For the **profit / loss on revaluation** and the **goodwill adjustment** are recorded in partners' **Capital** account but **not** in **Current** account as they are the **adjustments against capital**.

### 3. Accounting entries for goodwill adjustment:

|                                                                    | a. <b>Change in profit and loss sharing ratio</b><br>among existing partners                                   | b. <b>Withdrawal</b> of existing partner<br>(e.g. partner <b>C</b> )                             | Change in partnership                                                                                                                         |
|--------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
| ① If Goodwill account is <b>opened</b> .                           | Dr Goodwill<br>Cr Capital - A<br>Cr Capital - B using <b>old</b> sharing ratio<br>Cr Capital - C               | Dr Goodwill<br>Cr Capital - A<br>Cr Capital - B using <b>old</b> sharing ratio<br>Cr Capital - C | c. <b>Admission</b> of new partner<br>(e.g. partner <b>D</b> )                                                                                |
| ② If Goodwill account is <b>opened</b> & then <b>written off</b> . | Dr Goodwill<br>Cr Capital - A using <b>old</b> sharing ratio<br>Cr Capital - B<br>Cr Capital - C               | Dr Goodwill<br>Cr Capital - A<br>Cr Capital - B using <b>old</b> sharing ratio<br>Cr Capital - C | Dr Goodwill<br>Cr Capital - A<br>Cr Capital - B using <b>old</b> sharing ratio<br>Cr Capital - C                                              |
| ③ If Goodwill account is <b>not opened</b> .                       | Dr Capital - A<br>Dr Capital - B using <b>new</b> sharing ratio<br>Dr Capital - C<br>Cr Goodwill - Written Off | Dr Capital - A using <b>new</b> sharing ratio<br>Dr Capital - B<br>Cr Goodwill - Written Off     | Dr Capital - A using <b>new</b> sharing ratio<br>Dr Capital - B using <b>new</b> sharing ratio<br>Dr Capital - D<br>Cr Goodwill - Written Off |
| ④ If <b>private payment</b> is made to old partners.               |                                                                                                                | (Not applicable)                                                                                 | (No entry)                                                                                                                                    |





## Learning Objectives

After studying this chapter, you should be able to:

- ☛ understand the reasons and significances of partnership dissolution;
- ☛ understand the dissolution procedures;
- ☛ prepare all the entries regarding the dissolution, including Realisation account;
- ☛ understand and apply the Garner vs Murray rule to an insolvent partner.



### 17.1 Reasons and Significances of Partnership Dissolution

1. A partnership may dissolve due to the following **reasons**:
  - a. Disagreement among partners;
  - b. Business suffering heavy losses or no longer profitable;
  - c. Expiration of the time period specified in partnership agreement;
  - d. Death, bankruptcy or retirement of a partner and without replacement;
  - e. Dissolution by court order;
  - f. Conversion of a partnership into a limited company.
2. When a partnership ceases to operate its business, its assets are disposed of and a **Realisation** / Dissolution account is opened to ascertain the **profit** or **loss** on **realisation** of the **assets**. All **liabilities** are then **settled** in the following **order** in accordance with the Partnership Act:
  - a. Paying the firm's creditors;
  - b. Repayment of **loans** / **advances from partners**;
  - c. Repayment of partners' capital.

**Closure** of  
partnership  
business

**Sale** of partnership business  
as a **going concern** 继续经营  
(Chapter 30)



#### Loans / advances from partners

The **amounts** brought in by partners which are **above & beyond** their **invested capital**.

## 17.2 Accounting Entries for Dissolution

The accounting entries to close the books of partnership on dissolution are as follows:

| Steps | Transactions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Accounting entries                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|-------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ①     | a. Close all asset accounts (except for cash and bank) by transferring the carrying amounts of the assets to Realisation account.<br>b. Close Cash account to Bank account.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Dr Realisation<br>Cr Assets<br><br>Dr Bank<br>Cr Cash                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| ②     | Dispose all assets and receive disposal proceeds.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Dr Bank<br>Cr Realisation                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| ③     | Partners take over assets with an agreed price without payment.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Dr Capital<br>Cr Realisation                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| ④     | Collect amount owed by debtors.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Dr Bank<br>Cr Realisation                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| ⑤     | Pay any realisation expenses / dissolution expenses.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Dr Realisation - Realisation Expenses<br>Cr Bank                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| ⑥     | a. Pay off creditors.<br><br>b. Transfer discounts received from creditors to Realisation account.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Dr Accounts Payable<br>Cr Bank<br><br>Dr Accounts Payable<br>Cr Realisation - Discounts Received                                                                                                                                                                                                                                                                                                                                                                                              |
| ⑦     | Close Realisation account by transferring the profit or loss on realisation to partners' Capital account using profit and loss sharing ratio.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Dr Realisation - Profit On Realisation<br>Cr Capital<br><b>Or</b><br>Dr Capital<br>Cr Realisation - Loss On Realisation                                                                                                                                                                                                                                                                                                                                                                       |
| ⑧     | Repay loans / advances from partners.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Dr Loan From Partner<br>Cr Bank                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| ⑨     | Transfer balances on partners' current accounts to their capital accounts.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Dr Current (with credit balance)<br>Cr Capital<br><b>Or</b><br>Dr Capital<br>Cr Current (with debit balance)                                                                                                                                                                                                                                                                                                                                                                                  |
| ⑩     | Each partner's Capital account reflects the amount to be repaid to the partner (if in credit balance), or the amount which the partner has to bring in (if in debit balance):<br><br>a. If partners A, B & C each has a credit balance on Capital account:<br>They are repaid as per their final balances on Capital account with the final balance on Bank account.<br><br>b. If partner C has a debit balance on Capital account:<br>He has to bring in the amount of his indebtedness before other partners are repaid as per their final balances on Capital account.<br><br>c. If partner C has a debit balance on Capital account and he is insolvent:<br>If partnership agreement not specifically stated, the debit balance of insolvent partner must be borne by solvent partners in the ratio of their last agreed capital (Garner vs Murray rule).<br><br>Then, solvent partners are repaid as per their final balances on Capital account. | Dr Capital - A (with credit balance)<br>Dr Capital - B (with credit balance)<br>Dr Capital - C (with credit balance)<br>Cr Bank<br><br>Dr Bank<br>Cr Capital - C (with debit balance)<br><br>Dr Capital - A (with credit balance)<br>Dr Capital - B (with credit balance)<br>Cr Bank<br><br>Dr Capital - A (solvent partner)<br>Dr Capital - B (solvent partner)<br>Cr Capital - C (insolvent partner)<br><br>Dr Capital - A (solvent partner)<br>Dr Capital - B (solvent partner)<br>Cr Bank |



## Example 1

Calvin Tan and Michael Lee had been in partnership for ten years. They had been sharing profits and losses in the ratio 1:2.

They decided to retire from the business and thus dissolved the partnership on 31 December Year 1. The partnership Statement Of Financial Position at that date was as follows:

Calvin Tan And Michael Lee  
**Statement Of Financial Position**  
As At 31 December Year 1

|                                     | RM            | RM            |
|-------------------------------------|---------------|---------------|
| <b>Non-current Assets</b>           |               |               |
| Office Equipment                    | 51,200        |               |
| Fixtures And Fittings               | 17,100        |               |
| Motor Vehicles                      | <u>12,800</u> | 81,100        |
| <b>Current Assets</b>               |               |               |
| Inventory                           | 5,310         |               |
| Accounts Receivable                 | 8,430         |               |
| Bank                                | <u>400</u>    | <u>14,140</u> |
| <i>Total Assets</i>                 | <u>95,240</u> |               |
| <b>Owners' Equity</b>               |               |               |
| Capital                             |               |               |
| Calvin Tan                          | 20,000        |               |
| Michael Lee                         | <u>40,000</u> | 60,000        |
| Current                             |               |               |
| Calvin Tan                          | (1,200)       |               |
| Michael Lee                         | <u>6,920</u>  | <u>5,720</u>  |
| <i>Total Equity</i>                 | <u>65,720</u> |               |
| <b>Non-current Liabilities</b>      |               |               |
| Loan From Michael Lee               | 25,000        |               |
| <b>Current Liabilities</b>          |               |               |
| Accounts Payable                    | <u>4,520</u>  |               |
| <i>Total Liabilities</i>            | <u>29,520</u> |               |
| <i>Total Equity And Liabilities</i> | <u>95,240</u> |               |

The following information on dissolution of the partnership was given:

- (a) The following assets were sold and the proceeds banked:

|                       | RM     |
|-----------------------|--------|
| Office equipment      | 48,000 |
| Fixtures and fittings | 15,000 |
| Motor vehicle         | 8,000  |
| Inventory             | 2,500  |



Name one or more examples of dissolution cost.

- (b) Michael Lee took over the remaining motor vehicle at an agreed value of RM 3,000.  
 (c) The partners managed to collect RM 7,830 from the debtors after allowing discounts and bad debts.  
 (d) Creditors were paid for RM 4,400.  
 (e) Dissolution cost of RM 500 was paid.  
 (f) The Current account balances were transferred to their capital accounts before making any adjustments.

You are required to prepare all the Ledger accounts to record the dissolution.

### Solution:

#### Office Equipment

| Year 1             | RM            | Year 1             | RM            |
|--------------------|---------------|--------------------|---------------|
| Dec 31 Balance b/d | <u>51,200</u> | Dec 31 Realisation | <u>51,200</u> |

#### Fixtures And Fittings

| Year 1             | RM            | Year 1             | RM            |
|--------------------|---------------|--------------------|---------------|
| Dec 31 Balance b/d | <u>17,100</u> | Dec 31 Realisation | <u>17,100</u> |

#### Motor Vehicles

| Year 1             | RM            | Year 1             | RM            |
|--------------------|---------------|--------------------|---------------|
| Dec 31 Balance b/d | <u>12,800</u> | Dec 31 Realisation | <u>12,800</u> |

#### Inventory

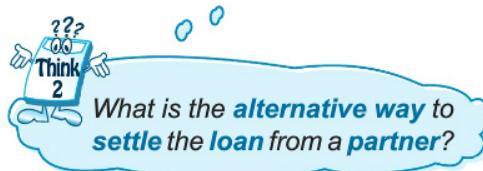
| Year 1             | RM           | Year 1             | RM           |
|--------------------|--------------|--------------------|--------------|
| Dec 31 Balance b/d | <u>5,310</u> | Dec 31 Realisation | <u>5,310</u> |

#### Accounts Receivable

| Year 1             | RM           | Year 1             | RM           |
|--------------------|--------------|--------------------|--------------|
| Dec 31 Balance b/d | <u>8,430</u> | Dec 31 Realisation | <u>8,430</u> |

#### Loan From Michael Lee

| Year 1      | RM            | Year 1             | RM            |
|-------------|---------------|--------------------|---------------|
| Dec 31 Bank | <u>25,000</u> | Dec 31 Balance b/d | <u>25,000</u> |



Accounts Payable

| Year 1 |                                     | RM    | Year 1 | RM           |
|--------|-------------------------------------|-------|--------|--------------|
| Dec 31 | Bank                                | 4,400 | Dec 31 | Balance b/d  |
| 31     | Realisation<br>- Discounts Received | 120   |        |              |
|        |                                     |       |        | <u>4,520</u> |
|        |                                     |       |        | <u>4,520</u> |

Current

| Year 1 |             | Calvin Tan | Michael Lee | Year 1 | Calvin Tan  | Michael Lee |
|--------|-------------|------------|-------------|--------|-------------|-------------|
| Dec 31 | Balance b/d | RM         | RM          | Dec 31 | Balance b/d | RM          |
| 31     | Capital     | 1,200      | -           | 31     | Capital     | 6,920       |
|        |             | -          | 6,920       |        |             |             |

Capital

| Year 1 |                                              | Calvin Tan    | Michael Lee   | Year 1 | Calvin Tan  | Michael Lee |
|--------|----------------------------------------------|---------------|---------------|--------|-------------|-------------|
| Dec 31 | Current                                      | RM            | RM            | Dec 31 | Balance b/d | RM          |
| 31     | Realisation<br>- Motor Vehicle<br>Taken Over | 1,200         | -             | 31     | Current     | 20,000      |
| 31     | Realisation<br>- Loss On Realisation         | -             | 3,000         |        |             | 40,000      |
| 31     | Bank                                         | 3,630         | 7,260         |        | -           | 6,920       |
|        |                                              | <b>15,170</b> | <b>36,660</b> |        |             |             |
|        |                                              | <b>20,000</b> | <b>46,920</b> |        |             |             |



If the final balance on **Bank** account is **not sufficient** to pay out to the final balances on **Capital** account, what does it mean?

| Bank                                 |        |                          |        |
|--------------------------------------|--------|--------------------------|--------|
| Year 1                               | RM     | Year 1                   |        |
| Dec 31 Balance b/d                   | 400    | Dec 31 Accounts Payable  | 4,400  |
| 31 Realisation                       |        | 31 Realisation           |        |
| - Office Equipment                   | 48,000 | - Dissolution Cost       | 500    |
| - Fixtures And Fittings              | 15,000 | 31 Loan From Michael Lee | 25,000 |
| - Motor Vehicle                      | 8,000  | 31 Capital               |        |
| - Inventory                          | 2,500  | - Calvin Tan             |        |
| 31 Realisation - Accounts Receivable | 7,830  | - Michael Lee            |        |
|                                      | 81,730 |                          |        |

**15,170**  
**36,660**  
**81,730**



**Hint**  
It is used to calculate the **profit** or **loss** on **realisation**.



**Hint**  
The final **Bank** account **balance** is distributed according to the final **Capital** account **balances**, but not the **profit** and **loss sharing ratio**.

| Realisation                |        |                                          |        |
|----------------------------|--------|------------------------------------------|--------|
| Year 1                     | RM     | Year 1                                   |        |
| Dec 31 Office Equipment    | 51,200 | Dec 31 Bank                              | RM     |
| 31 Fixtures And Fittings   | 17,100 | - Office Equipment                       | 48,000 |
| 31 Motor Vehicles          | 12,800 | - Fixtures And Fittings                  | 15,000 |
| 31 Inventory               | 5,310  | - Motor Vehicle                          | 8,000  |
| 31 Accounts Receivable     | 8,430  | - Inventory                              | 2,500  |
| 31 Bank - Dissolution Cost | 500    | 31 Capital: Motor Vehicle Taken Over     |        |
|                            | 95,340 | - Michael Lee                            | 3,000  |
|                            |        | 31 Bank - Accounts Receivable            | 7,830  |
|                            |        | 31 Accounts Payable - Discounts Received | 120    |
|                            |        | 31 Capital: Loss On Realisation          |        |
|                            |        | - Calvin Tan                             | 3,630  |
|                            |        | - Michael Lee                            | 7,260  |
|                            |        |                                          | 95,340 |



**Hint**  
The **profit** or **loss** on **realisation** is distributed to partners using **profit** and **loss sharing ratio**.

### Working:

#### Loss On Realisation:

(Book values of assets sold + Dissolution cost) — (Proceeds from assets sold + Asset taken over + Collection from debtors + Discounts received)

$$= \text{RM } (94,840 + 500) - \text{RM} (73,500 + 3,000 + 7,830 + 120)$$

$$= \text{RM } 95,340 - \text{RM } 84,450$$

$$= \text{RM } 10,890$$

$$\text{RM } 10,890 \times \frac{1}{3} = \text{RM } 3,630$$

$$\text{RM } 10,890 \times \frac{2}{3} = \text{RM } 7,260$$



## Practice 1

Kassim, Susan and Osman were in partnership sharing profits and losses in the ratio 5:3:2. On 30 June Year 1, they agreed to dissolve the partnership. The following balances were shown in the books of the business as at that date:

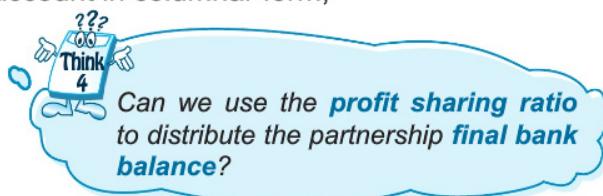
|                        | RM     |
|------------------------|--------|
| Premises               | 32,000 |
| Furniture And Fixtures | 4,800  |
| Motor Vehicles         | 9,500  |
| Inventory              | 3,120  |
| Accounts Receivable    | 2,750  |
| Accounts Payable       | 2,340  |
| Bank Overdraft         | 1,560  |
| Loan                   | 10,000 |
| Capital                |        |
| Kassim                 | 12,000 |
| Susan                  | 10,000 |
| Osman                  | 8,000  |
| Current                |        |
| Kassim                 | 3,170  |
| Susan                  | 2,500  |
| Osman                  | 2,600  |

Assets and liabilities were disposed of as follows:

- (i) Delivery van of carrying amount RM 4,500 was taken over by Kassim for his private use at an agreed price of RM 3,800, and the other motor car was sold for RM 4,300.
- (ii) Inventory was taken over by Osman at an agreed value of RM 3,000.
- (iii) Premises and furniture were realised at RM 33,000 and RM 4,100 respectively.
- (iv) Accounts receivable were realised after deducting bad debts RM 180 and discounts allowed RM 140.
- (v) The loan was settled in full and the accounts payable were discharged for RM 2,270.
- (vi) Expenses of realisation amounting to RM 180 was paid by cheque.

You are required to prepare the following accounts to record the dissolution:

- (a) Realisation account;
- (b) partners' Current account in columnar form;
- (c) partners' Capital account in columnar form;
- (d) Bank account.



1. **Loss On Realisation:** Kassim RM 825
2. **Repayment of capital:** Susan RM 495 Osman RM 330

|                                 |                     |                    |                    |
|---------------------------------|---------------------|--------------------|--------------------|
| 1. <b>Loss On Realisation:</b>  | Kassim<br>RM<br>825 | Susan<br>RM<br>495 | Osman<br>RM<br>330 |
| 2. <b>Repayment of capital:</b> | 10,545              | 12,005             | 7,270              |

### 17.3 Garner versus Murray Rule

- When a partnership ceases to exist, one or more partners may have a **debit** balance on **Capital** account. When this happens, normally, the partner will pay into the partnership Bank account to clear the debt.
- If the partner is unable to pay all or part of the amount owed to the partnership, then the **Garner vs Murray rule** is applied if no agreement exists.
- Garner vs Murray rule** states that if partnership **agreement** does **not specify** how to deal with insolvent partner, the debit balance on Capital account of an **insolvent** partner must be borne by the **solvent** partners in the ratio of their **last agreed** balances on their **capital** accounts, but **not** their **profit and loss sharing ratio**.
- The **last agreed capital** of the **solvent** partners are the **credit balances** on their **capital** accounts from the **last Statement Of Financial Position** prepared **before dissolution** (i.e. drawn up at the end of their last accounting period).
- The **deficiency of insolvent partner** (e.g. partner C) is borne by **solvent partners** (e.g. partner A and B) in the ratio of **last agreed capital** as calculated below:

Deficiency borne by **A**

$$= \text{Deficiency of } C \times \frac{\text{Capital of } A \text{ per Statement Of Financial Position before dissolution}}{\text{Total capital of } A + B \text{ before dissolution}}$$

Deficiency borne by **B**

$$= \text{Deficiency of } C \times \frac{\text{Capital of } B \text{ per Statement Of Financial Position before dissolution}}{\text{Total capital of } A + B \text{ before dissolution}}$$



#### Example 2

Sholeha, Subramaniam and Heng Hock were in partnership sharing profits and losses in the ratio 2:2:1. They agreed to dissolve their partnership. Their Statement Of Financial Position after realising assets and paying liabilities were as follows:

**Sholeha, Subramaniam And Heng Hock**  
**Statement Of Financial Position**  
**As At 31 December Year 2**

|                       | RM            |
|-----------------------|---------------|
| Cash At Bank          | <u>50,000</u> |
| <b>Owners' Equity</b> |               |
| Capital               |               |
| Sholeha               | 28,000        |
| Subramaniam           | (3,000)       |
| Heng Hock             | 25,000        |
|                       | <u>50,000</u> |

Subramaniam was insolvent. He was unable to pay the debit balance of RM 3,000 on his Capital account.

The following were the credit balances on partners' capital accounts from the **last Statement Of Financial Position** prepared **before dissolution**:

|             | RM     |
|-------------|--------|
| Sholeha     | 35,000 |
| Subramaniam | 25,000 |
| Heng Hock   | 15,000 |

You are required to prepare:

- (a) partners' Capital account showing the deficiency borne by the solvent partners according to the Garner vs Murray rule;
- (b) Bank account showing the final payments made to the solvent partners.

### Solution:

(a)

|                             | Capital       |              |               |                                            |           |           |
|-----------------------------|---------------|--------------|---------------|--------------------------------------------|-----------|-----------|
|                             | Sholeha       | Subra-maniam | Heng Hock     |                                            |           |           |
| Year 2                      |               |              |               | Year 2                                     |           |           |
| Dec 31 Balance b/d          | RM -          | RM 3,000     | RM -          | Dec 31 Balance b/d                         | RM 28,000 | RM 25,000 |
| 31 Capital<br>- Subramaniam | 2,100         | -            | 900           | 31 Capital ( <b>Working</b> )<br>- Sholeha | 2,100     |           |
| 31 Bank                     | <b>25,900</b> | -            | <b>24,100</b> | - Heng Hock                                | 900       |           |
|                             | 28,000        | 3,000        | 25,000        |                                            | 28,000    | 3,000     |

**Hint** *Accounting entry: Garner vs Murray rule*

| RM                       | RM    |
|--------------------------|-------|
| Dr Capital - Sholeha     | 2,100 |
| Dr Capital - Heng Hock   | 900   |
| Cr Capital - Subramaniam | 3,000 |

(b)

|                    | Bank   |               |                             |               |               |
|--------------------|--------|---------------|-----------------------------|---------------|---------------|
|                    | Year 2 | RM            | Year 2                      | RM            |               |
| Dec 31 Balance b/d |        | 50,000        | Dec 31 Capital<br>- Sholeha |               |               |
|                    |        |               | - Heng Hock                 |               |               |
|                    |        | <b>50,000</b> |                             | <b>25,900</b> |               |
|                    |        |               |                             | <b>24,100</b> |               |
|                    |        |               |                             |               | <b>50,000</b> |

**Hint** *Final Bank account balance = Final Capital account balances*

**Working:**

$$\begin{aligned}\text{Deficiency borne by Sholeha: } & \text{ RM } 3,000 \times \frac{\text{RM } 35,000}{\text{RM } (35,000 + 15,000)} \\ & = \text{ RM } 3,000 \times \frac{\text{RM } 35,000}{\text{RM } 50,000} \\ & = \text{ RM } 2,100\end{aligned}$$

$$\begin{aligned}\text{Deficiency borne by Heng Hock: } & \text{ RM } 3,000 \times \frac{\text{RM } 15,000}{\text{RM } (35,000 + 15,000)} \\ & = \text{ RM } 3,000 \times \frac{\text{RM } 15,000}{\text{RM } 50,000} \\ & = \text{ RM } 900\end{aligned}$$



**Practice 2**

Chee Hwa, Laila and Vimala had been in partnership for several years sharing profits and losses in the ratio 3:2:1. Their last Statement Of Financial Position prepared before dissolution on 31 December Year 2 was as follows:

| <b>Chee Hwa, Laila And Vimala<br/>Statement Of Financial Position<br/>As At 31 December Year 2</b> |               |                      |
|----------------------------------------------------------------------------------------------------|---------------|----------------------|
|                                                                                                    | RM            | RM                   |
| <b>Non-current Assets</b>                                                                          |               |                      |
| Less: Accumulated Depreciation                                                                     | (6,000)       | <u>14,000</u>        |
| <b>Current Assets</b>                                                                              |               |                      |
| Inventory                                                                                          | 5,000         |                      |
| Accounts Receivable                                                                                | <u>21,000</u> | <u>26,000</u>        |
| <i>Total Assets</i>                                                                                |               | <u><u>40,000</u></u> |
| <b>Owners' Equity</b>                                                                              |               |                      |
| Capital                                                                                            |               |                      |
| Chee Hwa                                                                                           | 4,000         |                      |
| Laila                                                                                              | 4,000         |                      |
| Vimala                                                                                             | <u>2,000</u>  | <u>10,000</u>        |
| <b>Current Liabilities</b>                                                                         |               |                      |
| Accounts Payable                                                                                   | 17,000        |                      |
| Bank Overdraft                                                                                     | <u>13,000</u> | <u>30,000</u>        |
| <i>Total Equity And Liabilities</i>                                                                |               | <u><u>40,000</u></u> |

Despite making good profits during recent years, they had become increasingly dependent on one major customer Abdul Wahab who owed the partnership a total amount of RM 18,000.

It had now been discovered that Abdul Wahab was insolvent and unlikely to repay any of the money owed by him. Reluctantly, the partners had decided to dissolve the partnership at the end of the reporting period.

The following were the details regarding the dissolution:

- (i) The inventory was sold to Nelson Bhd at its market price of RM 4,000 in cash.
- (ii) The non-current assets were sold for RM 8,000 except for certain items of carrying amount RM 5,000 were taken over by Chee Hwa at a valuation of RM 7,000.
- (iii) Amounts due from debtors were collected except the debt from Abdul Wahab which was considered irrecoverable.
- (iv) Settled debts with creditors and received discounts RM 500.
- (v) Expenses of RM 800 were incurred on dissolution.
- (vi) Vimala was unable to meet her liability to the partnership, thus the Garner vs Murray rule was applied.
- (vii) Any amount of deficiency on partners' capital accounts would be settled from the partners' personal funds.

You are required to prepare the following accounts to close the books of the partnership:

- (a) Realisation account;
- (b) partners' Capital account;
- (c) partnership Bank account.



1. **Loss On Realisation:**
2. **Deficiency borne by partners:**
3. **Amount brought in by partners:**

|                                   | Chee Hwa<br>RM | Laila<br>RM | Vimala<br>RM |
|-----------------------------------|----------------|-------------|--------------|
| 1. Loss On Realisation:           | 9,150          | 6,100       | 3,050        |
| 2. Deficiency borne by partners:  | 525            | 525         | -            |
| 3. Amount brought in by partners: | 12,675         | 2,625       | -            |

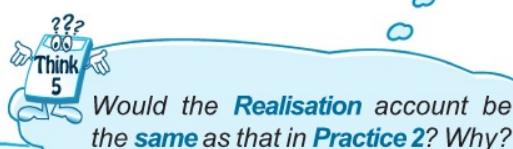
### Practice 3

(Same information as in **Practice 2**)

If any amount of deficiency on partners' capital accounts would be settled from all the partners' personal funds, i.e. suppose all the partners were solvent.

You are required to amend the following accounts you have done in **Practice 2** to close the books:

- (b) partners' Capital account;
- (c) partnership Bank account.



1. **Amounts brought in by partners:**

|                                    | Chee Hwa<br>RM | Laila<br>RM | Vimala<br>RM |
|------------------------------------|----------------|-------------|--------------|
| 1. Amounts brought in by partners: | 12,150         | 2,100       | 1,050        |



## Practice 4

Chew, Fang and Wan had been in partnership for a number of years sharing profits and losses in the proportion 3:2:1. The partnership Statement Of Financial Position as at 31 December Year 4 was summarised as follows:

|                                | RM      |
|--------------------------------|---------|
| Store Building                 | 145,000 |
| Office Furniture And Equipment | 17,900  |
| Motor Vehicles                 | 12,370  |
| Inventory                      | 21,910  |
| Trade Receivables              | 9,800   |
| Cash                           | 710     |
| Trade Payables                 | 12,390  |
| Bank Overdraft                 | 21,770  |
| Loan From Loke                 | 16,000  |
| Capital                        |         |
| Chew                           | 69,200  |
| Fang                           | 61,400  |
| Wan                            | 26,930  |

The partners decided to dissolve the partnership and close the books at the end of the reporting period on the following terms:

- (i) The assets were taken over as follows:

| <u>Assets</u>     | <u>Partners</u> | <u>Agreed values</u> |
|-------------------|-----------------|----------------------|
|                   |                 | RM                   |
| Motor cars:       | Chew            | 5,700                |
|                   | Fang            | 2,900                |
| Store building:   | Chew            | 195,000              |
| Inventory (part): | Wan             | 11,000               |

- (ii) The remaining assets were disposed of for the following amounts:

|                                | RM     |
|--------------------------------|--------|
| Motor van                      | 2,800  |
| Office furniture and equipment | 16,000 |
| Inventory                      | 8,851  |

- (iii) After the partners agreed to allow discounts totalling RM 800, the debtors settled all of their debts.

- (iv) RM 680 was paid by Chew for the legal cost associated with the dissolution.

- (v) The accounts payable were settled for an amount that was 10% less.

- (vi) An interest on bank overdraft of RM 280 was accrued and paid.

- (vii) All other debts were repaid on the same date.

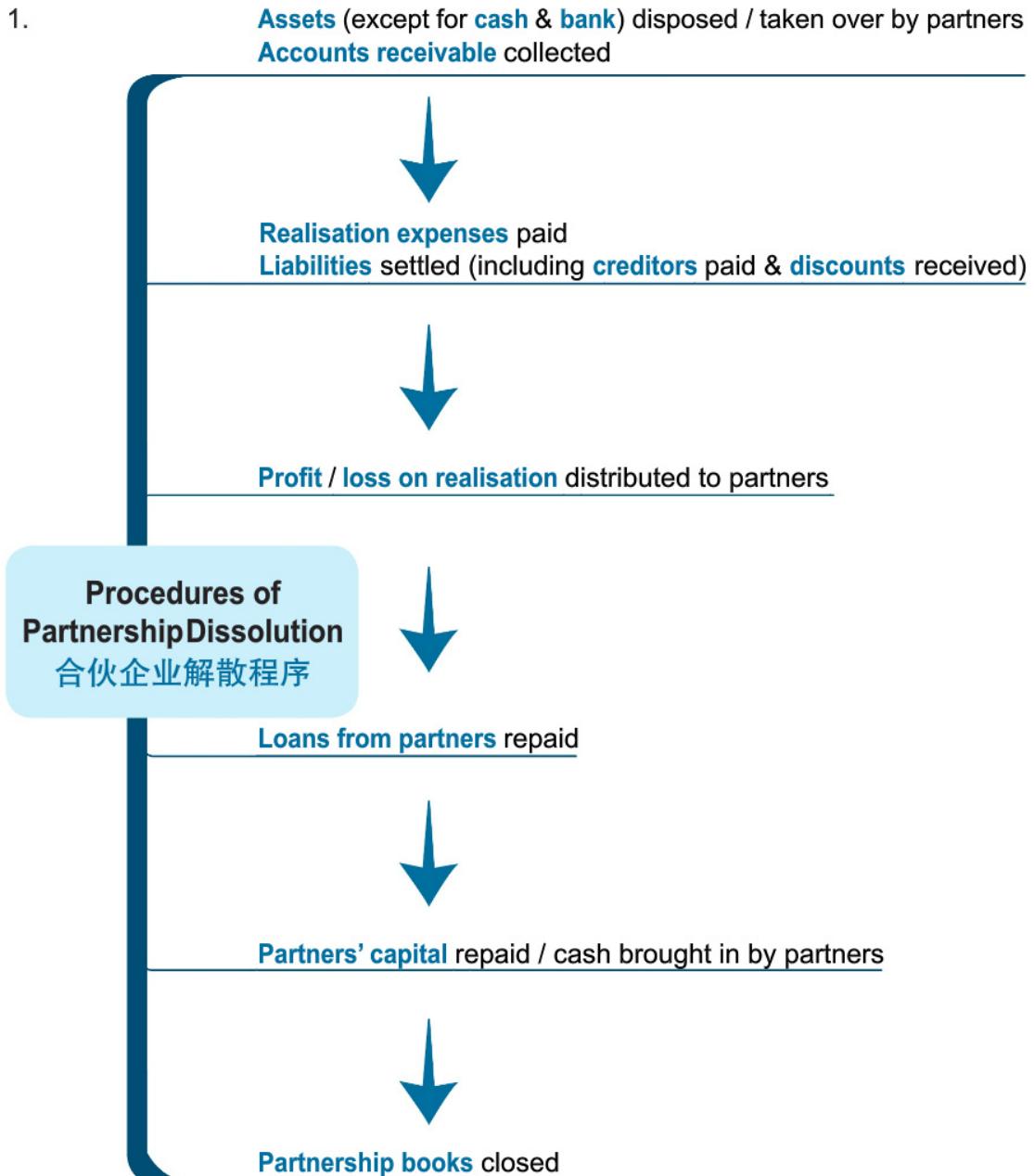
You are required to show the closing of the partnership by preparing the following accounts:

- (a) Realisation account;
- (b) partners' Capital account;
- (c) Bank account.



Close **Cash** account to **Bank** account.

|                                                | Chew<br>RM | Fang<br>RM | Wan<br>RM |
|------------------------------------------------|------------|------------|-----------|
| 1. <b>Profit On Realisation:</b>               | 22,275     | 14,850     | 7,425     |
| 2. <b>Brought in / (repayment of capital):</b> | 108,545    | (73,350)   | (23,355)  |



## 2. Accounting entries for dissolution: (① ~ ⑩ are the steps as on page 17-2)

### Carrying amounts 账面金额

|                                 | Realisation 变现 | Disposal proceeds 变卖价款                                                                      |
|---------------------------------|----------------|---------------------------------------------------------------------------------------------|
| Assets (except for cash & bank) | RM<br>① xx     | RM<br>② xx                                                                                  |
| Bank - Realisation Expenses     | ⑤ xx           | Capital: Assets Taken Over<br>- A<br>- B                                                    |
| Capital: Profit On Realisation  | ⑦              | Bank - Accounts Receivable<br>Accounts Payable - Discounts Received<br>④ xx<br>⑥b. xx<br>xx |
| - A                             | xx             |                                                                                             |
| - B                             | xx             |                                                                                             |
|                                 | xx             |                                                                                             |



The balance on Realisation account is the profit or loss on realisation to be shared among the partners using profit and loss sharing ratio.

### Current

| Capital |   |   |             |    | A      B<br>RM    RM<br>xx    xx |  |
|---------|---|---|-------------|----|----------------------------------|--|
|         |   |   |             |    |                                  |  |
|         | A | B | RM          | RM |                                  |  |
|         | ⑨ |   | Balance b/d |    |                                  |  |

### Capital

| Realisation - Assets Taken Over<br>Bank |     |   |                                                |    | A      B<br>RM    RM<br>xx    xx<br>xx    xx<br>xx    xx |  |
|-----------------------------------------|-----|---|------------------------------------------------|----|----------------------------------------------------------|--|
|                                         |     |   |                                                |    |                                                          |  |
|                                         | A   | B | RM                                             | RM |                                                          |  |
|                                         | ③   |   | Balance b/d                                    |    |                                                          |  |
|                                         | ⑩a. |   | Realisation - Profit On Realisation<br>Current |    |                                                          |  |

### Bank

| Balance b/d<br>Realisation - Assets<br>Realisation - Accounts Receivable |   |   |                                    |    | RM<br>xx<br>xx<br>xx<br>xx<br>xx |  |
|--------------------------------------------------------------------------|---|---|------------------------------------|----|----------------------------------|--|
|                                                                          |   |   |                                    |    |                                  |  |
|                                                                          | A | B | RM                                 | RM |                                  |  |
|                                                                          | ② |   | Realisation - Realisation Expenses |    |                                  |  |
|                                                                          | ④ |   | Accounts Payable                   |    |                                  |  |
|                                                                          | ⑤ |   | Loan From Partner                  |    |                                  |  |



- The final balances on Capital account must equal the final balance on Bank account from which the partners are paid.
- The entries in Capital account should be completed before those in Bank account.



**Hint** A debit balance of an **insolvent** partner.

3. **Garner vs Murray rule** 加纳对默里规则 is applied to an **insolvent** 无偿债能力partner:

|                         | Capital |    |    |                         |
|-------------------------|---------|----|----|-------------------------|
|                         | A       | B  | C  |                         |
|                         | RM      | RM | RM |                         |
| Balance b/d             | -       | -  | xx | Balance b/d             |
| Capital: C's Deficiency |         |    |    | Capital: C's Deficiency |
| - C                     |         |    |    | - A                     |
| Bank                    | x       | x  |    | - B                     |
|                         | xx      | xx |    |                         |
|                         | xx      | xx | xx |                         |

| A  | B  | C  |
|----|----|----|
| RM | RM | RM |
| xx | xx | -  |
|    | x  | x  |



☞ The deficiency 不敷额 of insolvent partner **C** is borne by solvent partners **A & B** in the ratio of their **last agreed capital** 最终协议资本:

Deficiency borne by **A**

$$= \text{Deficiency of } \mathbf{C} \times \frac{\text{Capital of } \mathbf{A} \text{ per Statement Of Financial Position before dissolution}}{\text{Total capital of } \mathbf{A + B} \text{ before dissolution}}$$

Deficiency borne by **B**

$$= \text{Deficiency of } \mathbf{C} \times \frac{\text{Capital of } \mathbf{B} \text{ per Statement Of Financial Position before dissolution}}{\text{Total capital of } \mathbf{A + B} \text{ before dissolution}}$$

☞ **Accounting entry:** Dr Capital - **A** (solvent partner)

Dr Capital - **B** (solvent partner)

Cr Capital - **C** (insolvent partner)



## Learning Objectives

After studying this chapter, you should be able to:

- ☞ describe the characteristics of a limited company;
- ☞ understand the liability of different types of business organisation;
- ☞ distinguish between classes of share capital / loan notes;
- ☞ differentiate between shares and loan notes;
- ☞ differentiate between interim and final dividends;
- ☞ calculate dividends of different types of shares;
- ☞ determine items in Statement Of Changes In Equity and Equity section of Statement Of Financial Position;
- ☞ prepare financial statements for a limited company.



### 18.1 Characteristics of Limited Company

1. The following are the characteristics of a limited company:
  - a. It is incorporated under the **Companies Act** 公司法令1965.
  - b. It can raise funds through the issuance of shares and loan notes.
  - c. It is an organisation of many owners identified as **shareholders** 股东 with limited liability.
  - d. The liability of each of the shareholders is confined to the number of shares that he / she holds.
  - e. **Memorandum and Articles of Association** 公司章程 is a document which must be submitted to the Companies Commission of Malaysia 马来西亚公司委员会 upon the registration of a company.  
It consists of two parts:
    - i. **Memorandum of Association** 公司备忘录  
It contains the essential components of the structure of a company.
    - ii. **Articles of Association** 公司条例  
It contains the internal regulations which govern the internal affairs of a company.



**M & A**

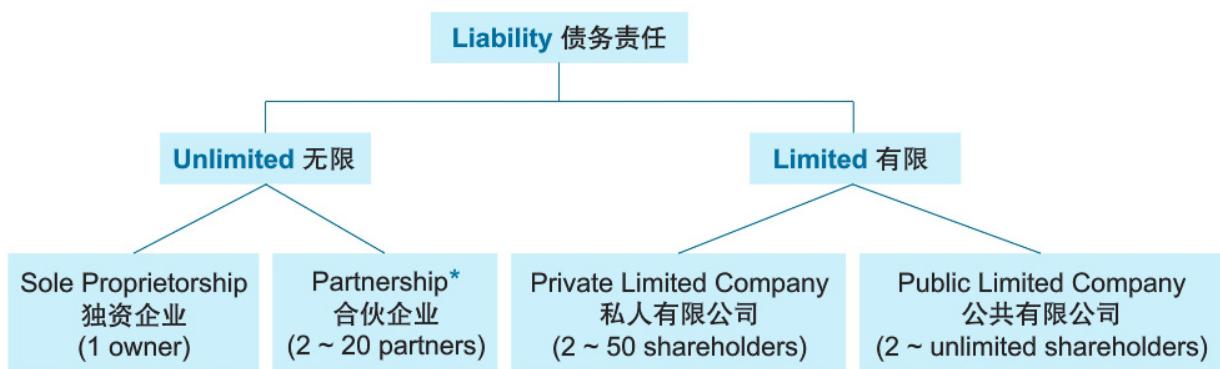
☞ **Memorandum of Association** states the following items of a company:

- i. name;
- ii. registered office;
- iii. objects 宗旨;
- iv. limited liability of members;
- v. authorised capital;
- vi. declaration of initial subscribers, etc.

☞ **Articles of Association** covers:

- i. types, duties and powers of shareholders;
- ii. duties and powers of directors;
- iii. meetings, meeting procedures;
- iv. appointment, remuneration and removal of directors and auditors;
- v. issue, transfer and forfeiture of shares;
- vi. payment of dividends and creation of reserves, etc.

2. The liability of different types of **business organisation** 商业组织 is illustrated below:



What does “**limited**” mean when used in relation to a **limited company**?

**Note:** \*For **limited liability partnership** refers to 商业学 (第二册) 4.3.2 有限责任合伙企业.



### Nominal / Par / Face value per share 每股面值

*It is the face value of a share originally fixed by a company and stated in its Memorandum of Association.*

## 18.2 Classification of Share Capital

Share capital of a limited company can be classified as follows:

### 1. Authorised / Registered / Nominal share capital

It is the registered nominal value of the maximum number of shares stated in the Memorandum of Association that a company is allowed to issue.

It can be changed by certain legal formalities.

It is not part of the double entry system. It is only a memorandum.

Authorised share capital

$$= \text{Maximum no. of shares authorised to be issued} \times \text{Nominal value per share}$$

### 2. Issued share capital

It is the nominal value of whole / part of the authorised shares that has been issued to shareholders.

$$\text{Issued share capital} = \text{No. of shares issued} \times \text{Nominal value per share}$$

### 3. Called-up share capital

It is the whole / part of the nominal value of the issued shares that has been asked for / called for payment from shareholders.

Called-up share capital

$$= \text{No. of shares issued} \times \text{Whole / Part nominal value called per share}$$

### 4. Uncalled share capital

It is the part of the nominal value of the issued shares that has not been asked for payment from shareholders.

$$\text{Uncalled share capital} = \text{Issued share capital} - \text{Called-up share capital}$$

### 5. Paid-up share capital

It is the whole / part of the nominal value of the called-up capital that has been paid by shareholders.

Paid-up share capital

$$= \text{No. of shares paid} \times \text{Whole / Part nominal value called per share}$$

### 6. Calls in arrears

It is the part of the nominal value of the called-up capital that has not been paid by shareholders.

$$\text{Calls in arrears} = \text{Called-up share capital} - \text{Paid-up share capital}$$



*Under what circumstances will the **two amounts** of the following items be the **same**?*

- i. **Authorised share capital** and **issued share capital**;
- ii. **Issued share capital** and **called-up share capital**;
- iii. **Called-up share capital** and **paid-up share capital**.



## Example 1

LRT Bhd was formed with a right to issue 1,000,000 ordinary shares at a nominal value of RM 1 each.

It issued only 800,000 shares to the public at RM 1 each and RM 0.80 per share had been called for payment.

The shares were fully subscribed but 500 shares were unpaid by a shareholder.

You are required to:

- (a) calculate the following amounts:
  - (i) Authorised share capital
  - (ii) Issued share capital
  - (iii) Called-up share capital
  - (iv) Uncalled share capital
  - (v) Paid-up share capital
  - (vi) Calls in arrears
- (b) show the appropriate item in the Equity section of a Statement Of Financial Position.

### Solution:

(a)

(i) Authorised share capital  
**RM 1,000,000**  
( $1,000,000 \times \text{RM } 1$ )

(ii) Issued share capital  
**RM 800,000**  
( $800,000 \times \text{RM } 1$ )

(iii) Called-up share capital  
**RM 640,000**  
( $800,000 \times \text{RM } 0.80$ )

(iv) Uncalled share capital  
**RM 160,000**  
( $\text{RM } 800,000 - \text{RM } 640,000$ )  
Or  
[  $800,000 \times (\text{RM } 1 - \text{RM } 0.80)$  ]

(v) Paid-up share capital  
**RM 639,600**  
[  $(800,000 - 500) \times \text{RM } 0.80$  ]

(vi) Calls in arrears  
**RM 400**  
( $\text{RM } 640,000 - \text{RM } 639,600$ )  
Or  
( $500 \times \text{RM } 0.80$ )

(b)

LRT Bhd  
**Statement Of Financial Position** (Extract)  
As At .....

RM

**Equity**

|                     |           |
|---------------------|-----------|
| Share Capital       | 639,600   |
| Share Premium       | xx        |
| General Reserve     | xx        |
| Retained Profits    | xx        |
| <b>Total Equity</b> | <b>xx</b> |



Only the amount of **paid-up share capital** of ordinary shares is shown.



Could the **issued share capital** be more than the **authorised share capital**? Why?



## Practice 1

Hamza Bhd had a registered capital of 5,000,000 shares which consisted of:  
4,000,000 ordinary shares of RM 0.50 each; and  
1,000,000 7% preferred shares of RM 1 each.

2,000,000 ordinary shares were issued at par and only RM0.40 had been called and paid up;  
500,000 7% preferred shares were issued and fully paid up.

You are required to:

(a) complete the following table:

| e.g.  | Types of share capital   | Ordinary shares                                           | 7% preferred shares                                    |
|-------|--------------------------|-----------------------------------------------------------|--------------------------------------------------------|
| (i)   | Authorised share capital | $4,000,000 \times \text{RM } 0.50 = \text{RM } 2,000,000$ | $1,000,000 \times \text{RM } 1 = \text{RM } 1,000,000$ |
| (ii)  | Issued share capital     |                                                           |                                                        |
| (iii) | Called-up share capital  |                                                           |                                                        |
| (iv)  | Uncalled share capital   |                                                           |                                                        |
| (v)   | Paid-up share capital    |                                                           |                                                        |
| (vi)  | Calls in arrears         |                                                           |                                                        |

(b) show the appropriate item in the Equity section of a Statement Of Financial Position.



1. **Share Capital:** RM 1,300,000.

### 18.3 Classes of Shares and Loan Notes

A limited company can **raise** its **funds** by issuing:

#### 1. Shares

Shares represent the ownership of a company. Thus, shareholders are the owners of a company.

They are **two** main types of shares:

##### a. Ordinary shares / Equity shares / Owners' shares

- The most common type of shares.
- The shareholders have **voting rights**. Thus, they can influence the running of the company.
- The shareholders are entitled to dividends only after the preferred shareholders have received their dividends.
- The rate of dividends is not fixed. Thus, dividends are not guaranteed and may not be paid at all in some years.
- The shareholders rank after the preferred shareholders in the repayment of capital and distribution of assets on liquidation.

##### b. Preferred shares

- The shareholders have no voting rights.
- The shareholders are entitled to a fixed rate of dividends before ordinary shareholders receive their dividends.
- The shareholders rank before the ordinary shareholders in the repayment of capital and distribution of assets on liquidation.
- Classes of preferred shares:

i. **Cumulative**: The right to the unpaid dividends can be carried forward to later years.

**Non-cumulative**: The right to the unpaid dividends cannot be carried forward to later years.

ii. **Redeemable**: They are repayable at some future date.

**Irredeemable**: They are not repayable unless the company is liquidated.

#### 2. Loan notes

- They are the **loans** made to a company by directors / public, and they form part of the **loan capital** of a company.

- The loan note holders are entitled to a fixed percentage of interest, which is payable irrespective of the profits made and is the expense of a company.

- The loan note holders are the creditors of a company.

- The loan note holders are to be repaid the nominal value and interest before all the shareholders on liquidation.

- Classes of loan notes\* :

i. **Secured / Mortgage**: They are secured on company assets.

**Simple / Naked**: They are not secured on company assets.

ii. **Redeemable**: They are repayable between a given period of time or at a particular date.

e.g. 5% Loan notes 2016/2018

(i.e. 5% interest p.a.; repayable between 2016 and 2018)

**Irredeemable / Perpetual**: They are not repayable unless the company is liquidated.



What are the **differences** between  
**ordinary shares** and **loan notes**?



**Loan Capital** 借贷资本

It includes **loan notes** and **bank loans** which  
are not repayable in the near future.

Note: \* For **convertible loan note** refers to **商业学 (第三册) 1.3 公司债券**.

## 18.4 Dividends

1. They represent the distribution of a company's profits to its shareholders.
2. They are proposed / recommended by the board of directors, approved by the shareholders, and then declared / resolved / decided at the annual general meeting (AGM) 股东常年大会.
3. The rate of ordinary share dividends is declared depending on the profits available and the need for future expansion, while the preferred share dividends are given by using a fixed rate as specified.
4. Ordinary share dividends are calculated as:
  - a. **an amount per share**  
e.g. RM 0.40 per ordinary share  
Total dividends payable: Number of ordinary shares x RM 0.40
  - b. **a percentage of nominal value**  
e.g. 15% on ordinary shares / 15% on ordinary share capital  
Total dividends payable: Nominal value of paid-up ordinary share capital x 15%
5. Ordinary share dividends can be divided into:
  - a. **Interim dividends** 期中股息  
They are the dividends normally **declared** and **paid during** a financial year **before** a financial year end.  
They are paid **before** the **profit** for the whole year is **ascertained**.  
They are normally not subjected to shareholders' approval at the AGM.
  - b. **Final dividends** 期末股息  
They are normally **proposed after** a financial year end when the **profit** for the year is **ascertained**.  
They will be **paid** in the **following year** and **disclosed** in the **notes** to the financial statements of the **current year**.  
They are normally subjected to shareholders' approval at the AGM.

### Notes: Preferred share capital and Dividends

- ① **Dividends on irredeemable and non-cumulative preferred shares**  
**Irredeemable** 不可赎回 and **non-cumulative preferred share capital** is **equity** but not borrowed capital.  
The **dividends paid in full** are shown in **Statement Of Changes In Equity**.
- ② **Dividends on redeemable preferred shares**  
**Redeemable** 可赎回 **preferred share capital** is **borrowed capital** (i.e. liability / loan capital).  
The **dividends paid** and if **unpaid**, are **accrued**. They are shown as **finance cost**, and any **arrears** of the dividends are shown as **current liabilities**.



## Example 2

The share capital of Bata Berhad on 31 December Year 2 was as follows:  
Authorised capital

800,000 ordinary shares of RM 1 each

400,000 8% preferred shares of RM 0.50 each

Issued capital

600,000 ordinary shares of RM 1 each, fully paid

200,000 8% preferred shares of RM 0.50 each, fully paid

During the year, 8% interim dividends on ordinary shares were paid and 8% preferred share dividends were paid in full.

At the end of the year, the directors proposed 12% final dividends on ordinary shares.

You are required to calculate the dividends on:

- 8% preferred shares;
- Ordinary shares.

### Solution:

|     |                     | Interim dividends                                         | Final dividends                                          |
|-----|---------------------|-----------------------------------------------------------|----------------------------------------------------------|
| (a) | 8% preferred shares | $200,000 \times \text{RM } 0.50 \times 8\%$<br>= RM 8,000 |                                                          |
| (b) | Ordinary shares     | $600,000 \times \text{RM } 1 \times 8\%$<br>= RM 48,000   | $600,000 \times \text{RM } 1 \times 12\%$<br>= RM 72,000 |



## Practice 2

The information of Yong Pin Bhd for the year ended 30 June Year 2 was as follows:  
Authorised and issued capital

100,000 ordinary shares of RM 2 each, fully paid

40,000 10% preferred shares of RM 1 each, fully paid

Interim dividends of RM 0.20 per ordinary share were paid half-way through the financial year, and the preferred share dividends were also paid in full.

On 30 June Year 2, the directors recommended to pay final dividends of RM 0.40 per ordinary share.

You are required to calculate:

- interim and final dividends on ordinary shares;
- total dividends for the two types of shares.



### 1. Total dividends:

| Ordinary shares | Preferred shares |
|-----------------|------------------|
| RM              | RM               |
| 60,000          | 4,000            |

## 18.5 Income Statement

1. The **Trading** account section of **Income Statement** of a limited company is exactly the **same** as that of a sole proprietorship or partnership.

However, in the **Profit And Loss** account section there are **additional income** and **expenses** which should be **accrued** irrespective of whether cash has been received or paid during the current year:

Credit items:

- a. **Income from investments**

It is the income obtained from the shares bought from another company as an investment.

It is treated as an **other income** (i.e. income derived from transaction outside the ordinary activities of a business).

Debit items:

- b. **Loan note interest**

It is the interest payable to loan note holders whether the company is earning a profit or running a loss.

- c. **Directors' salaries / fees**

They are the **remunerations** payable to directors:

**Directors' salaries** are for the **executive directors** 执行董事 actively involved in the day-to-day running of the company;

**Directors' fees** are for the **non-executive directors** 非执行董事.

- d. **Audit fees**

They are the fees payable to auditors for examining the accounting records and supporting documents in order to report on the annual financial statements of a company.

- e. **Preliminary expenses / Formation expenses**

They are the **start-up** or **pre-operating costs**. They must be **charged** to **expense** when incurred.

e.g. Legal expenses and secretarial fees.

2. **Accounting entries:**

|                                                                                                                                          |                    |
|------------------------------------------------------------------------------------------------------------------------------------------|--------------------|
| Dr Bank / Accrued Income From Investments<br>Cr Profit And Loss - Income From Investments                                                | 1. a.              |
| Dr Profit And Loss - Loan Note Interest /<br>Directors' Remunerations / Audit Fees<br>Preliminary Expenses<br>Cr Bank / Accrued Expenses | 1. b., c., d. & e. |

## 18.6 Statement Of Changes In Equity

- A **Statement Of Changes In Equity** shows the **changes** in each **component of equity** during an accounting period and provides information about **transactions** between the **entity** and its **owners** (i.e. shareholders).
- The **changes in equity** are as follows:
  - Profit / loss for the period;
  - Transfers between reserves (i.e. funds):
    - set aside for specific purpose, e.g. Assets replacement reserve,  
\* **Capital redemption reserve**,  
\* **Loan note redemption reserve**.
    - retained for future needs, e.g. General reserve.
  - Other transactions between the entity and owners (i.e. distributions to and contributions by shareholders):
    - Dividends paid, e.g. Dividends of preferred shares,  
Interim dividends of ordinary shares.
    - Issue of ordinary or / and preferred shares.



\* : Items at Accounting level:

☞ **Capital redemption reserve** is provided for the repayment of **preferred shares**. It is legally required.

☞ **Loan note redemption reserve** is provided for the repayment of **loan notes**. It is not legally necessary.

### 3. Format:

XX Sdn Bhd  
**Statement Of Changes In Equity**  
For The Year Ended 31 December Year 1

|                               | RM<br>Share Capital | RM<br>Share Premium | RM<br>General Reserve | RM<br>Retained Profits | RM<br>Total |
|-------------------------------|---------------------|---------------------|-----------------------|------------------------|-------------|
| Balance at 1 January Year 1   | xx                  | xx                  | xx                    | xx                     | xx          |
| Profit / (Loss) for the year  |                     |                     |                       | YY                     | YY          |
| Transfer to General Reserve   |                     |                     | xx                    | (xx)                   | -           |
| Dividends paid                |                     |                     |                       | (xx)                   | (xx)        |
| Issue of Share Capital        | xx                  | xx                  |                       |                        | xx          |
| Balance at 31 December Year 1 | xx                  | xx                  | xx                    | xx                     | xx          |

**Changes for the period**

Balance at 1 January Year 1

Profit / (Loss) for the year

Transfer to General Reserve

Dividends paid

Issue of Share Capital

Balance at 31 December Year 1

a.  
b.  
c. i.  
c. ii.

**Hint**  
They refer to the items in 2. above.



### Example 3

The share capital of Sunny Sdn Bhd on 31 December Year 3 was as follows:

|                                                     | RM        |
|-----------------------------------------------------|-----------|
| <b>Authorised Capital</b>                           |           |
| 500,000 ordinary shares of RM 2 each                | 1,000,000 |
| 100,000 8% preferred shares of RM 1 each            | 100,000   |
| <b>Issued Capital</b>                               |           |
| 400,000 ordinary shares of RM 2 each, fully paid    | 800,000   |
| 80,000 8% preferred shares of RM 1 each, fully paid | 80,000    |

The following information was available for the year ended 31 December Year 3:

|                                       | RM      |
|---------------------------------------|---------|
| Profit for the year                   | 248,000 |
| Preferred share dividends paid        | 6,400   |
| Ordinary share interim dividends paid | 20,000  |
| Balance on 1 January Year 3           |         |
| General reserve                       | 60,000  |
| Retained profits                      | 40,500  |

The directors decided to transfer RM19,000 to general reserve, and proposed to pay final dividends of 15% on ordinary shares.

Dividends were paid for each year on the preferred shares at 8%.

You are required to prepare:

- Statement Of Change In Equity for the year ended 31 December Year 3;
- Statement Of Financial Position as at 31 December Year 3 showing the Equity section of the company.



**Hint** Ordinary & preferred share capital issued & fully paid



**Hint** It shows the movement in the Equity section of Statement Of Financial Position.

**Solution:**

(a)

**Sunny Sdn Bhd  
Statement Of Changes In Equity**  
For The Year Ended 31 December Year 3

|                               | RM             | RM              | RM               | RM               |
|-------------------------------|----------------|-----------------|------------------|------------------|
|                               | Share Capital  | General Reserve | Retained Profits | Total            |
| Balance at 1 January Year 3   | 880,000        | 60,000          | 40,500           | 980,500          |
| Profit for the year           |                |                 | 248,000          | 248,000          |
| Transfer to General Reserve   |                | 19,000          | (19,000)         |                  |
| Dividends paid                |                |                 | (26,400)         | (26,400)         |
| Balance at 31 December Year 3 | <u>880,000</u> | <u>79,000</u>   | <u>243,100</u>   | <u>1,202,100</u> |



**Hint** Final ordinary share dividends proposed will be disclosed in the notes to the financial statements.

(b)

**Sunny Sdn Bhd  
Statement Of Financial Position (Extract)**  
As At 31 December Year 3

|                     | RM               |
|---------------------|------------------|
| <b>Equity</b>       |                  |
| Share Capital       | 880,000          |
| General Reserve     | 79,000           |
| Retained Profits    | 243,100          |
| <i>Total Equity</i> | <u>1,202,100</u> |



**Hint** Proposed dividends are not liabilities yet.  
Thus, they are not shown under Current Liabilities.



### Practice 3

Fo Hup Bhd was registered with an authorised capital of RM 1,500,000 divided into 2,000,000 ordinary shares of RM 0.50 each and 500,000 6% preferred shares of RM 1 each.

The following balances were extracted from the books of the company on 31 August Year 3:

|                                              | RM        |
|----------------------------------------------|-----------|
| Ordinary shares of RM 0.50 each, fully paid  | 1,000,000 |
| 6% preferred shares of RM 1 each, fully paid | 500,000   |
| Profit for the year ended 31 August Year 3   | 98,000    |
| General reserves                             | 9,000     |
| Goodwill                                     | 10,000    |
| Retained profits, 1 September Year 2         | 55,000    |
| 6% preferred share dividends paid            | 30,000    |

At the end of the financial year, the directors of the company recommended to:

- (i) increase general reserve to RM 11,000;
- (ii) pay dividends of RM 0.05 per ordinary share.

You are required to:

- (a) prepare Statement Of Changes In Equity for the year ended 31 August Year 3;
- (b) show the appropriate items on Statement Of Financial Position as at 31 August Year 3.



1. **Retained Profits:** RM 121,000.
2. **Total Equity:** RM 1,632,000.

## 18.7 Statement Of Financial Position

1. The Statement Of Financial Position of a limited company is the **same** as that of a sole proprietorship or partnership except the following items in different sections:
  - a. **Equity**
    - i. **Share capital**

**Notes:**

- ① For **internal use**, only the amount of **paid-up share capital** of ordinary or / and preferred shares is shown.
- ② The following should be **disclosed** as a **note** to the **financial statements** for **external use**:
  - ☞ **Number** of each class of **shares authorised, issued** and **fully paid**, and issued but **not fully paid**;
  - ☞ **Par value per share** of each class of shares, etc.

- ii. **Reserves** (Refer to: **Review 4**.)

There are **two** types of reserves:

- ① **Capital reserves** / Statutory reserves **法定储备金**

They are the reserves **created** from the following items, and are **not available** for distribution as **dividends** but for specific purposes:

- ☞ Issuance of shares, e.g. Share premium.
- ☞ Revaluation of non-current assets, e.g. Assets revaluation reserve.
- ☞ Retained profits, e.g. Capital redemption reserve.

- ② **Revenue reserves** / Non-statutory reserves 非法定储备金  
 They are the **profits generated** by business operations and left in company **after distribution of dividends**. They include:
- ☞ Specific reserves  
 They are for **specific purposes**, e.g. Assets replacement reserve, Loan note redemption reserve.
  - ☞ General reserve  
 It is **not** for a **specific purpose** but for the purpose of growth and expansion of the company in the future.
  - ☞ Retained profits c/f  
 They are the profits retained after distribution of dividends and creation of reserves for various purposes.

#### b. **Non-current liabilities**

The most common items are as follows:

- e.g. i. **Loan notes**, with the rate of interest and term of repayment stated (if any);
- ii. **Bank loans**.

#### c. **Current liabilities**

The most common items are the **amounts** to be **accrued** but not yet paid for the current year:

- e.g. Accrued loan note interest,  
 Accrued audit fees,  
 Accrued directors' remunerations.

#### **Notes: Proposed Dividends**

- ① **Proposed dividends** on **ordinary shares** are **not liabilities** yet. Thus, they are **not** shown under **Current Liabilities**.
- ② They are **not** shown in **Statement Of Changes In Equity**.  
 They are **disclosed** as a **note** to the **financial statements** for **external use**.

#### d. **Non-current assets**

There are **three** types of non-current assets:

- i. **Tangible assets**, e.g. Freehold property, office equipment.
- ii. **Intangible assets**, e.g. Goodwill, patent, trademark.

**Note : Goodwill is not amortised.**

#### iii. **Investments**

- ① They are the shares purchased from another company as an investment.
- ② If they are intended to be sold in a short time, they are shown under current assets.
- ③ Investments in listed companies 上市公司 are known as **quoted** / listed investments.
- ④ They are shown at **market value if quoted**, and at **cost if unquoted**:

**Quoted** investments: If **increase** in value: Dr Investments

Cr Gain On Investments (Other Income)

If **decrease** in value: Dr Loss On Investments (Expenses)

Cr Investments

**Unquoted** investments: (recorded at cost)

**Or (for Accounting)**

**Quoted** investments: If **increase** in value: Dr Investments

Cr Gain On Investments (Investment Revenue)

If **decrease** in value: Dr Loss On Investments / Amount Written Off Investments

(Finance Costs)

Cr Investments

**Unquoted** investments: (recorded at cost)

*Prudence concept* { If **permanent reduction** in value:  
 Dr Loss On Investments / Amount Written Off Investments (Finance Costs)  
 Cr Investments)

2. **Vertical** format:

a. **Net assets** approach ( $A - L = E$ )

XX Sdn Bhd  
**Statement Of Financial Position**  
As At .....

|                                        | RM<br>Cost  | RM<br>Accumulated<br>Depreciation | RM<br>Carrying<br>Amount |
|----------------------------------------|-------------|-----------------------------------|--------------------------|
| <b>Non-current Assets</b>              |             |                                   |                          |
| Tangible Assets                        |             |                                   |                          |
| Freehold Property                      | xx          | -                                 | xx                       |
| Office Equipment                       | xx          | (xx)                              | xx                       |
|                                        | <u>xx</u>   | <u>(xx)</u>                       | <u>xx</u>                |
| Intangible Assets                      |             |                                   |                          |
| Goodwill                               |             |                                   | xx                       |
| Investments (quoted), at market value  |             |                                   | <u>xx</u><br><u>xx</u>   |
| <b>Current Assets</b>                  |             |                                   |                          |
| Inventory                              |             |                                   | xx                       |
| Trade Receivable / Accounts Receivable | xx          |                                   |                          |
| Less: Allowance For Doubtful Debts     | <u>(xx)</u> |                                   | xx                       |
| Prepayments                            |             |                                   | xx                       |
| Accrued Income From Investments        |             |                                   | xx                       |
| Cash At Bank                           |             |                                   | xx                       |
| Cash In Hand                           |             |                                   | <u>xx</u><br><u>xx</u>   |
| <i>Total Assets</i>                    |             |                                   | xx                       |
| <b>Non-current Liabilities</b>         |             |                                   |                          |
| Bank Loan                              |             |                                   | xx                       |
| 6% Loan Notes                          |             |                                   | <u>xx</u><br><u>xx</u>   |
|                                        |             |                                   | <u>xx</u>                |
| <b>Current Liabilities</b>             |             |                                   |                          |
| Trade Payables / Accounts Payable      |             |                                   | xx                       |
| Accrued Loan Note Interest             |             |                                   | xx                       |
| Accrued Audit Fees                     |             |                                   | xx                       |
| Accrued Directors' Remunerations       |             |                                   | xx                       |
| Accruals                               |             |                                   | <u>xx</u><br><u>xx</u>   |
| <i>Total Liabilities</i>               |             |                                   | <u>(xx)</u><br><u>xx</u> |
| → <b>Net Assets</b>                    |             |                                   |                          |
| <b>Equity</b>                          |             |                                   |                          |
| Share Capital                          |             |                                   | xx                       |
| Share Premium                          |             |                                   | xx                       |
| Other Reserves                         |             |                                   | xx                       |
| General Reserve                        |             |                                   | xx                       |
| Retained Profits                       |             |                                   | xx                       |
| <i>Total Equity</i>                    |             |                                   | <u>xx</u>                |



Total Assets –  
Total Liabilities

**Or**

b. **Total equity and liabilities** approach ( $A = E + L$ )

XX Sdn Bhd

**Statement Of Financial Position**

As At .....

|                                        | RM<br>Cost  | RM<br>Accumulated<br>Depreciation | RM<br>Carrying<br>Amount |
|----------------------------------------|-------------|-----------------------------------|--------------------------|
| <b>Assets</b>                          |             |                                   |                          |
| <b>Non-current Assets</b>              |             |                                   |                          |
| Tangible Assets                        |             |                                   |                          |
| Freehold Property                      | xx          | -                                 | xx                       |
| Office Equipment                       | xx          | (xx)                              | xx                       |
|                                        | <b>xx</b>   | <b>(xx)</b>                       | <b>xx</b>                |
| Intangible Assets                      |             |                                   |                          |
| Goodwill                               |             |                                   | xx                       |
| Investments (quoted), at market value  |             |                                   | xx                       |
|                                        |             |                                   | <b>xx</b>                |
| <b>Current Assets</b>                  |             |                                   |                          |
| Inventory                              |             |                                   | xx                       |
| Trade Receivable / Accounts Receivable | xx          |                                   |                          |
| Less: Allowance For Doubtful Debts     | <b>(xx)</b> |                                   | xx                       |
| Prepayments                            |             |                                   | xx                       |
| Accrued Income From Investments        |             |                                   | xx                       |
| Cash At Bank                           |             |                                   | xx                       |
| Cash In Hand                           |             |                                   | xx                       |
| <i>Total Assets</i>                    |             |                                   | <b>xx</b>                |
|                                        |             |                                   | <b>xx</b>                |
| <b>Equity And Liabilities</b>          |             |                                   |                          |
| <b>Equity</b>                          |             |                                   |                          |
| Share Capital                          |             |                                   | xx                       |
| Share Premium                          |             |                                   | xx                       |
| Other Reserves                         |             |                                   | xx                       |
| General Reserve                        |             |                                   | xx                       |
| Retained Profits                       |             |                                   | xx                       |
| <i>Total Equity</i>                    |             |                                   | <b>xx</b>                |
| <b>Non-current Liabilities</b>         |             |                                   |                          |
| Bank Loan                              |             | xx                                |                          |
| 6% Loan Notes                          |             | xx                                |                          |
|                                        |             | <b>xx</b>                         |                          |
| <b>Current Liabilities</b>             |             |                                   |                          |
| Trade Payables / Accounts Payable      |             | xx                                |                          |
| Accrued Loan Note Interest             |             | xx                                |                          |
| Accrued Audit Fees                     |             | xx                                |                          |
| Accrued Directors' Remunerations       |             | xx                                |                          |
| Accruals                               |             | xx                                |                          |
|                                        |             | <b>xx</b>                         |                          |
| <i>Total Liabilities</i>               |             |                                   | <b>xx</b>                |
| → <i>Total Equity And Liabilities</i>  |             |                                   | <b>xx</b>                |



## Example 4

The following Trial Balance was extracted from the books of Beta Sdn Bhd as at 31 December Year 4:

|                                                                      | Debit          | Credit         |
|----------------------------------------------------------------------|----------------|----------------|
|                                                                      | RM             | RM             |
| Authorised and Issued Capital                                        |                |                |
| 80,000 Ordinary Shares of RM1 each                                   | 80,000         |                |
| Retained Profits, 1 January Year 4                                   |                | 46,800         |
| Inventory, 1 January Year 4                                          | 13,200         |                |
| 5% Loan Notes                                                        |                | 20,000         |
| General Reserve                                                      |                | 10,000         |
| Freehold Land And Building, at cost                                  | 150,000        |                |
| Furniture And Fixtures, at cost                                      | 13,000         |                |
| Accumulated Depreciation Of Furniture And Fixtures, 1 January Year 4 |                | 650            |
| Purchases                                                            | 50,600         |                |
| Revenue                                                              |                | 120,400        |
| Bad Debts                                                            | 800            |                |
| Wages And Salaries                                                   | 26,500         |                |
| Insurance Expenses                                                   | 420            |                |
| Office Maintenance Expenses                                          | 2,200          |                |
| Assessment And Quit Rent                                             | 1,500          |                |
| Directors' Salaries                                                  | 24,830         |                |
| Loan Note Interest                                                   | 500            |                |
| Rental Income                                                        |                | 11,000         |
| Cash At Bank                                                         | 4,200          |                |
| Trade Receivables                                                    | 15,500         |                |
| Allowance For Doubtful Debts, 1 January Year 4                       |                | 2,500          |
| Trade Payables                                                       | 11,900         |                |
|                                                                      | <u>303,250</u> | <u>303,250</u> |

Additional information:

- (i) Inventory at 31 December Year 4 was RM 16,400.
- (ii) Depreciation of furniture and fixtures was to be charged at the rate of 5% per annum on cost.
- (iii) The Wages And Salaries account had included RM 4,200 which was the wages of extending the building.
- (iv) Insurance expenses paid in advance amounted to RM 140.
- (v) The rental receivable was RM 1,000 per month.
- (vi) The allowance for doubtful debts was to be increased to RM 3,500.
- (vii) The outstanding loan note interest for the half year was to be accrued.
- (viii) Audit fees of RM 2,500 were charged.
- (ix) RM 5,000 and RM 7,000 were to be transferred to assets replacement reserve and general reserve respectively.
- (x) A dividend of 20% was proposed.

You are required to prepare:

- (a) Income Statement and Statement Of Changes In Equity for the year ended 31 December Year 4;
- (b) Statement Of Financial Position as at 31 December Year 4.

**Solution:**

(a)

| Beta Sdn Bhd<br>Income Statement         |               |                 |
|------------------------------------------|---------------|-----------------|
| For The Year Ended 31 December Year 4    |               |                 |
|                                          | RM            | RM              |
| <b>Revenue</b>                           |               | <b>120,400</b>  |
| Less: <b>Cost Of Sales</b>               |               |                 |
| Opening Inventory                        | 13,200        |                 |
| Purchases                                | 50,600        |                 |
|                                          | <u>63,800</u> |                 |
| Less: Closing Inventory                  | (16,400)      | <b>(47,400)</b> |
| <b>Gross Profit</b>                      |               | <b>73,000</b>   |
| <b>Other Income</b>                      |               |                 |
| Rental Income                            | (W1)          | <b>12,000</b>   |
|                                          |               | <u>85,000</u>   |
| Less: <b>Expenses</b>                    |               |                 |
| Depreciation Of Furniture And Fixtures   | (W2)          | 650             |
| Bad Debts                                |               | 800             |
| Increase In Allowance For Doubtful Debts | (W3)          | 1,000           |
| Wages And Salaries                       | (W4)          | 22,300          |
| Insurance Expenses                       | (W5)          | 280             |
| Office Maintenance Expenses              |               | 2,200           |
| Assessment And Quit Rent                 |               | 1,500           |
| Directors' Salaries                      |               | 24,830          |
| Loan Note Interest                       | (W6)          | 1,000           |
| Audit Fees                               |               | 2,500           |
|                                          |               | <u>(57,060)</u> |
| <b>Profit for the year</b>               |               | <b>27,940</b>   |



**Hint** It shows the **movement** in the **Equity** section of Statement Of Financial Position.



**Hint** Ordinary & preferred (if any) share capital

| Beta Sdn Bhd<br>Statement Of Changes In Equity |               |                            |                 |                  |                |
|------------------------------------------------|---------------|----------------------------|-----------------|------------------|----------------|
| For The Year Ended 31 December Year 4          |               |                            |                 |                  |                |
|                                                | RM            | RM                         | RM              | RM               | RM             |
|                                                | Share Capital | Assets Replacement Reserve | General Reserve | Retained Profits | Total          |
|                                                | Capital       | Replacement Reserve        | General Reserve | Retained Profits | Total          |
| Balance at 1 January Year 4                    | 80,000        |                            | 10,000          | 46,800           | 136,800        |
| Profit for the year                            |               |                            |                 | 27,940           | 27,940         |
| Transfer to Assets Replacement Reserve         |               | 5,000                      |                 | (5,000)          | -              |
| Transfer to General Reserve                    |               |                            | 7,000           | (7,000)          | -              |
| Dividends paid (if any)                        |               |                            |                 | -                | -              |
| Balance at 31 December Year 4                  | <u>80,000</u> | <u>5,000</u>               | <u>17,000</u>   | <u>62,740</u>    | <u>164,740</u> |



**Hint** The dividends proposed will be disclosed in the notes to the financial statements.

to be shown in **Equity** section of Statement Of Financial Position



**Format 1 (showing \*Net Assets)**

(b)

Beta Sdn Bhd  
**Statement Of Financial Position**  
As At 31 December Year 4

|                                    | RM             | RM                       | RM                     |
|------------------------------------|----------------|--------------------------|------------------------|
|                                    | Cost           | Accumulated Depreciation | Carrying Amount        |
| <b>Non-current Assets</b>          |                |                          |                        |
| Freehold Land And Building         | (W4) 154,200   | -                        | 154,200                |
| Furniture And Fixtures             | (W2) 13,000    | (1,300)                  | 11,700                 |
|                                    | <u>167,200</u> | <u>(1,300)</u>           | <b><u>165,900</u></b>  |
| <b>Current Assets</b>              |                |                          |                        |
| Inventory                          |                |                          | 16,400                 |
| Trade Receivables                  |                | 15,500                   |                        |
| Less: Allowance For Doubtful Debts |                | <u>(3,500)</u>           | 12,000                 |
| Prepaid Insurance Expenses         |                |                          | 140                    |
| Accrued Rental Income              | (W1)           |                          | 1,000                  |
| Cash At Bank                       |                |                          | <u>4,200</u>           |
| <i>Total Assets</i>                |                |                          | <b><u>33,740</u></b>   |
|                                    |                |                          | 199,640                |
| <b>Non-current Liabilities</b>     |                |                          |                        |
| 5% Loan Notes                      |                |                          | <b><u>20,000</u></b>   |
| <b>Current Liabilities</b>         |                |                          |                        |
| Trade Payables                     |                |                          | 11,900                 |
| Accrued Audit Fees                 |                |                          | 2,500                  |
| Accrued Loan Note Interest         | (W6)           |                          | 500                    |
|                                    |                |                          | <b><u>14,900</u></b>   |
| <i>Total Liabilities</i>           |                |                          | <b><u>(34,900)</u></b> |
| <i>*Net Assets</i>                 |                |                          | <b><u>164,740</u></b>  |
| <b>Equity</b>                      |                |                          |                        |
| Share Capital                      |                |                          | 80,000                 |
| Assets Replacement Reserve         |                |                          | 5,000                  |
| General Reserve                    |                |                          | 17,000                 |
| Retained Profits                   |                |                          | 62,740                 |
| <i>Total Equity</i>                |                |                          | <b><u>164,740</u></b>  |



The proposed dividends are not liabilities yet.

Thus, they do not appear on Statement Of Financial Position.



**Format 2 (showing \*Total Equity And Liabilities)**

Or

(b)

Beta Sdn Bhd  
**Statement Of Financial Position**  
As At 31 December Year 4

|                            | RM             | RM                       | RM                    |
|----------------------------|----------------|--------------------------|-----------------------|
|                            | Cost           | Accumulated Depreciation | Carrying Amount       |
| <b>Assets</b>              |                |                          |                       |
| <b>Non-current Assets</b>  |                |                          |                       |
| Freehold Land And Building | (W4) 154,200   | -                        | 154,200               |
| Furniture And Fixtures     | (W2) 13,000    | (1,300)                  | 11,700                |
|                            | <u>167,200</u> | <u>(1,300)</u>           | <b><u>165,900</u></b> |

**Current Assets**

|                                    |                      |
|------------------------------------|----------------------|
| Inventory                          | 16,400               |
| Trade Receivables                  | 15,500               |
| Less: Allowance For Doubtful Debts | (3,500) 12,000       |
| Prepaid Insurance Expenses         | 140                  |
| Accrued Rental Income              | (W1) 1,000           |
| Cash At Bank                       | 4,200                |
| <i>Total Assets</i>                | <b><u>33,740</u></b> |
|                                    | <u>199,640</u>       |

**Equity And Liabilities**

**Equity**

|                            |                       |
|----------------------------|-----------------------|
| Share Capital              | 80,000                |
| Assets Replacement Reserve | 5,000                 |
| General Reserve            | 17,000                |
| Retained Profits           | 62,740                |
| <i>Total Equity</i>        | <b><u>164,740</u></b> |

**Non-current Liabilities**

|               |               |
|---------------|---------------|
| 5% Loan Notes | <u>20,000</u> |
|---------------|---------------|

**Current Liabilities**

|                                      |                |
|--------------------------------------|----------------|
| Trade Payables                       | 11,900         |
| Accrued Audit Fees                   | 2,500          |
| Accrued Loan Note Interest           | (W6) 500       |
|                                      | <u>14,900</u>  |
| <i>Total Liabilities</i>             | <u>34,900</u>  |
| <i>*Total Equity And Liabilities</i> | <u>199,640</u> |



The **difference** between Format **1 & 2** are shown in the above **shaded areas**.

**Workings:**

(1) Rental Income:

$$\text{RM } 1,000 \times 12 = \text{RM } 12,000$$

Accrued Rental Income:

$$\text{RM } (12,000 - 11,000) = \text{RM } 1,000$$

(2) Depreciation Of Furniture And Fixtures:

$$\text{RM } 13,000 \times 5\% = \text{RM } 650$$

Accumulated Depreciation Of Furniture And Fixtures:

$$\text{RM } (650 + 650) = \text{RM } 1,300$$

(3) Increase In Allowance For Doubtful Debts:

$$\text{RM } (3,500 - 2,500) = \text{RM } 1,000$$

(4) Wages And Salaries:

$$\text{RM } (26,500 - 4,200) = \text{RM } 22,300$$

Freehold Land And Building:

$$\text{RM } (150,000 + 4,200) = \text{RM } 154,200$$

(5) Insurance Expenses:

$$\text{RM } (420 - 140) = \text{RM } 280$$

(6) Loan Note Interest:

$$\text{RM } 20,000 \times 5\% = \text{RM } 1,000$$

Accrued Loan Note Interest:

$$\text{RM } (1,000 - 500) = \text{RM } 500$$



The following was the Trial Balance of Kenny Sdn Bhd as at 30 September Year 4:

|                                                | Debit            | Credit           |
|------------------------------------------------|------------------|------------------|
|                                                | RM               | RM               |
| Ordinary Share Capital                         |                  | 500,000          |
| 4% Preferred Share Capital                     |                  | 50,000           |
| Premises, at cost                              | 480,000          |                  |
| Fixtures And Fittings, at cost                 | 40,000           |                  |
| Motor Vehicles, at cost                        | 150,000          |                  |
| Accumulated Depreciation, 1 October Year 3     |                  |                  |
| Fixtures And Fittings                          |                  | 8,000            |
| Motor Vehicles                                 |                  | 30,000           |
| Accounts Receivable and Accounts Payable       | 25,530           | 12,800           |
| Allowance For Doubtful Debts, 1 October Year 3 |                  | 500              |
| Inventory in trade, 1 October Year 3           | 9,700            |                  |
| Purchases and Revenue                          | 404,210          | 613,450          |
| Salaries                                       | 66,200           |                  |
| Printing And Stationery                        | 3,675            |                  |
| Water And Electricity                          | 4,520            |                  |
| Advertising Expenses                           | 5,120            |                  |
| Director's Fees                                | 4,200            |                  |
| Goodwill                                       | 10,000           |                  |
| Investment, at market value                    | 50,000           |                  |
| Bank                                           |                  | 6,685            |
| General Reserve                                |                  | 10,000           |
| 10% Loan Notes                                 |                  | 20,000           |
| Loan Note Interest                             | 1,000            |                  |
| Interim Ordinary Share Dividends Paid          | 25,000           |                  |
| Preferred Share Dividends Paid                 | 2,000            |                  |
| Retained Profits, 1 October Year 3             |                  | 27,720           |
| Income From Investment                         |                  | 2,000            |
|                                                | <u>1,281,155</u> | <u>1,281,155</u> |

The following information should be taken into account:

- (i) The authorised capital was divided into 600,000 ordinary shares of RM 1 each and 60,000 4% preferred shares of RM 1 each.
- (ii) Inventory in trade on 30 September Year 4 was RM 11,000.
- (iii) Stationery unused was RM 700.
- (iv) Accrued electricity expenses was RM 480.
- (v) Allowance for doubtful debts was to be decreased by RM 30.
- (vi) Depreciation should be made on the following rate on cost:
  - Fixtures and fittings 10%
  - Motor vehicles 20%
- (vii) The directors resolved a transfer of RM 3,000 to general reserve.
- (viii) The directors recommended a dividend of 10% on ordinary shares, making a total of 15% for the financial year.

You are required to prepare:

- (a) Income Statement and Statement Of Changes In Equity for the year ended 30 September Year 4;
- (b) Statement Of Financial Position as at 30 September Year 4.



1. **Gross Profit:** RM 210,540.
2. **Profit for the year:** RM 93,075.
3. **Retained Profits:** RM 90,795.
4. **Total Equity:** RM 653,795.
5. **Non-current Assets:** RM 658,000.
6. **Total Assets:** RM 694,760.
7. **Total Liabilities:** RM 40,965.



## Review

### 1. Share capital 股本:

|                                                                   |                               |                                        |
|-------------------------------------------------------------------|-------------------------------|----------------------------------------|
| Authorised / Registered / Nominal share capital<br>法定 / 注册 / 票面股本 | Issued share capital<br>已发行股本 | Called-up share capital<br>已缴股本 / 实收股本 |
| Unissued share capital<br>未发行股本                                   |                               | Calls in arrears<br>应收催缴股款             |

Paid-up share capital  
已缴股本 / 实收股本

Calls in arrears  
应收催缴股款

### 2. Shares 股份 and loan notes 债券:

|                  |                                                                             |                                                                             |
|------------------|-----------------------------------------------------------------------------|-----------------------------------------------------------------------------|
| Shares<br>股份     | Ordinary shares / Equity shares<br>普通股 / 权益股                                | Cumulative preferred shares 累积优先股<br>Non-cumulative preferred shares 非累积优先股 |
|                  | Preferred shares<br>优先股                                                     |                                                                             |
| Loan notes<br>债券 | Redeemable preferred shares 可赎回优先股<br>Irredeemable preferred shares 不可赎回优先股 | Secured / Mortgage loan notes 抵押债券<br>Simple / Naked loan notes 无抵押债券       |
|                  | Redeemable loan notes 可赎回债券<br>Irredeemable / Perpetual loan notes 不可赎回债券   |                                                                             |

### 3. Ordinary share dividends:

#### (a) Procedures 程序

Proposed / Recommended by board of directors → Approved by shareholders at AGM  
→ Declared / Resolved / Decided at AGM → Payable → Paid

#### (b) Interim & final share dividends

Interim share dividends: Declared → Paid  
(not subject to approval at AGM)

Final share dividends: Proposed → Approved → Declared → Payable → Paid



They are shown in Statement Of Changes In Equity.

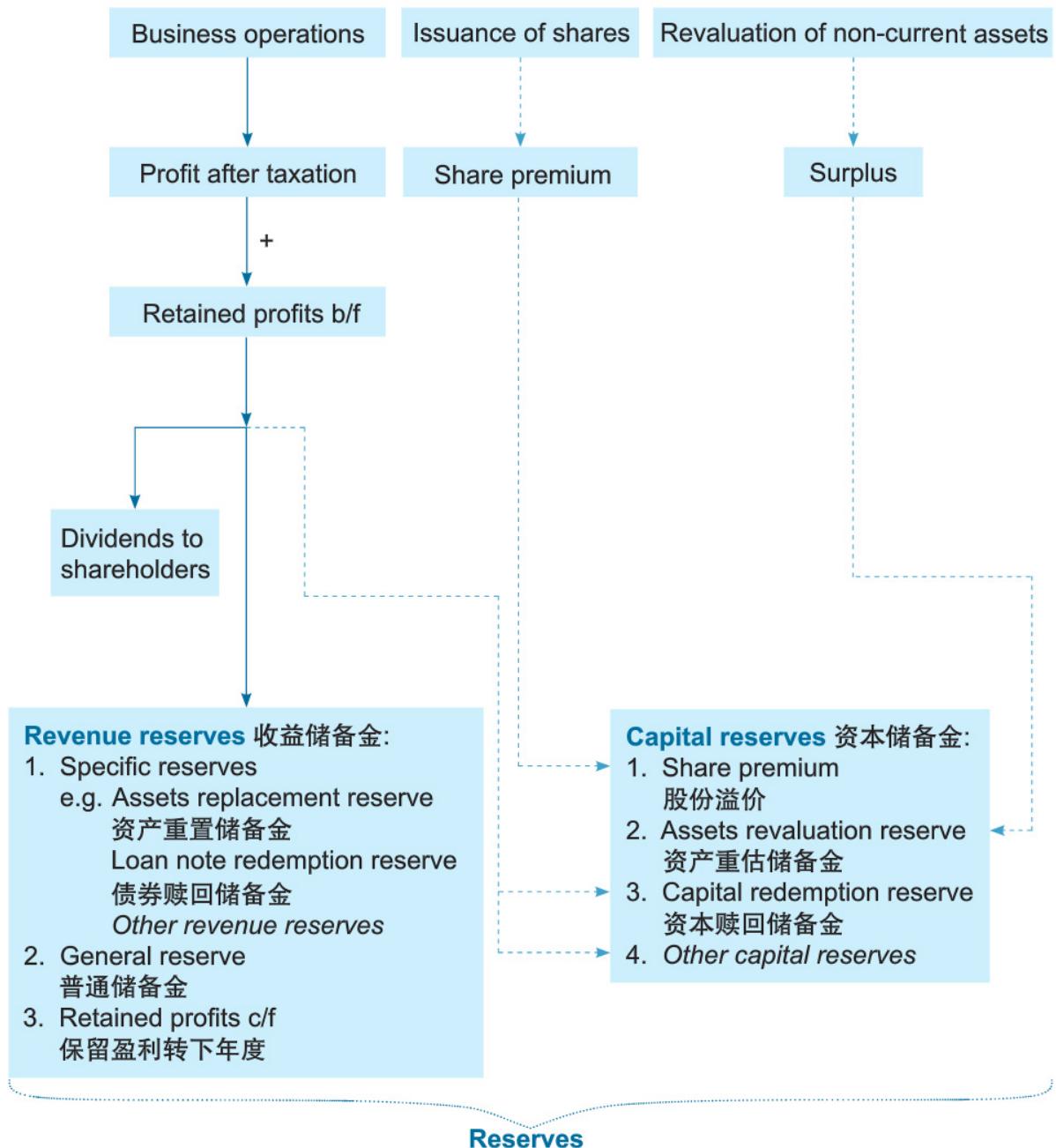
### 4. Dividends 股息:

|                            |                                                                               |
|----------------------------|-------------------------------------------------------------------------------|
| Dividends paid<br>已付股息     | → Preferred share dividends 优先股股息<br>Interim ordinary share dividends 期中普通股股息 |
| Dividends proposed<br>建议股息 | → Final ordinary share dividends 期末普通股股息                                      |



They are not shown in Statement Of Changes In Equity  
& Statement Of Financial Position.

5. Creation of **reserves** 储备金:





**Hint** For **items** which are the **same** as those of a sole proprietorship or partnership are **simplified / omitted** in the following format.

6. **Vertical** format of financial statements of a limited company:

(a) XX Sdn Bhd

**Income Statement / Statement Of Profit Or Loss 损益表**

For The Year Ended 31 December Year 1

|                                                  | RM | RM |                                                                        |
|--------------------------------------------------|----|----|------------------------------------------------------------------------|
| <b>Revenue</b>                                   |    |    | <b>xx</b>                                                              |
| Less: <b>Cost Of Sales</b>                       |    |    | xx<br>xx<br><u>xx</u> <b>(xx)</b><br>xx                                |
| <b>Gross Profit / (Gross Loss)</b>               |    |    | <b>xx</b>                                                              |
| <b>Other Income</b>                              |    |    | xx<br>xx<br><u>xx</u><br>xx                                            |
| Income From Investments 投资收入                     |    |    | xx<br>xx<br><u>xx</u><br>xx                                            |
| <b>Less: Expenses</b>                            |    |    | xx<br>xx<br>xx<br>xx<br>xx<br>xx<br><u>xx</u> <b>(xx)</b><br><b>yy</b> |
| Loan Note Interest 债券利息                          |    |    | xx                                                                     |
| Directors' Salaries / Fees 董事薪金 / 董事费            |    |    | xx                                                                     |
| Audit Fees 审计费                                   |    |    | xx                                                                     |
| Preliminary Expenses / Formation Expenses 创办费    |    |    | xx<br><u>xx</u> <b>(xx)</b>                                            |
| <b>Profit / (Loss) for the year 本年度盈利 / (亏损)</b> |    |    | <b>yy</b>                                                              |

(b)

XX Sdn Bhd  
**Statement Of Changes In Equity 权益变动表**  
For The Year Ended 31 December Year 1

|                               | RM            | RM            | RM             | RM              | RM               | RM        |
|-------------------------------|---------------|---------------|----------------|-----------------|------------------|-----------|
|                               | Share Capital | Share Premium | Other Reserves | General Reserve | Retained Profits | Total     |
| Balance at 1 January Year 1   | xx            | xx            | xx             | xx              | xx               | xx        |
| Profit / (Loss) for the year  |               |               |                |                 | <b>yy</b>        | <b>yy</b> |
| Transfer to other reserves    |               |               | xx             |                 | (xx)             | -         |
| Transfer to General Reserve   |               |               |                | xx              | (xx)             | -         |
| Dividends paid                |               |               |                |                 | (xx)             | (xx)      |
| Issue of Share Capital        | xx            | xx            |                |                 |                  | xx        |
| Balance at 31 December Year 1 | <u>xx</u>     | <u>xx</u>     | <u>xx</u>      | <u>xx</u>       | <u>xx</u>        | <u>xx</u> |



- ☞ **Loan note interest** is a **full year charge**.
- ☞ **Directors' salaries / fees** and **audit fees** are to be **accrued**.
- ☞ **Goodwill** is **not amortised**. It is **recognised** as an **intangible non-current asset**.
- ☞ **Preliminary expenses / formation expenses** are shown as an **expense**.

(c)

XX Sdn Bhd  
**Statement Of Financial Position** 财务状况表  
As At 31 December Year 1

|                                       | RM        | RM                       | RM              |
|---------------------------------------|-----------|--------------------------|-----------------|
|                                       | Cost      | Accumulated Depreciation | Carrying Amount |
| <b>Non-current Assets 非流动资产</b>       |           |                          |                 |
| Tangible Assets                       |           |                          |                 |
| ▪                                     | XX        | -                        | XX              |
| ▪                                     | XX        | (xx)                     | XX              |
|                                       | <u>XX</u> | <u>XX</u>                | <u>XX</u>       |
| Intangible Assets                     |           |                          |                 |
| Goodwill                              |           |                          | XX              |
| Investments (quoted), at market value |           |                          | XX              |
|                                       |           |                          | <u>XX</u>       |
| <b>Current Assets 流动资产</b>            |           |                          |                 |
| ▪                                     |           |                          | XX              |
| Accrued Income From Investments       |           |                          | XX              |
| ▪                                     |           |                          | <u>XX</u>       |
| <i>Total Assets</i>                   |           |                          | <u>XX</u>       |
| <b>Non-current Liabilities 非流动负债</b>  |           |                          |                 |
| ▪                                     |           |                          | XX              |
| 6% Loan Notes                         |           |                          | XX              |
|                                       |           |                          | <u>XX</u>       |
| <b>Current Liabilities 流动负债</b>       |           |                          |                 |
| ▪                                     |           |                          | XX              |
| Accrued Loan Note Interest            |           |                          | XX              |
| Accrued Directors' Salaries / Fees    |           |                          | XX              |
| Accrued Audit Fees                    |           |                          | XX              |
| ▪                                     |           |                          | <u>XX</u>       |
| <i>Total Liabilities</i>              |           |                          | <u>(xx)</u>     |
| <i>Net Assets</i>                     |           |                          | <u>XX</u>       |
| <b>Equity 权益</b>                      |           |                          |                 |
| Share Capital 股本                      |           |                          | XX              |
| Share Premium 股份溢价                    |           |                          | XX              |
| Other Reserves                        |           |                          | XX              |
| General Reserves 普通储备金                |           |                          | XX              |
| Retained Profits 保留盈利                 |           |                          | XX              |
| <i>Total Equity</i>                   |           |                          | <u>XX</u>       |



## Learning Objectives

After studying this chapter, you should be able to:

- ☛ understand the terms direct materials, direct labour, direct expenses, prime cost, indirect manufacturing costs and production cost of finished goods;
- ☛ make adjustments for work-in-progress at production cost / prime cost;
- ☛ transfer production cost of finished goods to Trading account at cost / transfer price;
- ☛ distinguish between trading profit and manufacturing profit;
- ☛ record manufacturing profit and allowance for unrealised profit;
- ☛ prepare Manufacturing Account, Income Statement and Statement Of Financial Position.



### 19.1 Classification of Production Cost

1. **Manufacturing** account is an account used to calculate and show the **production cost of finished goods**.
2. **Manufacturing Account** is prepared in **addition to Income Statement** for a business which manufactures its own goods for sale. It is usually prepared for **internal use**.
3. The **production cost** of a **manufacturing business** is classified as follows:

|                                       |                                                                                                                     |                                |                                                     |  |  |
|---------------------------------------|---------------------------------------------------------------------------------------------------------------------|--------------------------------|-----------------------------------------------------|--|--|
| Direct Materials                      | <b>Direct Costs /</b><br>Prime Cost /<br>Direct Manufacturing Costs                                                 | <b>Production Cost</b><br>生产成本 | <b>Production Cost Of Finished Goods</b><br>制成品生产成本 |  |  |
| Direct Labour                         |                                                                                                                     |                                |                                                     |  |  |
| Direct Expenses                       |                                                                                                                     |                                |                                                     |  |  |
| Indirect Materials                    | <b>Indirect Manufacturing Costs /</b><br>Factory Overheads /<br>Production Overheads /<br>Factory Overhead Expenses |                                |                                                     |  |  |
| Indirect Labour                       |                                                                                                                     |                                |                                                     |  |  |
| Indirect Expenses                     |                                                                                                                     |                                |                                                     |  |  |
| Add: <b>Opening Work-in-progress</b>  |                                                                                                                     |                                |                                                     |  |  |
| Less: <b>Closing Work-in-progress</b> |                                                                                                                     |                                |                                                     |  |  |

4. **Direct costs** are the costs that **can** be easily **traced** to the product being manufactured:

|    |                  | Explanation                                                                                                                | Example                                                                                                                                                                                                                                                                                 |
|----|------------------|----------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| a. | Direct materials | Cost of raw materials which becomes part of the product, including all the costs in bringing the materials to the factory. | ① Cost of metal sheets for making motor cars<br>② Cost of timbers for making furniture                                                                                                                                                                                                  |
| b. | Direct labour    | Cost of labour paid to workers directly involved in converting raw materials into finished goods.                          | ① Wages of assembly workers for making motor cars<br>② Wages of carpenters for making furniture                                                                                                                                                                                         |
| c. | Direct expenses  | Expenses which are specifically for a product.                                                                             | ① Production <b>royalty</b> 特许权使用费 paid for the right to manufacture a specific motor car or furniture<br>② Hire of production machine for a specific motor car or furniture<br>③ <b>Subcontract cost</b> 分包成本 paid to the subcontractor who works on a specific motor car or furniture |

5. **Indirect manufacturing costs** are the costs that **cannot** be easily **traced** to the product being manufactured:

|    |                    | Explanation                                                                                                                                                                                                | Example                                                                                                                                             |
|----|--------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|
| a. | Indirect materials | i. Cost of materials which does not become part of the product.<br><b>Or</b><br>ii. Cost of materials which becomes part of the product but the cost is immaterial 不重要 or cannot be traced to the product. | ① Cost of lubricating oil / spare parts for production machinery / equipment<br>② Cost of nails, screws and glue for making motor cars or furniture |
| b. | Indirect labour    | Cost of labour paid to workers not directly involved in production process.                                                                                                                                | Wages / Salaries of factory managers, supervisors, clerks, crane drivers, store keepers.                                                            |
| c. | Indirect expenses  | Expenses which support the production.                                                                                                                                                                     | ① Repairs and maintenance of production machinery<br>② Depreciation of plant and machinery<br>③ Factory rent<br>④ Factory lighting and heating      |

of





## Practice 1

You are required to classify each of the following production cost by ticking(✓) the appropriate boxes:

| Production Cost in Manufacturing Account | Prime Cost       |               |                 | Factory Overheads |
|------------------------------------------|------------------|---------------|-----------------|-------------------|
|                                          | Direct Materials | Direct Labour | Direct Expenses |                   |
| e.g. Factory Rent                        |                  |               |                 | ✓                 |
| Royalties                                |                  |               |                 |                   |
| Indirect Wages                           |                  |               |                 |                   |
| Factory Fuel And Power                   |                  |               |                 |                   |
| Production Salaries                      |                  |               |                 |                   |
| Factory Store Clerk Salaries             |                  |               |                 |                   |
| Direct Wages                             |                  |               |                 |                   |
| Inventory Of Raw Materials               |                  |               |                 |                   |
| Factory General Expenses                 |                  |               |                 |                   |
| Factory Insurance                        |                  |               |                 |                   |
| Subcontract Cost                         |                  |               |                 |                   |
| Carriage On Raw Materials                |                  |               |                 |                   |
| Factory Loose Tools                      |                  |               |                 |                   |
| Depreciation Of Machinery                |                  |               |                 |                   |
| Purchase Of Raw Materials                |                  |               |                 |                   |
| Repairs And Maintenance Of Machinery     |                  |               |                 |                   |



1. **Direct Materials:** 3 items.
2. **Direct Labour:** 2 items.
3. **Direct Expenses:** 2 items.
4. **Factory Overheads:** 9 items.



## Example 1

The following balances were extracted from the accounting records of YLL Manufacturing Bhd as at 31 December Year 1:

|                                     | RM      |
|-------------------------------------|---------|
| Inventory, 1 January Year 1         |         |
| Raw Materials                       | 13,550  |
| Finished Goods                      | 12,800  |
| Purchase Of Raw Materials           | 237,650 |
| Indirect Materials                  | 1,850   |
| Direct Labour                       | 53,230  |
| Direct Expenses                     | 20,000  |
| Factory Warehouse Wages             | 4,550   |
| Factory Fuel And Power              | 1,975   |
| Factory Rent                        | 13,000  |
| Sales                               | 378,150 |
| Repairs Of Factory Machinery        | 11,500  |
| Factory Insurance                   | 1,210   |
| Depreciation Of Plant And Machinery | 5,000   |

Additional information:

(i) Inventory at 31 December Year 1

|                | RM     |
|----------------|--------|
| Raw materials  | 24,000 |
| Finished goods | 18,050 |

(ii) Accruals at 31 December Year 1:

|                         | RM    |
|-------------------------|-------|
| Direct labour           | 1,342 |
| Factory warehouse wages | 350   |
| Factory fuel and power  | 197   |

(iii) Prepayments at 31 December Year 1:

|                   | RM    |
|-------------------|-------|
| Factory rent      | 1,000 |
| Factory insurance | 116   |

You are required to prepare Manufacturing Account for the year ended 31 December Year 1 and showing clearly:

- (a) Cost Of Materials Consumed;
- (b) Prime Cost;
- (c) Factory Overheads;
- (d) Production Cost Of Finished Goods.

**Solution:**

**YLL Manufacturing Bhd**  
**Manufacturing Account**  
For The Year Ended 31 December Year 1

|                                                  | RM              | RM                    |
|--------------------------------------------------|-----------------|-----------------------|
| <b>(a) Cost Of Materials Consumed</b>            |                 |                       |
| Opening Inventory                                | 13,550          |                       |
| Purchases                                        | <u>237,650</u>  |                       |
|                                                  | 251,200         |                       |
| Less: Closing Inventory                          | <u>(24,000)</u> |                       |
|                                                  | <b>227,200</b>  |                       |
| Direct Labour                                    | (W1)            | 54,572                |
| Direct Expenses                                  |                 | <u>20,000</u>         |
|                                                  |                 | <b>301,772</b>        |
| <b>(b) Prime Cost</b>                            |                 |                       |
| <b>(c) Factory Overheads</b>                     |                 |                       |
| Indirect Materials                               | 1,850           |                       |
| Factory Warehouse Wages                          | (W2)            | 4,900                 |
| Factory Fuel And Power                           | (W3)            | 2,172                 |
| Factory Rent                                     | (W4)            | 12,000                |
| Repairs Of Factory Machinery                     |                 | 11,500                |
| Factory Insurance                                | (W5)            | 1,094                 |
| Depreciation Of Plant And Machinery              | <u>5,000</u>    | <u>38,516</u>         |
| <b>(d) Production Cost Of Finished Goods</b> c/d |                 | <u><b>340,288</b></u> |

**Workings:**

- (1) Direct Labour:  
RM(53,230 + 1,342) = RM **54,572**
- (2) Factory Warehouse Wages:  
RM(4,550 + 350) = RM **4,900**
- (3) Factory Fuel And Power:  
RM(1,975 + 197) = RM **2,172**
- (4) Factory Rent:  
RM(13,000 – 1,000) = RM **12,000**
- (5) Factory Insurance:  
RM(1,210 – 116) = RM **1,094**

## 19.2 Work-in-progress / WIP

- Products which are **partly completed** at the end of a period are known as **work-in-progress** which means **uncompleted goods**.
- Opening inventory** of work-in-progress is **added to** and **closing inventory** of work-in-progress is **deducted** from the **production cost** to calculate the **production cost of finished goods** for the period as illustrated below:

| RM                                |                  |
|-----------------------------------|------------------|
| Production Cost                   | xx               |
| Add: Opening Work-in-progress     | <u>xx</u>        |
|                                   | xx               |
| Less: Closing Work-in-progress    | <u>(xx)</u>      |
| Production Cost of Finished Goods | <u><u>xx</u></u> |

*Production cost on goods **not** completed **last** period, but completed **this** period.*

*Production cost on goods **not** completed **this** period, but completed **next** period.*

- Work-in-progress can be valued at **production cost** or at **prime cost**:
  - Work-in-progress at **production cost** / factory cost **includes direct and indirect manufacturing costs**;
  - Work-in-progress at **prime cost includes** only **direct manufacturing costs**.



## Example 2

Valuation of work-in-progress at **production cost**  
(Same information as in **Example 1**)

You are required to prepare Manufacturing Account and Income Statement (Trading account section) for the year ended 31 December Year 1 with the following additional information:

|                                                       | RM     |
|-------------------------------------------------------|--------|
| Work-in-progress at 1 Jan Year 1, at production cost  | 13,100 |
| Work-in-progress at 31 Dec Year 1, at production cost | 16,100 |

### Solution:

YLL Manufacturing Bhd

### Manufacturing Account and Income Statement (Extract)

For The Year Ended 31 December Year 1

|                                              | RM              | RM               |
|----------------------------------------------|-----------------|------------------|
| <b>Cost Of Materials Consumed</b>            |                 |                  |
| Opening Inventory                            | 13,550          |                  |
| Purchases                                    | <u>237,650</u>  |                  |
|                                              | 251,200         |                  |
| Less: Closing Inventory                      | (24,000)        |                  |
|                                              | <b>227,200</b>  |                  |
| Direct Labour                                | 54,572          |                  |
| Direct Expenses                              | <u>20,000</u>   |                  |
| <b>Prime Cost</b>                            | <b>301,772</b>  |                  |
| <b>Factory Overheads</b>                     |                 |                  |
| Indirect Materials                           | 1,850           |                  |
| Factory Warehouse Wages                      | 4,900           |                  |
| Factory Fuel And Power                       | 2,172           |                  |
| Factory Rent                                 | 12,000          |                  |
| Repairs Of Factory Machinery                 | 11,500          |                  |
| Factory Insurance                            | 1,094           |                  |
| Depreciation Of Plant And Machinery          | <u>5,000</u>    | <b>38,516</b>    |
|                                              | 340,288         |                  |
| Add: Opening Work-in-progress                | <u>13,100</u>   |                  |
|                                              | 353,388         |                  |
| Less: Closing Work-in-progress               | (16,100)        |                  |
| <b>Production Cost Of Finished Goods c/d</b> | <b>337,288</b>  |                  |
| <b>Sales</b>                                 |                 |                  |
| Less: <b>Cost Of Sales</b>                   |                 |                  |
| Opening Inventory                            | 12,800          |                  |
| Production Cost Of Finished Goods b/d        | <u>337,288</u>  |                  |
|                                              | 350,088         |                  |
| Less: Closing Inventory                      | <u>(18,050)</u> | <b>(332,038)</b> |
| <b>Gross Profit</b>                          | <b>46,112</b>   |                  |

*Trading account section*



### Example 3

Valuation of work-in-progress at **prime cost**  
(Same information as in **Example 1**)

You are required to prepare Manufacturing Account and Income Statement (Trading account section) for the year ended 31 December Year 1 with the following additional information:

|                                                  | RM     |
|--------------------------------------------------|--------|
| Work-in-progress at 1 Jan Year 1, at prime cost  | 9,700  |
| Work-in-progress at 31 Dec Year 1, at prime cost | 11,030 |



Why was this figure **lower** than that in **Example 2** (RM 16,100)?

#### Solution:

YLL Manufacturing Bhd  
**Manufacturing Account and Income Statement (Extract)**  
For The Year Ended 31 December Year 1

|                                              | RM | RM               |
|----------------------------------------------|----|------------------|
| <b>Cost Of Materials Consumed</b>            |    |                  |
| Opening Inventory                            |    | 13,550           |
| Purchases                                    |    | <u>237,650</u>   |
|                                              |    | 251,200          |
| Less: Closing Inventory                      |    | <u>(24,000)</u>  |
|                                              |    | <b>227,200</b>   |
| Direct Labour                                |    | 54,572           |
| Direct Expenses                              |    | <u>20,000</u>    |
|                                              |    | 301,772          |
| Add: Opening Work-in-progress                |    | <u>9,700</u>     |
|                                              |    | 311,472          |
| Less: Closing Work-in-progress               |    | <u>(11,030)</u>  |
| <b>Prime Cost</b> Of Finished Goods          |    | <b>300,442</b>   |
| <b>Factory Overheads</b>                     |    |                  |
| Indirect Materials                           |    | 1,850            |
| Factory Warehouse Wages                      |    | 4,900            |
| Factory Fuel And Power                       |    | 2,172            |
| Factory Rent                                 |    | 12,000           |
| Repairs Of Factory Machinery                 |    | 11,500           |
| Factory Insurance                            |    | 1,094            |
| Depreciation Of Plant And Machinery          |    | <u>5,000</u>     |
| <b>Production Cost Of Finished Goods</b> c/d |    | <b>38,516</b>    |
|                                              |    | <b>338,958</b>   |
| <b>Sales</b>                                 |    | <b>378,150</b>   |
| Less: <b>Cost Of Sales</b>                   |    |                  |
| Opening Inventory                            |    | 12,800           |
| Production Cost Of Finished Goods b/d        |    | <u>338,958</u>   |
|                                              |    | 351,758          |
| Less: Closing Inventory                      |    | <u>(18,050)</u>  |
| <b>Gross Profit</b>                          |    | <b>(333,708)</b> |
|                                              |    | <b>44,442</b>    |



## Practice 2

Samson Bhd manufactures electrical components. The following balances were extracted from the books at 30 June Year 2:

|                                 | RM      |
|---------------------------------|---------|
| Sale Of Finished Goods          | 155,000 |
| Purchase Of Finished Goods      | 3,000   |
| Purchase Of Factory Loose Tools | 2,000   |
| Raw Materials                   |         |
| Purchases                       | 22,500  |
| Returns Outwards                | 800     |
| Carriage Inwards                | 600     |
| Direct Labour                   | 20,000  |
| Royalties                       | 3,000   |
| Factory Rent                    | 1,800   |
| Water And Electricity           | 2,500   |
| Insurance                       | 5,300   |
| Factory Supervisor Salaries     | 5,000   |
| Canteen Services                | 5,500   |
| Factory Cleaning Expenses       | 500     |
| Repair Expenses                 | 900     |
| Inventory, 1 July Year 1        |         |
| Raw Materials                   | 5,000   |
| Work-in-progress                | 3,000   |
| Finished Goods                  | 9,000   |
| Factory Loose Tools             | 1,600   |
| Factory Machinery               |         |
| Cost                            | 24,000  |
| Accumulated Depreciation        | 6,000   |
| Printing And Stationery         | 2,000   |



*These were the  
ready-made goods  
bought for resale.*

Additional information:

- (i) Accruals and prepayments at 30 June Year 2 were as follows:

|                      | RM    |
|----------------------|-------|
| Factory rent prepaid | 400   |
| Electricity accrued  | 1,000 |
| Insurance in advance | 300   |

- (ii) Inventory at 30 June Year 2:

|                     | RM    |
|---------------------|-------|
| Raw materials       | 6,000 |
| Work-in-progress    | 3,900 |
| Finished goods      | 8,700 |
| Factory loose tools | 1,000 |

- (iii) Depreciation of factory machinery was to be provided at 25% per annum using the reducing balance method.

- (iv) Water and electricity, insurance and canteen services were apportioned as follows:

Factory 80%  
Office 20%

- (v) Printing and stationery were to be allocated to the factory and office in the ratio 1:4.

- (vi) Out of the repair expenses, RM 500 was for the extension of building, and the balance was for the repairing of factory machinery.

You are required to prepare the following financial statements for the year ended 30 June Year 2:

- (a) Manufacturing Account;  
(b) Income Statement (Trading account section).



**WIP:** It is supposed to be valued at **production cost** when it is **not specified**.

1. **Cost Of Materials Consumed:** RM 21,300.
2. **Prime Cost:** RM 44,300.
3. **Factory Overheads:** RM 26,000.
4. **Production Cost Of Finished Goods:** RM 69,400.
5. **Gross Profit:** RM 82,300.

### 19.3 Manufacturing Profit of Finished Goods

1. A manufacturing business may want to know how much of its profit / loss made from its **trading activity** of selling finished goods and how much from its **factory operation** of manufacturing own goods.
2. This can be done by transferring the **production cost of finished goods** from **Manufacturing** account to **Trading** account at a **market price** or at a **standard cost** (i.e. predetermined cost). The **transfer price** thus includes:
  - a **mark-up** 加成率, e.g. "at cost plus 10%" ; or
  - a certain amount of **manufacturing profit**.
3. The reasons to add a mark-up / profit to the production cost of finished goods are as follows:
  - to measure the **efficiency** and **profitability** of the **factory operation** and the **trading activities**;
  - to decide whether to **manufacture** own goods or **purchase** ready-made goods for resale.



#### Example 4

KL Corporate Manufacturing Bhd manufactures furniture and commenced its business on 1 January Year 5. The financial year ends on 31 December.

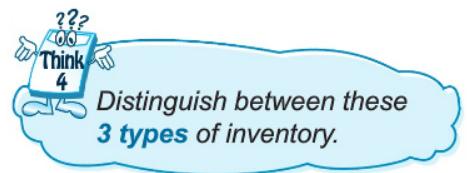
The company purchased the same product from a supplier located at Port Klang when the demand was greater than the business could supply.

The following balances were extracted from the books at 31 December Year 5:

|                   | Debit   | Credit  |
|-------------------|---------|---------|
|                   | RM      | RM      |
| Purchases         |         |         |
| Raw Materials     | 318,400 |         |
| * Finished Goods  | 96,000  |         |
| Returns           |         |         |
| Raw Materials     | 3,600   |         |
| * Finished Goods  | 2,200   |         |
| Carriage          |         |         |
| Raw Materials     | 13,000  |         |
| * Finished Goods  | 2,800   |         |
| Sales             |         | 952,600 |
| Sales Returns     | 18,400  |         |
| Factory Overheads | 184,800 |         |
| Direct Labour     | 92,400  |         |
| Royalties         | 20,000  |         |



Note: \* They refer to the **ready-made goods bought** from the supplier.



The following information was available at the year's end:

|                                                                                          | RM      |
|------------------------------------------------------------------------------------------|---------|
| (i) Inventory at 31 December Year 5:                                                     |         |
| Raw materials                                                                            | 24,400  |
| Work-in-progress                                                                         | 15,400  |
| Finished goods(goods manufactured internally & purchased externally)                     | 100,400 |
| (ii) Prepaid factory overheads                                                           | 1,600   |
| (iii) Accrued direct labour                                                              | 2,400   |
| (iv) Finished goods were transferred to the Trading account at production cost plus 20%. |         |

You are required to prepare the following financial statements for the year ended 31 December Year 5:

- (a) Manufacturing Account;
- (b) Income Statement (Trading account section).

**Solution:**

(a) KL Corporate Manufacturing Bhd  
**Manufacturing Account**  
For The Year Ended 31 December Year 5

|                                                         | RM             | RM              |
|---------------------------------------------------------|----------------|-----------------|
| <b>Cost Of Materials Consumed</b>                       |                |                 |
| Opening Inventory                                       |                | —               |
| Purchases                                               | 318,400        |                 |
| Less: Returns Outwards                                  | <u>(3,600)</u> |                 |
|                                                         | 314,800        |                 |
| Carriage Inwards                                        | <u>13,000</u>  | 327,800         |
|                                                         | 327,800        |                 |
| Less: Closing Inventory                                 |                | <u>(24,400)</u> |
|                                                         |                | <b>303,400</b>  |
| Direct Labour                                           | (W1)           | 94,800          |
| Royalties                                               |                | 20,000          |
| <b>Prime Cost</b>                                       |                | <b>418,200</b>  |
| <b>Factory Overheads</b>                                | (W2)           | <b>183,200</b>  |
|                                                         |                | 601,400         |
| Less: <b>Closing Work-in-progress</b>                   |                | <u>(15,400)</u> |
| <b>Production Cost Of Finished Goods</b>                |                | <b>586,000</b>  |
| <b>Manufacturing Profit</b>                             | (W3)           | <b>117,200</b>  |
| Production Cost Of Finished Goods c/d, at cost plus 20% |                | <u>703,200</u>  |

(b) KL Corporate Manufacturing Bhd  
**Income Statement (Extract)**  
For The Year Ended 31 December Year 5

|                                                         | RM               | RM               |
|---------------------------------------------------------|------------------|------------------|
| Sales                                                   |                  | 952,600          |
| Less: Sales Returns                                     |                  | <u>(18,400)</u>  |
| <b>Net Sales</b>                                        |                  | <b>934,200</b>   |
| Less: <b>Cost Of Sales</b>                              |                  |                  |
| Opening Inventory                                       | —                |                  |
| Production Cost Of Finished Goods b/d, at cost plus 20% | 703,200          |                  |
| Purchases                                               | 96,000           |                  |
| Less: Returns Outwards                                  | <u>(2,200)</u>   |                  |
|                                                         | 93,800           |                  |
| Carriage Inwards                                        | <u>2,800</u>     | 96,600           |
|                                                         |                  | 799,800          |
| Less: Closing Inventory                                 | <u>(100,400)</u> | <b>(699,400)</b> |
| <b>Gross Profit</b>                                     |                  | <b>234,800</b>   |

### **Workings:**

(1) Direct Labour:

$$\text{RM } (92,400 + 2,400) = \text{RM } 94,800$$

(2) Factory Overheads:

$$\text{RM } (184,800 - 1,600) = \text{RM } 183,200$$

(3) Manufacturing Profit:

$$\text{RM } 586,000 \times 20\% = \text{RM } 117,200$$



(Same information as in **Practice 2**)

If the finished goods were transferred to the Trading account at a market price of RM 80,000.

You are required to amend the Manufacturing Account and Income Statement (Trading account section) you have done in **Practice 2**.



The figures for **Cost Of Materials Consumed**, **Prime Cost & Factory Overheads** were the **same** as those in **Practice 2**.

1. **Manufacturing Profit:** RM 10,600.
2. **Gross Profit:** RM 71,700.



The **Gross Profit** RM 71,700 for **Practice 3** was **lower** than that of RM 82,300 in **Practice 2** by RM 10,600 (i.e. the **Manufacturing Profit**). Why?



## Example 5

MK Enterprise manufactures computers and electrical components. The Trial Balance of the enterprise as at 31 December Year 6 was as follows:

|                                          | Debit<br>RM      | Credit<br>RM     |
|------------------------------------------|------------------|------------------|
| Sales Of Finished Goods                  |                  | 717,000          |
| Heat And Light                           | 15,000           |                  |
| Administrative Salaries                  | 180,000          |                  |
| Sales Commissions                        | 100,800          |                  |
| Advertising Expenses                     | 62,000           |                  |
| Bank                                     | 14,490           |                  |
| Capital                                  |                  | 139,200          |
| Inventory, 1 January Year 6              |                  |                  |
| Raw Materials                            | 20,400           |                  |
| Work-in-progress                         | 21,600           |                  |
| Factory Loose Tools                      | 200              |                  |
| Finished Goods                           | 33,500           |                  |
| Purchases                                |                  |                  |
| Raw Materials                            | 39,000           |                  |
| Factory Loose Tools                      | 1,200            |                  |
| Carriage Outwards                        | 500              |                  |
| Carriage On Raw Materials                | 150              |                  |
| Raw Materials Returned                   |                  | 350              |
| Office General Expenses                  | 2,500            |                  |
| Manufacturing Expenses                   | 2,900            |                  |
| Direct Wages                             | 14,500           |                  |
| Direct Factory Expenses                  | 700              |                  |
| Discounts Allowed                        | 1,200            |                  |
| Salesmen's Salaries                      | 12,000           |                  |
| Factory Salaries                         | 10,000           |                  |
| Indirect Wages                           | 13,400           |                  |
| Rent And <b>Rates</b>                    | 18,000           |                  |
| Insurance                                | 60,000           |                  |
| Canteen Services                         | 30,000           |                  |
| Bad Debts                                | 500              |                  |
| Bad Debts Recovered                      |                  | 11,500           |
| Accounts Receivable and Accounts Payable | 18,000           | 22,100           |
| Plant And Machinery                      | 692,000          |                  |
| Tools And Equipment                      | 21,000           |                  |
| Furniture And Fixtures                   | 2,010            |                  |
| Drawings                                 | 5,000            |                  |
| Mortgage Loan                            |                  | 150,000          |
| Allowance For Doubtful Debts             |                  | 1,000            |
| Accumulated Depreciation                 |                  |                  |
| Plant And Machinery                      |                  | 346,000          |
| Tools And Equipment                      |                  | 5,400            |
|                                          | <u>1,392,550</u> | <u>1,392,550</u> |

### Input

#### Rates

*It refers to assessment and quit rent*  
门牌税与地税.

Additional information:

- (i) Inventory at 31 December Year 6 were:

|                     | RM     |
|---------------------|--------|
| Raw materials       | 23,400 |
| Work-in-progress    | 27,600 |
| Factory loose tools | 300    |
| Finished goods      | 24,300 |

- (ii) Expenses accrued at 31 December Year 6 were:

|                | RM    |
|----------------|-------|
| Direct wages   | 1,500 |
| Heat and light | 3,000 |

- (iii) There was an advanced payment of RM 2,000 for a sales staff's commissions.

- (iv) Heat and light as well as rent and rates were to be apportioned between factory and office in the ratio of 4:1 and 3:2 respectively.

- (v)  $\frac{4}{5}$  of the insurance and 80% of the canteen services should be attributed to the factory.

- (vi) There was an outstanding interest of 4% p.a. on the mortgage loan.

- (vii) This is the company's policy to treat their assets as follows:

|                        | <u>Depreciation</u>                    |
|------------------------|----------------------------------------|
| Plant and machinery    | 25% p.a. using reducing balance method |
| Tools and equipment    | 10% p.a. using straight line method    |
| Furniture and fixtures | RM 410                                 |

- (viii) Allowance for doubtful debts was to be increased by RM 560.

- (ix) Cash sales amounting to RM 800 was not recorded and had been used directly to pay rental for the owner's residence.

- (x) Completed goods should be transferred to the Trading account at production cost plus 20%.

You are required to prepare the following financial statements:

- (a) Manufacturing Account for the year ended 31 December Year 6;
- (b) Income Statement for the year ended 31 December Year 6;
- (c) Statement Of Financial Position as at that date.

### Solution:

(a)

MK Enterprise  
**Manufacturing Account**  
For The Year Ended 31 December Year 6

|                                                                | RM            | RM              |
|----------------------------------------------------------------|---------------|-----------------|
| <b>Cost Of Materials Consumed</b>                              |               |                 |
| Opening Inventory                                              |               | 20,400          |
| Purchases                                                      | 39,000        |                 |
| Less: Returns Outwards                                         | (350)         |                 |
|                                                                | <u>38,650</u> |                 |
| Carriage Inwards                                               | 150           | 38,800          |
|                                                                |               | <u>59,200</u>   |
| Less: Closing Inventory                                        |               | (23,400)        |
|                                                                |               | <u>35,800</u>   |
| Direct Wages                                                   | (W1)          | 16,000          |
| Direct Factory Expenses                                        |               | 700             |
| <b>Prime Cost</b>                                              |               | <u>52,500</u>   |
| <b>Factory Overheads</b>                                       |               |                 |
| Heat And Light                                                 | (W2)          | 14,400          |
| Factory Loose Tools                                            | (W3)          | 1,100           |
| Manufacturing Expenses                                         |               | 2,900           |
| Factory Salaries                                               |               | 10,000          |
| Indirect Wages                                                 |               | 13,400          |
| Rent And Rates                                                 | (W4)          | 10,800          |
| Insurance                                                      | (W5)          | 48,000          |
| Canteen Services                                               | (W6)          | 24,000          |
| Depreciation                                                   |               |                 |
| Plant And Machinery                                            | (W7)          | 86,500          |
| Tools And Equipment                                            | (W8)          | <u>2,100</u>    |
|                                                                |               | <u>213,200</u>  |
| Add: <b>Opening Work-in-progress</b>                           |               | 265,700         |
|                                                                |               | <u>21,600</u>   |
| Less: <b>Closing Work-in-progress</b>                          |               | 287,300         |
|                                                                |               | <u>(27,600)</u> |
| <b>Production Cost Of Finished Goods (100%)</b>                |               | <u>259,700</u>  |
| <b>Manufacturing Profit (20%)</b>                              | (W9)          | <u>51,940</u>   |
| Production Cost Of Finished Goods c/d, at cost plus 20% (120%) |               | <u>311,640</u>  |

(b)

MK Enterprise  
**Income Statement**  
For The Year Ended 31 December Year 6

|                                                         | RM             | RM               |
|---------------------------------------------------------|----------------|------------------|
| <b>Sales</b>                                            | (W10)          | <u>717,800</u>   |
| Less: <b>Cost Of Sales</b>                              |                |                  |
| Opening Inventory                                       | 33,500         |                  |
| Production Cost Of Finished Goods b/d, at cost plus 20% | <u>311,640</u> |                  |
|                                                         | 345,140        |                  |
| Less: Closing Inventory                                 | (24,300)       | <u>(320,840)</u> |
| <b>Gross Profit</b>                                     |                |                  |
| - <b>Trading Profit</b>                                 |                | 396,960          |
| - <b>Manufacturing Profit</b>                           | 51,940         |                  |
|                                                         |                | <u>448,900</u>   |
| <b>Other Income</b>                                     |                |                  |
| Bad Debts Recovered                                     |                | 11,500           |
|                                                         |                | <u>460,400</u>   |

**Hint** Gross Profit was split into:  
 a. Profit from trading activity of selling finished goods;  
 b. Profit from factory operation of manufacturing goods.

**Less: Expenses**

|                                          |       |                      |
|------------------------------------------|-------|----------------------|
| Heat And Light                           | (W2)  | 3,600                |
| Administrative Salaries                  |       | 180,000              |
| Sales Commissions                        | (W11) | 98,800               |
| Advertising Expenses                     |       | 62,000               |
| Carriage Outwards                        |       | 500                  |
| Office General Expenses                  |       | 2,500                |
| Discounts Allowed                        |       | 1,200                |
| Salesmen's Salaries                      |       | 12,000               |
| Rent And Rates                           | (W4)  | 7,200                |
| Insurance                                | (W5)  | 12,000               |
| Canteen Services                         | (W6)  | 6,000                |
| Bad Debts                                |       | 500                  |
| Interest On Mortgage Loan                | (W12) | 6,000                |
| Depreciation Of Furniture And Fixtures   |       | 410                  |
| Increase In Allowance For Doubtful Debts |       | 560                  |
|                                          |       | <u>(393,270)</u>     |
| <b>Net Profit</b>                        |       | <u><b>67,130</b></u> |



Try to work out the **Net Profit** if the **production cost of finished goods** was transferred at **cost**. Would the **Net Profit** be the same as this figure? Why?



Will **WIP** appear in **Income Statement**?

(c)

**MK Enterprise**  
**Statement Of Financial Position**  
As At 31 December Year 6

|                                          | RM<br>Cost     | RM<br>Accumulated<br>Depreciation | RM<br>Carrying<br>Amount |
|------------------------------------------|----------------|-----------------------------------|--------------------------|
| <b>Non-current Assets</b>                |                |                                   |                          |
| Plant And Machinery                      | (W13) 692,000  | (432,500)                         | 259,500                  |
| Tools And Equipment                      | (W14) 21,000   | (7,500)                           | 13,500                   |
| Furniture And Fixtures                   | 2,010          | (410)                             | 1,600                    |
|                                          | <u>715,010</u> | <u>(440,410)</u>                  | <u>274,600</u>           |
| <b>Current Assets</b>                    |                |                                   |                          |
| Inventory                                |                |                                   |                          |
| Raw Materials                            | 23,400         |                                   |                          |
| Work-in-progress                         | 27,600         |                                   |                          |
| Factory Loose Tools                      | 300            |                                   |                          |
| Finished Goods                           | <u>24,300</u>  | 75,600                            |                          |
| Accounts Receivable                      | 18,000         |                                   |                          |
| Less: Allowance For Doubtful Debts (W15) | <u>(1,560)</u> | 16,440                            |                          |
| Prepaid Sales Commissions                |                | 2,000                             |                          |
| Bank                                     |                | <u>14,490</u>                     | <u>108,530</u>           |
|                                          |                |                                   | <u>383,130</u>           |
| <b>Owner's Equity</b>                    |                |                                   |                          |
| Opening Capital                          |                | 139,200                           |                          |
| Add: Net profit (b)                      |                | <u>67,130</u>                     |                          |
|                                          |                | <u>206,330</u>                    |                          |
| Less: Drawings (W16)                     |                | <u>(5,800)</u>                    |                          |
| Closing Capital                          |                |                                   | <b>200,530</b>           |
| <b>Non-current Liabilities</b>           |                |                                   |                          |
| Mortgage Loan                            |                | <b>150,000</b>                    |                          |
| <b>Current Liabilities</b>               |                |                                   |                          |
| Accounts Payable                         | 22,100         |                                   |                          |
| Accrued Direct Wages                     | 1,500          |                                   |                          |
| Accrued Heat And Light                   | 3,000          |                                   |                          |
| Accrued Interest On Mortgage loan        | <u>6,000</u>   | <u>32,600</u>                     | <u>182,600</u>           |
|                                          |                |                                   | <u>383,130</u>           |

### **Workings:**

- (1) Direct Wages:  
RM  $(14,500 + 1,500)$  = RM **16,000**
- (2) Heat And Light:  
RM  $(15,000 + 3,000) \times \frac{4}{5}$  = RM **14,400** RM  $(15,000 + 3,000) \times \frac{1}{5}$  = RM **3,600**
- (3) Factory Loose Tools:  
RM  $(200 + 1,200 - 300)$  = RM **1,100**
- (4) Rent And Rates:  
RM  $(18,000 \times \frac{3}{5})$  = RM **10,800** RM  $(18,000 \times \frac{2}{5})$  = RM **7,200**
- (5) Insurance:  
RM  $(60,000 \times \frac{4}{5})$  = RM **48,000** RM  $(60,000 \times \frac{1}{5})$  = RM **12,000**
- (6) Canteen Services:  
RM  $(30,000 \times 80\%)$  = RM **24,000** RM  $(30,000 \times 20\%)$  = RM **6,000**
- (7) Depreciation - Plant And Machinery:  
RM  $(692,000 - 346,000) \times 25\%$  = RM **86,500**
- (8) Depreciation - Tools And Equipment:  
RM  $21,000 \times 10\%$  = RM **2,100**
- (9) Manufacturing Profit:  
RM  $259,700 \times 20\%$  = RM **51,940**
- (10) Sales:  
RM  $(717,000 + 800)$  = RM **717,800**
- (11) Sales Commissions:  
RM  $(100,800 - 2,000)$  = RM **98,800**
- (12) Interest On Mortgage Loan:  
RM  $(150,000 \times 4\%)$  = RM **6,000**
- (13) Accumulated Depreciation - Plant And Machinery:  
RM  $[(346,000 + 86,500)(W7)]$  = RM **432,500**
- (14) Accumulated Depreciation - Tools And Equipment:  
RM  $[(5,400 + 2,100)(W8)]$  = RM **7,500**
- (15) Allowance For Doubtful Debts:  
RM  $(1,000 + 560)$  = RM **1,560**
- (16) Drawings:  
RM  $(5,000 + 800)$  = RM **5,800**



## Practice 4

David Yap owns a furniture manufacturing business. The balances as at 31 December Year 4 were extracted as follows:

|                                     | RM               |
|-------------------------------------|------------------|
| <b>Raw Materials</b>                |                  |
| Purchases                           | 200,000          |
| Returns Outwards                    | 6,000            |
| Carriage Inwards                    | 5,000            |
| <b>Direct Wages</b>                 | <b>180,000</b>   |
| Direct Overheads                    | 40,000           |
| Insurance                           | 64,000           |
| Office Rent                         | 5,000            |
| Factory Rent                        | 16,000           |
| Water And Electricity               | 28,000           |
| Rental Of Office Equipment          | 18,000           |
| <b>Salaries</b>                     |                  |
| Factory Supervisor                  | 21,000           |
| Office Staff                        | 80,000           |
| Director                            | 100,000          |
| <b>Office General Expenses</b>      | <b>62,000</b>    |
| Repairs And Maintenance             | 50,000           |
| <b>Cleaning Expenses</b>            |                  |
| Factory                             | 20,000           |
| Office                              | 5,000            |
| <b>Factory Machinery</b>            |                  |
| Cost                                | 1,200,000        |
| Accumulated Depreciation            | 300,000          |
| <b>Sales</b>                        | <b>1,805,000</b> |
| <b>Inventory, 1 January Year 4:</b> |                  |
| Raw Materials                       | 41,000           |
| Work-in-progress, at prime cost     | 25,000           |
| Finished Goods                      | 60,000           |

The following information was available:

- (i) Prepayments at 31 December Year 4:

|              | RM    |
|--------------|-------|
| Insurance    | 4,000 |
| Factory rent | 2,000 |

- (ii) Accrued electricity at 31 December Year 4: RM 12,000

- (iii) Inventory at 31 December Year 4:

|                                 | RM     |
|---------------------------------|--------|
| Raw materials                   | 50,000 |
| Work-in-progress, at prime cost | 35,000 |
| Finished goods                  | 48,000 |

- (iv) Depreciation of factory machinery: 15% p.a. on carrying amount

- (v) Insurance, water and electricity as well as repairs and maintenance were allocated as:

Factory 70%  
Office 30%

- (vi) Finished goods were transferred to Trading account at factory cost plus 10%.

You are required to prepare:

- (a) Manufacturing Account for the year ended 31 December Year 4;  
(b) Income Statement for the year ended 31 December Year 4;  
(c) Statement Of Financial Position as at that date, showing only the Inventory portion under Current Assets.



1. **Cost Of Materials Consumed:** RM 190,000.
2. **Prime Cost:** RM 400,000.
3. **Factory Overheads:** RM 295,000.
4. **Manufacturing Profit:** RM 69,500.
5. **Cost Of Sales:** RM 776,500.
6. **Total Gross Profit:** RM 1,098,000.
7. **Expenses:** RM 315,000.
8. **Net Profit:** RM 783,000.
9. **Inventory:** RM 133,000.

## 19.4

## Unrealised Profit on Inventory of Finished Goods

1. A manufacturing business may transfer its self-manufactured goods from its production department to sales department at a **transfer price** which is above its production cost. When some of these finished goods are **not sold out** at the end of an accounting year, the **unrealised profit** on **inventory** has to be **calculated** and **deducted** from:
  - a. the **net profit** which **includes** the whole amount of **manufacturing profit** in order to show a true profit;
  - b. the **unsold inventory** which **valued** at **transfer price** in order to show the closing inventory at cost on Statement Of Financial Position.
2. Unrealised profit is calculated as follows:
  - a. If **mark-up (%)** is known:

$$\text{Unrealised Profit} = \text{Closing Inventory at transfer price} \times \frac{\text{Mark-up} (\%)}{100\% + \text{Mark-up} (\%)}$$

Or

- b. If **transfer price** of the finished goods is known:

$$\text{Unrealised Profit} = \text{Closing Inventory at transfer price} \times \frac{\text{Manufacturing Profit}}{\text{Finished goods at transfer price}}$$



### Example 6

(Same information as in Example 5)

If the 20% mark-up for the transfer price of finished goods is applied consistently by MK Enterprise.

Suppose that there was no ready-made goods purchased from the market.

You are required to:

- (a) prepare Allowance For Unrealised Profit account and Profit And Loss account in General Ledger;
- (b) show the effects of the allowance on the financial statements (extract).



**Hint** When the **opening inventory** was **sold**, the **opening unrealised profit** was **realised**, thus it was **credited** to Profit And Loss account. Whereas the **closing unrealised profit** was **provided** by **debiting** Profit And Loss account. Instead of making 2 entries, only the **difference** was recorded.

### Solution:

(a)

| General Ledger                  |       |                                        |             |
|---------------------------------|-------|----------------------------------------|-------------|
| Allowance For Unrealised Profit |       |                                        |             |
| Year 6                          | RM    | Year 6                                 | RM          |
| Dec 31 Profit And Loss          | 1,533 | Jan 1 Balance b/d                      | (W17) 5,583 |
| 31 Balance c/d                  | 4,050 |                                        |             |
|                                 | 5,583 |                                        |             |
|                                 |       | Year 7                                 |             |
|                                 |       | Jan 1 Balance b/d                      | (W18) 4,050 |
|                                 |       |                                        | 5,583       |
| Profit And Loss                 |       |                                        |             |
|                                 |       | Year 6                                 | RM          |
|                                 |       | Dec 31 Allowance For Unrealised Profit | 1,533       |

(b)

### MK Enterprise Income Statement (Extract) For The Year Ended 31 December Year 6

|                                                    | RM           | RM            |
|----------------------------------------------------|--------------|---------------|
| Gross Profit                                       |              |               |
| - Trading Profit                                   | 395,760      |               |
| - Manufacturing Profit                             | 51,940       |               |
|                                                    | 447,700      |               |
| <b>Other Income</b>                                |              |               |
| Bad Debts Recovered                                | 11,500       |               |
| <b>Decrease In Allowance For Unrealised Profit</b> | <b>1,533</b> | <b>13,033</b> |
|                                                    |              | 460,733       |

### MK Enterprise Statement Of Financial Position (Extract) As At 31 December Year 6

|                                              | RM             | RM            | RM            |
|----------------------------------------------|----------------|---------------|---------------|
| <b>Current Assets</b>                        |                |               |               |
| Inventory                                    |                |               |               |
| Raw Materials                                | 23,400         |               |               |
| Work-in-progress                             | 27,600         |               |               |
| Factory Loose Tools                          | 300            |               |               |
| at transfer price                            |                |               | at cost       |
| Finished Goods                               | 24,300         |               |               |
| Less: <b>Allowance For Unrealised Profit</b> | <b>(4,050)</b> | <b>20,250</b> | <b>71,550</b> |



**Hint** It is the **unrealised manufacturing profit**.

**Workings** (continued from **Example 6**):

$$\text{Unrealised Profit} = \text{Opening Inventory} / \text{Closing Inventory at transfer price} \times \frac{\text{Mark-up} (\%)}{100\% + \text{Mark-up} (\%)}$$

(17) Opening Unrealised Profit:

$$\text{RM } 33,500 \times \frac{20\%}{100\% + 20\%}$$

$$\text{RM } 33,500 \times \frac{20}{120} = \text{RM } 5,583$$

(18) Closing Unrealised Profit:

$$\text{RM } 24,300 \times \frac{20\%}{100\% + 20\%}$$

$$\text{RM } 24,300 \times \frac{20}{120} = \text{RM } 4,050$$



## Practice 5

KK Lee owns a computer components manufacturing business. The information for the year ended 31 December Year 5 is as follows:

|                                                                    | RM        |
|--------------------------------------------------------------------|-----------|
| Inventory, 1 January Year 5                                        |           |
| Raw Materials                                                      | 7,684     |
| Work-in-progress, at factory cost                                  | 11,461    |
| Finished Goods, at transfer price                                  | 42,120    |
| Inventory, 31 December Year 5                                      |           |
| Raw Materials                                                      | 8,492     |
| Work-in-progress, at factory cost                                  | 31,743    |
| Finished Goods, at transfer price                                  | 48,480    |
| Purchase Of Raw Materials                                          | 210,432   |
| Sales                                                              | 2,500,000 |
| Selling And Distribution Expenses                                  | 128,500   |
| Returns Outwards Of Raw Materials                                  | 470       |
| Carriage On Raw Materials                                          | 1,728     |
| Factory Wages                                                      | 815,018   |
| Factory Rent And Rates                                             | 13,262    |
| Other Factory Overheads                                            | 126,340   |
| Factory Insurance                                                  | 7,500     |
| Office Salaries And Wages                                          | 92,250    |
| Bad Debts                                                          | 38,000    |
| Repairs And Maintenance Of Office Equipment                        | 92,000    |
| Production Machinery, at cost                                      | 400,000   |
| Accumulated Depreciation Of Production Machinery, 1 January Year 5 | 315,000   |
| Allowance For Doubtful Debts, 1 January Year 5                     | 7,250     |
| Allowance For Unrealised Profit, 1 January Year 5                  | 8,424     |

The following was the relevant information:

- (i) Factory wages accrued amounting to RM 1,862;
- (ii) Factory wages were to be apportioned  $\frac{7}{8}$  to the direct labour and the remainder to the indirect labour;
- (iii) Factory rent and rates prepaid amounting to RM 582;
- (iv) Factory insurance unpaid amounting to RM 1,000;
- (v) Production machinery is to be depreciated by 20% per year using the reducing balance method;
- (vi) The allowance for doubtful debts was to be reduced to RM 6,125;
- (vii) Completed components were transferred from the factory at a market price of RM 1,465,000.

You are required to prepare:

- (a) financial statements:
  - (i) Manufacturing Account for the year ended 31 December Year 5;
  - (ii) Income Statement for the year ended 31 December Year 5;
  - (iii) Statement Of Financial Position as at that date, showing only the Inventory portion under Current Assets.
- (b) Allowance For Unrealised Profit account in General Ledger.



1. **Cost Of Materials Consumed:** RM 210,882.
2. **Prime Cost:** RM 925,652.
3. **Factory Overheads:** RM 266,630.
4. **Manufacturing Profit:** RM 293,000.
5. **Cost Of Sales:** RM 1,458,640.
6. **Total Gross Profit:** RM 1,334,360.
7. **Expenses:** RM 352,022.
8. **Net Profit:** RM 983,463.
9. **Increased In Allowance For Unrealised Profit:** RM 1,272.
10. **Inventory** at cost: RM 79,019.



What would be the effects on the financial statements if the **unrealised profit** on **inventory** of **finished goods** was **not taken** into account?



## Review

### 1. Production Cost Of Finished Goods 制成品生产成本

$$\text{主要成本} + \text{间接制造成本} = \text{Prime Cost} + \text{Indirect Manufacturing Costs}$$

期初在制品 + Opening WIP

期末在制品 - Closing WIP

Direct Materials 直接原料  
+  
Direct Labour 直接人工  
+  
Direct Expenses 直接费用

Indirect Materials 间接原料  
+  
Indirect Labour 间接人工  
+  
Indirect Expenses 间接费用

### 2. Format of Manufacturing Account and Income Statement:

#### i. T format:

| Company X<br><b>Manufacturing Account</b> 制造成本账户<br>For The Year Ended 31 December Year 1 |      |                                               |
|-------------------------------------------------------------------------------------------|------|-----------------------------------------------|
|                                                                                           | RM   | RM                                            |
| ① <b>Cost Of Materials Consumed</b> 耗用原料成本                                                |      | <b>Production Cost Of Finished Goods</b> c/d, |
| Opening Inventory                                                                         | xx   | at market price / standard cost               |
| Purchases                                                                                 | xx   | 制成品生产成本, 按市价 / 标准成本                           |
| Less: Returns Outwards                                                                    | xx   | xx ⑨                                          |
| Carriage Inwards / Freight                                                                | xx   |                                               |
| Insurance On Purchases                                                                    | xx   |                                               |
| Customs Duties                                                                            | xx   |                                               |
| Less: Closing Inventory                                                                   | (xx) |                                               |
|                                                                                           | xx   |                                               |
| ② <b>Direct Labour</b> 直接人工                                                               |      |                                               |
| Direct Wages / Manufacturing Wages / Production Wages                                     | xx   |                                               |
| ③ <b>Direct Expenses</b> 直接费用                                                             |      |                                               |
| Royalties                                                                                 | xx   |                                               |
| Hire Of Production Machine                                                                | xx   | xx                                            |
| ④ <b>Prime Cost</b> 主要成本                                                                  |      | xx                                            |
| ⑤ <b>Factory Overheads</b> / Indirect Manufacturing Costs 间接制造成本                          |      |                                               |
| Indirect Materials                                                                        | xx   |                                               |
| Indirect Wages / Salaries Of Factory Manager And Supervisor                               | xx   |                                               |
| Factory Rent                                                                              | xx   |                                               |
| Factory Expenses                                                                          | xx   |                                               |
| Factory Loose Tools                                                                       |      |                                               |
| (Opening Inventory + Purchases - Closing Inventory)                                       | xx   |                                               |
| Repairs And Maintenance Of Machinery And Tools                                            | xx   |                                               |
| Insurance (e.g. $\frac{3}{5}$ )                                                           | xx   |                                               |
| Light, Heat And Power (e.g. $\frac{3}{4}$ )                                               | xx   |                                               |
| Canteen Services (e.g. $\frac{4}{5}$ )                                                    | xx   |                                               |
| Depreciation Of Plant And Machinery                                                       | xx   | xx                                            |

**Hint**

*It is prepared for internal use to show the production cost of finished goods completed in the period.*

Add: **Opening Work-in-progress** 期初在制品

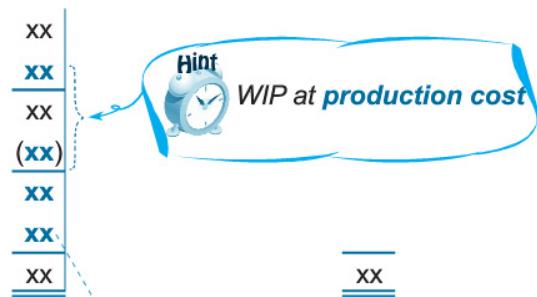
⑥ **WIP**

Less: **Closing Work-in-Progress** 期末在制品

⑦ **Production Cost Of Finished Goods** 制成品生产成本

⑧ **Manufacturing Profit** 制造利润

⑨



b.

Company X  
**Income Statement** 损益表  
For The Year Ended 31 December Year 1

|                                                                           | RM | RM        | RM                                 | Finished Goods |
|---------------------------------------------------------------------------|----|-----------|------------------------------------|----------------|
| Opening Inventory                                                         |    | xx        | Sales                              |                |
| Production Cost Of Finished Goods b/d,<br>at market price / standard cost |    | xx        | Less: Returns Inwards              |                |
| Purchases                                                                 |    | xx        | <b>Net Sales</b>                   |                |
|                                                                           |    | xx        |                                    |                |
| Less: Closing Inventory                                                   |    | (xx)      |                                    |                |
| <b>Cost Of Sales</b>                                                      |    | <b>xx</b> |                                    |                |
| <b>Gross Profit</b> c/d                                                   |    | <b>xx</b> |                                    |                |
|                                                                           |    | xx        |                                    |                |
| Discounts Allowed                                                         |    | xx        | <b>Gross Profit</b> b/d            |                |
| Insurance (e.g. $\frac{2}{5}$ )                                           |    | xx        | - <b>Trading Profit</b> 营业利润       |                |
| Light, Heat And Power (e.g. $\frac{1}{4}$ )                               |    | xx        | - <b>Manufacturing Profit</b> 制造利润 |                |
| Canteen Services (e.g. $\frac{1}{5}$ )                                    |    | xx        |                                    |                |
| Administrative Salaries                                                   |    | xx        | Interest On Fixed Deposit          |                |
| Salesmen's Salaries                                                       |    | xx        | Discounts Received                 |                |
| Depreciation Of Furniture And Fittings /<br>Office Equipment              |    | xx        |                                    |                |
| Increase In Allowance For Unrealised Profit                               |    | xx        |                                    |                |
| <b>Net Profit</b>                                                         |    | <b>xx</b> |                                    |                |
|                                                                           |    |           |                                    |                |



Whether finished goods is transferred at **cost** or at **transfer price**:  
 ↗ Total Gross Profit is the same;  
 ↗ Net Profit is unaffected.

ii. **Vertical** format:

|    | Company X                                                                                            |             |
|----|------------------------------------------------------------------------------------------------------|-------------|
| a. | <b>Manufacturing Account</b> 制造成本账户                                                                  |             |
|    | For The Year Ended 31 December Year 1                                                                |             |
|    |                                                                                                      | RM RM RM    |
| ①  | <b>Cost Of Materials Consumed</b> 耗用原料成本                                                             |             |
|    | Opening Inventory                                                                                    | xx          |
|    | Purchases                                                                                            | xx          |
|    | Less: Returns Outwards                                                                               | <u>(xx)</u> |
|    | Carriage Inwards / Freight                                                                           | xx          |
|    | Insurance Expenses                                                                                   | xx          |
|    | Customs Duties                                                                                       | <u>xx</u>   |
|    | Less: Closing Inventory                                                                              | <u>(xx)</u> |
| ②  | <b>Direct Labour</b> 直接人工                                                                            |             |
|    | Direct Wages / Manufacturing Wages / Production Wages                                                | xx          |
| ③  | <b>Direct Expenses</b> 直接费用                                                                          |             |
|    | Royalties                                                                                            | xx          |
|    | Hire Of Production Machine                                                                           | <u>xx</u>   |
| ④  | <b>Prime Cost</b> 主要成本                                                                               | <u>xx</u>   |
| ⑤  | <b>Factory Overheads</b> / Indirect Manufacturing Costs 间接制造成本                                       |             |
|    | Indirect Materials                                                                                   | xx          |
|    | Indirect Wages / Salaries Of Factory Manager And Supervisor                                          | xx          |
|    | Factory Rent                                                                                         | xx          |
|    | Factory Expenses                                                                                     | xx          |
|    | Factory Loose Tools (Opening Stock + Purchases — Closing Inventory)                                  | xx          |
|    | Repairs And Maintenance Of Machinery And Tools                                                       | xx          |
|    | Insurance (e.g. $\frac{3}{5}$ )                                                                      | xx          |
|    | Light, Heat And Power (e.g. $\frac{3}{4}$ )                                                          | xx          |
|    | Canteen Services (e.g. $\frac{4}{5}$ )                                                               | xx          |
|    | Depreciation Of Plant And Machinery                                                                  | <u>xx</u>   |
|    | Add: <b>Opening Work-in-progress</b> 期初在制品                                                           | <u>xx</u>   |
| ⑥  | Less: <b>Closing Work-in-progress</b> 期末在制品                                                          | <u>(xx)</u> |
| ⑦  | <b>Production Cost Of Finished Goods</b> 制成品生产成本                                                     | xx          |
| ⑧  | <b>Manufacturing Profit</b> 制造利润                                                                     | xx          |
| ⑨  | <b>Production Cost Of Finished Goods</b> c/d, at market price / standard cost<br>制成品生产成本, 按市价 / 标准成本 | <u>xx</u>   |

Hint

$$\begin{aligned} ① + ② + ③ &= ④ \\ ④ + ⑤ + ⑥ &= ⑦ \\ ⑦ + ⑧ &= ⑨ \end{aligned}$$

b. Company X  
**Income Statement** 损益表  
 For The Year Ended 31 December Year 1

|                                                                         | RM   | RM                  |
|-------------------------------------------------------------------------|------|---------------------|
| Sales                                                                   |      | xx                  |
| Less: Returns Inwards                                                   |      | (xx)                |
| <b>Net Sales</b>                                                        |      | <u>xx ← - a</u>     |
| Less: <b>Cost Of Sales</b>                                              |      |                     |
| Opening Inventory                                                       | xx   |                     |
| Production Cost Of Finished Goods b/d , at market price / standard cost | xx   |                     |
| Purchases                                                               | xx   |                     |
| Less: Closing Inventory                                                 | (xx) | (xx) ← - b          |
| <b>Gross Profit</b>                                                     |      |                     |
| - <b>Trading Profit</b> 营业利润                                            |      | <u>xx ← - a - b</u> |
| - <b>Manufacturing Profit</b> 制造利润                                      | xx   |                     |
|                                                                         | xx   |                     |
| <b>Other Income</b>                                                     |      |                     |
| Interest On Fixed Deposit                                               | xx   |                     |
| Discounts Received                                                      | xx   |                     |
| Less: <b>Expenses</b>                                                   |      |                     |
| Discounts Allowed                                                       | xx   |                     |
| Insurance (e.g. $\frac{2}{5}$ )                                         | xx   |                     |
| Light, Heat And Power (e.g. $\frac{1}{4}$ )                             | xx   |                     |
| Canteen Services (e.g. $\frac{1}{5}$ )                                  | xx   |                     |
| Administrative Salaries                                                 | xx   |                     |
| Salesmen's Salaries                                                     | xx   |                     |
| Depreciation Of Furniture And Fittings / Office Equipment               | xx   |                     |
| Increase In Allowance For Unrealised Profit                             | xx   | (xx)                |
| <b>Net Profit</b>                                                       |      | <u>xx</u>           |

Trading account section

Profit And Loss account section

### 3. Allowance For Unrealised Profit account:

Allowance For Unrealised Profit 未实现利润准备

| Year 1             | RM        | Year 1                                        | RM        |
|--------------------|-----------|-----------------------------------------------|-----------|
| Dec 31 Balance c/d | xx        | Jan 1 Balance b/d                             | xx        |
|                    | <u>xx</u> | Dec 31 Profit And Loss                        |           |
|                    |           | - Increase In Allowance For Unrealised Profit | xx        |
|                    |           |                                               | <u>xx</u> |
|                    |           | Year 2                                        |           |
|                    |           | Jan 1 Balance b/d                             | xx        |



It is an **allowance for unrealised manufacturing profit of unsold finished goods at transfer price**.

$$\text{Opening / Closing Inventory} \text{ at transfer price} \times \frac{\text{Mark-up} (\%)}{100\% + \text{Mark-up} (\%)}$$

Or

$$\text{Opening / Closing Inventory} \text{ at transfer price} \times \frac{\text{Manufacturing Profit}}{\text{Transfer price of finished goods}}$$



## Learning Objectives

After studying this chapter, you should be able to:

- ☛ understand the cause and weakness of incomplete records;
- ☛ determine net profit / net loss by using capital comparison method when revenue and expenses are unknown to deduce net profit / net loss;
- ☛ determine net profit / net loss by using analysis of records method to work out sales, purchases, other income, expenses, etc.;
- ☛ draw up financial statements (including balance day adjustments) from incomplete records by constructing accounts, preparing statements, using accounting ratios, etc.;
- ☛ compute inventory loss from incomplete records.



### 20.1 What is Incomplete Records

1. **Incomplete records** are records of business transactions which are **not** kept on **double entry system** but only **simple records** or **single entry records** are kept.
2. Incomplete records may **cause** the following weakness:
  - a. A **Trial Balance** cannot be extracted to check the accuracy and completeness of the accounts.
  - b. **Profit or loss** cannot be ascertained under normal procedure as the **income** and **expenses** are not easily obtained.
  - c. **Financial position** cannot be readily determined since not all the information of **assets** and **liabilities** are available.
  - d. It is hard to detect **errors** or **frauds** 欺骗.
3. There are **two methods** of determining **net profit / net loss** from incomplete records for an accounting period of a business:
  - a. Capital comparison method;
  - b. Analysis of records method.



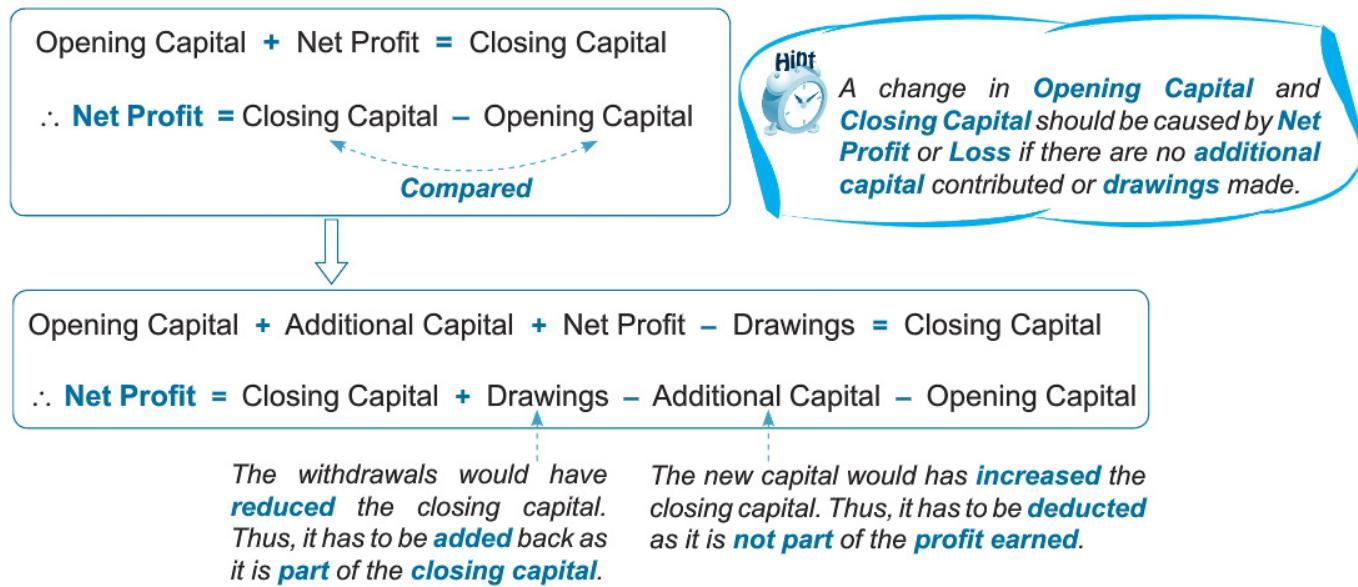
**Single entry records** 单式记录  
Where usually only **receipts & payments**,  
**accounts receivable & payable** are kept.



Why the **small firms** (i.e. sole proprietorship or partnership) may **not** use **double entry system** to record their business transactions?

## 20.2 Capital Comparison Method

1. This method is used when there is **no** information on all the **income** and **expenses** of a business readily available.
2. Under this method, **net profit** is obtained by **comparing closing capital** with **opening capital**. Any **increase** in **closing capital** indicates a **profit** made, whereas any **decrease** indicates a **loss** incurred during an accounting period:



3. The above formula is derived from the **Equity** section of a **Statement Of Financial Position** as shown below:

| RM                      |                  |
|-------------------------|------------------|
| <b>Owner's Equity</b>   |                  |
| Opening Capital         | xx               |
| Add: Additional Capital | x                |
| Net Profit              | <u>?</u>         |
|                         | xx               |
| Less: Drawings          | <u>(x)</u>       |
| Closing Capital         | <u><u>xx</u></u> |



$$\text{Opening Capital} + \text{Additional Capital} + \text{Net Profit} - \text{Drawings} = \text{Closing Capital}$$



$$\therefore \text{Net Profit} = \text{Closing Capital} + \text{Drawings} - \text{Additional Capital} - \text{Opening Capital}$$



## Example 1

The capital at the end of Year 1 is RM 8,000. During Year 2 the proprietor brought in extra RM 5,000 and withdrew RM 800 cash. The capital at the end of Year 2 was RM 16,500.

What was the net profit or net loss for Year 2?

### Solution:

Net profit or net loss for Year 2 is calculated as follows:

|                          | RM             |
|--------------------------|----------------|
| Closing Capital          | 16,500         |
| Add: Drawings            | <u>800</u>     |
|                          | 17,300         |
| Less: Additional Capital | <u>(5,000)</u> |
| Adjusted Closing Capital | 12,300         |
| Less: Opening Capital    | <u>(8,000)</u> |
| <b>Net Profit</b>        | <u>4,300</u>   |

*Compared*

Or

$$\begin{aligned}
 \text{Net Profit} &= \text{Closing Capital} + \text{Drawings} - \text{Additional Capital} - \text{Opening Capital} \\
 &= \text{RM } (16,500 + 800 - 5,000 - 8,000) \\
 &= \text{RM } 4,300
 \end{aligned}$$



## Practice 1

The following information was obtained from the records of Difu, a sole trader:

|                                        | RM     |
|----------------------------------------|--------|
| Capital, at 1 January Year 1           | 14,000 |
| Capital, at 31 December Year 1         | 24,000 |
| Drawings of cash during the year       | 1,500  |
| Extra capital invested during the year | 1,000  |

Difu did not keep a full set of accounts. Based on the information given above, calculate the net profit / net loss for Year 1.



1. **Net Profit:** RM 10,500.

4. Statement Of Affairs
- The capital of a business sometimes is not available if the records are not properly kept. Thus, capital has to be worked out before the net profit / net loss can be determined.
  - A **Statement Of Affairs** can be used to calculate the **opening** or / and **closing capital** by working out the difference between the total **assets** and total **liabilities**:

$$\text{Capital} = \text{Assets} - \text{Liabilities}$$

- A **Statement Of Affairs** is **similar** to a **Statement Of Financial Position** which is drawn up under a double entry system.



### Example 2

Mei Li did not keep proper bookkeeping records, but she kept notes in diary form for her business transactions. The following were the details of her assets and liabilities as at 31 December Year 1 and Year 2:

|                                           | As At 31 December |        |
|-------------------------------------------|-------------------|--------|
|                                           | Year 1            | Year 2 |
|                                           | RM                | RM     |
| Assets:                                   |                   |        |
| Fixtures And Fittings, at carrying amount | 700               | 630    |
| Motor Van, at carrying amount             | 1,000             | 800    |
| Inventory                                 | 850               | 990    |
| Accounts Receivable                       | 950               | 1,240  |
| Bank                                      | 1,100             | 1,700  |
| Cash                                      | 100               | 200    |
| Liabilities:                              |                   |        |
| Accounts Payable                          | 200               | 300    |
| Loan From Dafu                            | 600               | 400    |
| Drawings                                  | —                 | 900    |

You are required to calculate the net profit or net loss for the year ended 31 December Year 2.

## Solution:

Net profit or net loss for the year ended 31 December Year 2 is calculated as follows:

|                          | RM           |
|--------------------------|--------------|
| Closing Capital          | (W2) 4,860   |
| Add: Drawings            | 900          |
| Adjusted Closing Capital | 5,760        |
| Less: Opening Capital    | (W1) (3,900) |
| <b>Net Profit</b>        | <u>1,860</u> |



You have to **work out the opening & closing capital first before the profit or loss can be ascertained.**

## Workings:

Statement Of Affairs  
As At 31 December

|                                           | Year 1     | Year 2       |
|-------------------------------------------|------------|--------------|
|                                           | RM         | RM           |
| <b>Assets</b>                             |            |              |
| Fixtures And Fittings, at carrying amount | 700        | 630          |
| Motor Van, at carrying amount             | 1,000      | 800          |
| Inventory                                 | 850        | 990          |
| Accounts Receivable                       | 950        | 1,240        |
| Bank                                      | 1,100      | 1,700        |
| Cash                                      | <u>100</u> | <u>4,700</u> |
|                                           | <u>100</u> | <u>200</u>   |
|                                           |            | <u>5,560</u> |

## Less: Liabilities

|                  |            |            |
|------------------|------------|------------|
| Accounts Payable | 200        | 300        |
| Loan From Dafu   | <u>600</u> | <u>400</u> |

## Closing Capital

(1) 3,900      (2) 4,860



**Closing Capital, 31 December Year 1 =**  
**Opening Capital, 1 January Year 2**



**Drawings** had been deducted  
from this **Closing Capital**.



## Practice 2

Lim was in the music profession. He had little time to keep his books of accounts and relied solely on his memory for fees received and expenses paid. After consulting with his accountant on his financial position, the following figures were provided for Year 2:

|                          | 1 January | 31 December |
|--------------------------|-----------|-------------|
|                          | RM        | RM          |
| Accounts Receivable      | 1,313     | 1,602       |
| Cash At Bank             | 2,137     | 11,901      |
| Cash In Hand             | 137       | 813         |
| Electronic Equipment     | 8,000     | 13,000      |
| Motor Van                | 15,400    | 14,600      |
| Accounts Payable         | 1,009     | 1,230       |
| Accrued General Expenses | 61        | 152         |

Capital contributed by Lim during the year was RM 5,000.

Drawings for his personal support during the year was RM 8,200.

You are required to:

- show the calculation of the net profit made during Year 2;
- prepare **Statement Of Financial Position** as at 31 December Year 2.



- Opening / Closing Capital:** RM 25,917 / RM 40,534.
- Net Profit:** RM 17,817.



Under what circumstances will a **Statement Of Affairs** be prepared?

### 20.3 Analysis of Records Method

- Although net profit / net loss can be determined by **comparing adjusted closing capital with opening capital**, it is more appropriate to draw up an **Income Statement** based on the available accounting records by determining the **missing / unknown figures** in order to work out the **profit / loss**.
- Under this method, the **single entry records** kept for the transactions of **cash and bank, debtors and creditors**, etc. are analysed together with the balance day adjustments to work out the **sales, purchases, other income, expenses**, etc. for an accounting period. An Income Statement can then be prepared to ascertain the net profit / net loss of a business.



### Example 3

Lau was in business but did not keep proper books of accounts. You are given the following information:

|                     | 1 January Year 3 | 31 December Year 3 |
|---------------------|------------------|--------------------|
|                     | RM               | RM                 |
| Inventory on hand   | 1,310            | 1,623              |
| Accounts receivable | 268              | 358                |
| Accounts payable    | 712              | 914                |
| Accrued expenses    | 116              | 103                |

The summaries of his cash and bank transactions for the year were as follows:

| Cash                      |              |                             |              |
|---------------------------|--------------|-----------------------------|--------------|
|                           | RM           | RM                          |              |
| Balance, 1 January Year 3 | 62           | Cash purchases              | 316          |
| Cash sales                | 4,517        | Expenses                    | 584          |
|                           |              | Drawings                    | 600          |
|                           |              | Balance, 31 December Year 3 | 3,079        |
|                           | <u>4,579</u> |                             | <u>4,579</u> |

| Bank                           |              |                                    |              |
|--------------------------------|--------------|------------------------------------|--------------|
|                                | RM           | RM                                 |              |
| Balance, 1 January Year 3      | 2,840        | Payments to creditors              | 2,715        |
| Cheques collected from debtors | 1,416        | Expenses                           | 519          |
| Balance, 31 December Year 3    | 278          | Drawings                           | 400          |
|                                |              | Delivery van (Purchased on 1 Sept) | 900          |
|                                | <u>4,534</u> |                                    | <u>4,534</u> |

Additional information:

- (i) Lau had taken goods of RM 200 for his personal consumption;
- (ii) According to Lau's experience, an amount of RM 42 from a customer was uncollectible, and an allowance of 5% doubtful debts was to be made;
- (iii) The delivery van was to be depreciated at 20% p.a. under the straight line method.

You are required to prepare the following financial reports for Lau:

- (a) Income Statement for the year ended 31 December Year 3;
- (b) Statement Of Financial Position as at that date.

**Solution:**

(a)

Mr Lau

**Income Statement**

For The Year Ended 31 December Year 3

|                              |             | RM             | RM                  |
|------------------------------|-------------|----------------|---------------------|
| <b>Sales</b>                 | <b>(W1)</b> |                | 6,065               |
| Less: <b>Cost Of Sales</b>   |             |                |                     |
| Opening Inventory            |             | 1,310          |                     |
| Purchases                    | <b>(W2)</b> | <u>3,033</u>   |                     |
|                              |             | 4,343          |                     |
| Less: Closing Inventory      |             | <u>(1,623)</u> | <u>(2,720)</u>      |
| <b>Gross Profit</b>          |             |                | 3,345               |
| Less: Expenses               | <b>(W3)</b> | 1,090          |                     |
| Bad Debts                    |             | 42             |                     |
| Allowance For Doubtful Debts | <b>(W4)</b> | 18             |                     |
| Depreciation Of Delivery Van | <b>(W5)</b> | 60             | <u>(1,210)</u>      |
| <b>Net Profit</b>            |             |                | <u><b>2,135</b></u> |

(b)

Mr Lau

**Statement Of Financial Position**

As At 31 December Year 3

|                                       |             | RM          | RM             | RM           |
|---------------------------------------|-------------|-------------|----------------|--------------|
| <b>Non-current Assets</b>             |             |             |                |              |
| Delivery Van                          |             |             |                | 900          |
| Less: Accumulated Depreciation        | <b>(W5)</b> |             |                | <u>(60)</u>  |
|                                       |             |             |                | 840          |
| <b>Current Assets</b>                 |             |             |                |              |
| Inventory                             |             |             | 1,623          |              |
| Accounts Receivable                   |             | 358         |                |              |
| Less: Allowance For Doubtful Debts    | <b>(W4)</b> | <u>(18)</u> | 340            |              |
| Cash                                  |             |             | 3,079          | <u>5,042</u> |
| <i>Total Assets</i>                   |             |             |                | <u>5,882</u> |
| <b>Owner's Equity</b>                 |             |             |                |              |
| Opening Capital                       | <b>(W6)</b> |             | 3,652          |              |
| Add: Net Profit                       | (a)         |             | <u>2,135</u>   |              |
|                                       |             |             |                | 5,787        |
| Less: Drawings                        | <b>(W7)</b> |             | <u>(1,200)</u> |              |
| <i>Closing Capital / Total Equity</i> |             |             |                | 4,587        |
| <b>Current Liabilities</b>            |             |             |                |              |
| Accounts Payable                      |             |             | 914            |              |
| Bank Overdraft                        |             |             | 278            |              |
| Accrued Expenses                      |             | 103         |                | <u>1,295</u> |
| <i>Total Equity And Liabilities</i>   |             |             |                | <u>5,882</u> |



**Workings:**

(1) Calculation of **Total Sales**:

| Accounts Receivable |              |                        |              |
|---------------------|--------------|------------------------|--------------|
| Year 3              | RM           | Year 3                 | RM           |
| Jan 1 Balance b/d   | 268          | Dec 31 Bank            | 1,416        |
| Dec 31 Sales        | 1,548        | 31 Bad Debts           | 42           |
|                     | <u>1,816</u> | 31 Balance c/d         | <u>358</u>   |
|                     |              |                        |              |
| Year 4              |              |                        |              |
| Jan 1 Balance b/d   | 358          |                        | <u>1,816</u> |
| Sales               |              |                        |              |
| Year 3              | RM           | Year 3                 | RM           |
| Dec 31 Trading      | <b>6,065</b> | Dec 31 Cash            | 4,517        |
|                     | <u>6,065</u> | 31 Accounts Receivable | <b>1,548</b> |
|                     |              |                        | <u>6,065</u> |

(2) Calculation of **Total Purchases**:

| Accounts Payable    |              |                   |              |
|---------------------|--------------|-------------------|--------------|
| Year 3              | RM           | Year 3            | RM           |
| Dec 31 Bank         | 2,715        | Jan 1 Balance b/d | 712          |
| 31 Balance c/d      | 914          | Dec 31 Purchases  | <u>2,917</u> |
|                     | <u>3,629</u> |                   | <u>3,629</u> |
|                     |              |                   |              |
| Year 4              |              |                   |              |
| Jan 1 Balance b/d   |              |                   | 914          |
| Purchases           |              |                   |              |
| Year 3              | RM           | Year 3            | RM           |
| Dec 31 Cash         | 316          | Dec 31 Drawings   | 200          |
| 31 Accounts Payable | <b>2,917</b> | 31 Trading        | <b>3,033</b> |
|                     | <u>3,233</u> |                   | <u>3,233</u> |

| (3)            |              | Expenses |                        |              |
|----------------|--------------|----------|------------------------|--------------|
| Year 3         |              | RM       | Year 3                 | RM           |
| Dec 31 Cash    | 584          |          | Jan 1 Balance b/d      | 116          |
| 31 Bank        | 519          |          | Dec 31 Profit And Loss | <b>1,090</b> |
| 31 Balance c/d | 103          |          |                        |              |
|                | <b>1,206</b> |          |                        | <b>1,206</b> |
|                |              |          | Year 4                 |              |
|                |              |          | Jan 1 Balance b/d      | 103          |

(4) Allowance For Doubtful Debts:

$$\text{RM } 358 \times 5\% \\ = \text{RM } 18$$



The delivery van was **owned** and **used** for **4 months** (from 1 Sept to 31 Dec) in Year 3.

(5) Depreciation:

$$\text{RM } 900 \times 20\% \times \frac{4}{12} = \text{RM } 60$$

(6)

Statement Of Affairs  
As At 1 January Year 3

|              |                     | RM         | RM           |
|--------------|---------------------|------------|--------------|
| Assets :     | Inventory           | 1,310      |              |
|              | Accounts Receivable | 268        |              |
|              | Bank                | 2,840      |              |
|              | Cash                | <u>62</u>  | 4,480        |
| Liabilities: | Accounts Payable    | 712        |              |
|              | Accrued Expenses    | <u>116</u> | (828)        |
|              | Opening Capital     |            | <u>3,652</u> |

(7)

Drawings

|                  | RM           |                | RM           |
|------------------|--------------|----------------|--------------|
| Year 3           | 200          | Year 3         | RM           |
| Dec 31 Purchases | 200          | Dec 31 Capital | <b>1,200</b> |
| 31 Cash          | 600          |                |              |
| 31 Bank          | 400          |                |              |
|                  | <b>1,200</b> |                | <b>1,200</b> |



## Practice 3

Ding did not keep a complete set of accounting records for his business, but he could provide the following information:

|                               | 31 December Year 2 | 31 December Year 3 |
|-------------------------------|--------------------|--------------------|
| <u>Assets and Liabilities</u> | RM                 | RM                 |
| Plant And Machinery           | 31,000             | 34,000             |
| Inventory                     | 10,000             | 8,000              |
| Trade Receivables             | 15,000             | 18,000             |
| Trade Payables                | 8,000              | 9,000              |
| Prepaid Water And Electricity | 100                | 500                |
| Accrued Salaries              | 1,000              | 400                |
| Cash At Bank                  | 7,400              | —                  |

Receipts and payments for the year were summarised as follows:

| <u>Receipts</u>   | RM     |
|-------------------|--------|
| Cash Sales        | 7,000  |
| Trade Receivables | 30,000 |

| <u>Payments</u>       | RM     |
|-----------------------|--------|
| Trade Payables        | 15,000 |
| Wages on warehouse    | 3,000  |
| Salaries              | 6,000  |
| Rental                | 8,000  |
| Water And Electricity | 1,400  |
| General Expenses      | 5,000  |
| New Machinery         | 5,000  |
| Drawings              | 1,000  |

Discounts received from suppliers was RM 400, and discounts allowed to customers was RM 800.

You are required to prepare:

- Income Statement for the year ended 31 December Year 3;
- Statement Of Financial Position as at that date.



**Depreciation** should be taken into account.

- Gross Profit:** RM 22,400.
- Net Loss:** RM 2,400.
- Total Assets:** RM 60,500.
- Closing Capital:** RM 51,100.



Under what **circumstance** will a business **adopt** the **capital comparison method** but **not** the **analysis of records method** to determine its net profit / net loss for an accounting period?

## 20.4 Margin and Mark-up

- Accounting ratios such as **margin** and **mark-up** can be used to **deduce** the **unknown figures** such as gross profit, cost of sales, purchases or sales in the **Trading** account section of **Income Statement**.
- Margin** is the **gross profit** expressed as a fraction or percentage of **sales**.
- Mark-up** is the **gross profit** expressed as a fraction or percentage of **cost of sales**.
- The **formulas** are as follows:

$$\text{Margin} \quad = \frac{\text{Gross Profit (毛利)}}{\text{Sales (销货)}} \quad \text{Or} \quad \frac{\text{Gross Profit}}{\text{Sales}} \times 100\%$$

$$\text{Mark-up} \quad = \frac{\text{Gross Profit (毛利)}}{\text{Cost Of Sales (销货成本)}} \quad \text{Or} \quad \frac{\text{Gross Profit}}{\text{Cost Of Sales}} \times 100\%$$



### Example 4

The following figures were for Year 4:

|                               | RM    |
|-------------------------------|-------|
| Inventory, 1 January Year 4   | 500   |
| Inventory, 31 December Year 4 | 800   |
| Sales                         | 6,400 |

A gross profit margin of 25% was maintained.

You are required to calculate:

- Gross Profit;
- Purchases.

### Solution:

#### Income Statement (Extract) For The Year Ended 31 December Year 4

|                         | RM    | RM  |
|-------------------------|-------|-----|
| Sales                   | 6,400 |     |
| Less: Cost Of Sales     |       |     |
| Opening Inventory       | 500   |     |
| Purchases               | ?     | (b) |
|                         | ?     |     |
| Less: Closing Inventory | (800) | ?   |
| Gross Profit            |       | (a) |



**Income Statement (Extract)**  
For The Year Ended 31 December Year 4

|                                   | RM                 | RM    |
|-----------------------------------|--------------------|-------|
| Sales                             |                    | 6,400 |
| Less: Cost Of Sales               |                    |       |
| Opening Inventory                 | 500                |       |
| Purchases                         | (W4) 5,100         | (b)   |
| Cost Of Goods Available For Sales | (W3) 5,600         |       |
| Less: Closing Inventory           | (W2) (800) (4,800) |       |
| Gross Profit                      | (W1) 1,600         | (a)   |



**Workings:**

$$(1) \quad \text{Margin} = \frac{\text{Gross Profit}}{\text{Sales}}$$

$$25\% = \frac{\text{Gross Profit}}{\text{RM } 6,400}$$

$$\therefore \text{Gross Profit} = \text{RM } 6,400 \times 25\%$$

$$= \text{RM } 1,600$$

$$(2) \quad \text{Sales} - \text{Cost Of Sales} = \text{Gross Profit}$$

$$\text{RM } 6,400 - \text{Cost Of Sales} = \text{RM } 1,600$$

$$\therefore \text{Cost Of Sales} = \text{RM } 6,400 - \text{RM } 1,600$$

$$= \text{RM } 4,800$$

$$(3) \quad \text{Cost Of Goods Available For Sales} - \text{Closing Inventory} = \text{Cost Of Sales}$$

$$\text{Cost Of Goods Available For Sales} - \text{RM } 800 = \text{RM } 4,800$$

$$\therefore \text{Cost Of Goods Available For Sales} = \text{RM } 4,800 + \text{RM } 800$$

$$= \text{RM } 5,600$$

$$(4) \quad \text{Opening Inventory} + \text{Purchases} = \text{Cost Of Goods Available For Sales}$$

$$\text{RM } 500 + \text{Purchases} = \text{RM } 5,600$$

$$\therefore \text{Purchases} = \text{RM } 5,600 - \text{RM } 500$$

$$= \text{RM } 5,100$$



## Practice 4

The following figures were for Year 4:

|                               | RM    |
|-------------------------------|-------|
| Inventory, 1 January Year 4   | 800   |
| Inventory, 31 December Year 4 | 1,000 |
| Purchases                     | 5,200 |

Mark-up on cost was 20%.

You are required to calculate:

- (a) Gross Profit;
- (b) Sales.



1. **Cost Of Sales:** RM 5,000.
2. **Gross Profit:** RM 1,000.
3. **Sales:** RM 6,000.

### 5. Relationship between margin and mark-up

Margin and mark-up are correlated 相互关联. Margin and mark-up refer to the same gross profit in the numerator 分子. Thus, when margin is given, mark-up can be deduced and vice versa 反之亦然 as shown below:

| Margin                                  | Mark-up                                                             | Mark-up                                 | Margin                                                              |
|-----------------------------------------|---------------------------------------------------------------------|-----------------------------------------|---------------------------------------------------------------------|
|                                         |                                                                     | $\frac{1}{2}$ (i.e. 50%)                | $\Rightarrow \frac{1}{2+1} = \frac{1}{3}$ (i.e. $33\frac{1}{3}\%$ ) |
| $\frac{1}{3}$ (i.e. $33\frac{1}{3}\%$ ) | $\Rightarrow \frac{1}{3-1} = \frac{1}{2}$ (i.e. 50%)                | $\frac{1}{3}$ (i.e. $33\frac{1}{3}\%$ ) | $\Rightarrow \frac{1}{3+1} = \frac{1}{4}$ (i.e. 25%)                |
| $\frac{1}{4}$ (i.e. 25%)                | $\Rightarrow \frac{1}{4-1} = \frac{1}{3}$ (i.e. $33\frac{1}{3}\%$ ) | $\frac{1}{4}$ (i.e. 25%)                | $\Rightarrow \frac{1}{4+1} = \frac{1}{5}$ (i.e. 20%)                |
| $\frac{1}{5}$ (i.e. 20%)                | $\Rightarrow \frac{1}{5-1} = \frac{1}{4}$ (i.e. 25%)                | $\frac{1}{5}$ (i.e. 20%)                | $\Rightarrow \frac{1}{5+1} = \frac{1}{6}$                           |



## Example 5

Hua is a trader who sells all of his goods at 25% above cost. The following information of Year 5 was provided:

|                               | RM     |
|-------------------------------|--------|
| Inventory, 1 January Year 5   | 19,400 |
| Inventory, 31 December Year 5 | 26,660 |
| Sales                         | 67,200 |



You are required to calculate:

- (a) Gross Profit;
- (b) Purchases.

### Solution:

#### Income Statement (Extract) For The Year Ended 31 December Year 5

|                         | RM       | RM     |
|-------------------------|----------|--------|
| Sales                   |          | 67,200 |
| Less: Cost Of Sales     |          |        |
| Opening Inventory       | 19,400   |        |
| Purchases               | ?        |        |
|                         | ?        |        |
| Less: Closing Inventory | (26,660) | ?      |
| Gross Profit            |          | ?      |



#### Income Statement (Extract) For The Year Ended 31 December Year 5

|                                   | RM            | RM         |
|-----------------------------------|---------------|------------|
| Sales                             |               | 67,200     |
| Less: Cost Of Sales               |               |            |
| Opening Inventory                 | 19,400        |            |
| Purchases                         | (W4) 61,020   |            |
| Cost Of Goods Available For Sales | (W3) 80,420   |            |
| Less: Closing Inventory           | (W2) (26,660) | (53,760)   |
| Gross Profit                      | (W1)          | 13,440 (a) |

### Workings:

$$(1) \quad \begin{array}{c} \text{Mark-up} \\ \frac{1}{4} \\ (25\%) \end{array} \quad \Rightarrow \quad \begin{array}{c} \text{Margin} \\ \frac{1}{4+1} = \frac{1}{5} \\ (20\%) \end{array}$$

$$\begin{aligned} \text{Margin} &= \frac{\text{Gross Profit}}{\text{Sales}} \\ 20\% &= \frac{\text{Gross Profit}}{\text{RM } 67,200} \\ \therefore \text{Gross Profit} &= \text{RM } 67,200 \times 20\% \\ &= \text{RM } 13,440 \end{aligned}$$



Why don't you use the given **mark-up** to calculate the **gross profit**?

$$(2) \quad \text{Sales} - \text{Cost Of Sales} = \text{Gross Profit}$$

$$\text{RM } 67,200 - \text{Cost Of Sales} = \text{RM } 13,440$$

$$\therefore \text{Cost Of Sales} = \text{RM } 67,200 - \text{RM } 13,440 \\ = \text{RM } 53,760$$

$$(3) \quad \text{Cost Of Goods Available For Sales} - \text{Closing Inventory} = \text{Cost Of Sales}$$

$$\text{Cost Of Goods Available For Sales} - \text{RM } 26,660 = \text{RM } 53,760$$

$$\therefore \text{Cost Of Goods Available For Sales} = \text{RM } 53,760 + \text{RM } 26,660 \\ = \text{RM } 80,420$$

$$(4) \quad \text{Opening Inventory} + \text{Purchases} = \text{Cost Of Goods Available For Sales}$$

$$\text{RM } 19,400 + \text{Purchases} = \text{RM } 80,420$$

$$\therefore \text{Purchases} = \text{RM } 80,420 - \text{RM } 19,400 \\ = \text{RM } 61,020$$



### Practice 5

The following figures were for Year 5:

|                               | RM      |
|-------------------------------|---------|
| Inventory, 1 January Year 5   | 19,400  |
| Inventory, 31 December Year 5 | 26,660  |
| Purchases                     | 155,880 |

The gross profit margin was 20%.

Can you use the given **margin** to calculate the **gross profit**? Why?

You are required to find the following figures:

- (a) Gross Profit;
- (b) Sales.



1. **Gross Profit:** RM 37,155.
2. **Sales:** RM 185,775.

## 20.5 Inventory Loss

- Without keeping proper business records, when goods are destroyed by **flood / fire** or stolen by **thieves**, it is more difficult to work out the **value** of **inventory** before the incidence from the available accounting data.
- The **inventory loss** has to be determined so that an insurance claim can be made.



### Example 6

On 30 April Year 6 Chua's warehouse was flooded by a burst water pipe. It destroyed part of the inventory and the inventory saved was estimated at a value of RM 3,400. The following information was provided:

|                                     | RM    |
|-------------------------------------|-------|
| Inventory, 1 April Year 6           | 8,640 |
| Accounts Receivable, 1 April Year 6 | 4,860 |
| 30 April Year 6                     | 4,300 |
| Accounts Payable, 1 April Year 6    | 1,176 |
| 30 April Year 6                     | 1,314 |

The following was the information from 1 April to 30 April Year 6:

|                             |       |
|-----------------------------|-------|
| Cash sales                  | 1,170 |
| Cash purchases              | 500   |
| Goods returned by customers | 200   |
| Goods returned to suppliers | 100   |
| Payments by customers       | 6,720 |
| Payments to suppliers       | 5,910 |

Gross profit was 10% on selling price.



You are required to calculate the value of inventory destroyed.

**Solution:**

**Income Statement (Extract)**  
For the period 1 April to 30 April Year 6

|                                  | RM    | RM |
|----------------------------------|-------|----|
| Net Sales                        |       | ?  |
| Less: Cost Of Sales              |       |    |
| Inventory, 1 April Year 6        | 8,640 |    |
| Net Purchases                    | ?     |    |
|                                  | ?     |    |
| Less: Inventory, 30 April Year 6 | ?     |    |
| Gross Profit                     |       | ?  |



**Income Statement (Extract)**  
For the period 1 April to 30 April Year 6

|                                               | RM           | RM           |
|-----------------------------------------------|--------------|--------------|
| Net Sales                                     | (W1)         | 7,330        |
| Less: Cost Of Sales                           |              |              |
| Inventory, 1 April Year 6                     | 8,640        |              |
| Net Purchases                                 | (W4) 6,548   |              |
| Cost Of Goods Available For Sales             | (W5) 15,188  |              |
| Less: Inventory, 30 April Year 6              | (W6) (8,591) | (6,597) (W3) |
| Gross Profit                                  | (W2)         | 733          |
| <i>Balancing figure</i>                       |              |              |
| Inventory, 30 April Year 6                    | 8,591        |              |
| Inventory saved                               | (3,400)      |              |
| <b>Inventory destroyed at 30 April Year 6</b> | <u>5,191</u> |              |

**Or**

Statement showing the calculation of Inventory destroyed

|                                               | RM           |
|-----------------------------------------------|--------------|
| Inventory, 1 April Year 6                     | 8,640        |
| Add: Net Purchases                            | (W4) 6,548   |
|                                               | 15,188       |
| Less: Cost Of Sales                           | (W3) (6,597) |
| Inventory, 30 April Year 6                    | 8,591        |
| Less: Inventory saved                         | (3,400)      |
| <b>Inventory destroyed at 30 April Year 6</b> | <u>5,191</u> |

## Workings:

### (1) Calculation of Net Sales:

| Accounts Receivable |               |                      |               |
|---------------------|---------------|----------------------|---------------|
|                     | RM            |                      | RM            |
| Year 6              |               | Year 6               |               |
| Apr 1 Balance b/d   | 4,860         | Apr 30 Sales Returns | 200           |
| 30 Sales            | 6,360         | 30 Cash / Bank       | 6,720         |
|                     | <u>11,220</u> | 30 Balance c/d       | 4,300         |
| May 1 Balance b/d   | 4,300         |                      | <u>11,220</u> |

Total Sales = Cash Sales + Credit Sales

$$= \text{RM } 1,170 + \text{RM } 6,360 \quad \leftarrow$$

$$= \text{RM } 7,530$$

Net Sales = RM(7,530 – 200)

$$= \text{RM } \mathbf{7,330} \quad \leftarrow$$

$$(2) \text{ Margin} = \frac{\text{Gross Profit}}{\text{Net Sales}}$$

$$10\% = \frac{\text{Gross Profit}}{\text{RM } 7,330} \quad \leftarrow$$

$$\therefore \text{Gross Profit} = \text{RM } 7,330 \times 10\% \\ = \text{RM } \mathbf{733}$$

(3) Net Sales – Cost Of Sales = Gross Profit

$$\text{RM } 7,330 - \text{Cost Of Sales} = \text{RM } 733$$

$$\therefore \text{Cost Of Sales} = \text{RM } 7,330 - \text{RM } 733 \\ = \text{RM } \mathbf{6,597}$$

### (4) Calculation of Net Purchases:

| Accounts Payable         |              |                   |              |
|--------------------------|--------------|-------------------|--------------|
|                          | RM           |                   | RM           |
| Year 6                   |              | Year 6            |              |
| Apr 30 Purchases Returns | 100          | Apr 1 Balance b/d | 1,176        |
| 30 Cash / Bank           | 5,910        | 30 Purchases      | 6,148        |
| 30 Balance c/d           | 1,314        |                   | <u>7,324</u> |
|                          | <u>7,324</u> | May 1 Balance b/d | 1,314        |

Total Purchases = Cash Purchases + Credit Purchases

$$= \text{RM } 500 + \text{RM } 6,148 \quad \leftarrow$$

$$= \text{RM } 6,648$$

Net Purchases = RM(6,648 – 100)

$$= \text{RM } \mathbf{6,548}$$

- (5) Opening Inventory + Net Purchases = Cost Of Goods Available For Sales  
 RM 8,640 + RM 6,548 = Cost Of Goods Available For Sales  
 ∴ Cost Of Goods Available For Sales = RM **15,188**
- (6) Cost Of Goods Available For Sales – Closing Inventory = Cost Of Sales  
 RM 15,188 – Closing Inventory = RM 6,597  
 ∴ Closing Inventory = RM 15,188 – RM 6,597  
 = RM **8,591**



## Practice 6

On 2 February Year 6 a fire destroyed some of the inventory of Tan. The value of the inventory saved was RM 200. The following information was available:

|                     | 1 January Year 6 | 2 February Year 6 |
|---------------------|------------------|-------------------|
|                     | RM               | RM                |
| Inventory           | 5,000            | ?                 |
| Accounts Receivable | 2,360            | 1,530             |
| Accounts Payable    | 4,120            | 3,520             |

The information for the period 1 January to 2 February Year 6 was provided as follows:

|                                   | RM     |
|-----------------------------------|--------|
| Cash purchases                    | 1,500  |
| Cash payments to creditors        | 12,000 |
| Discounts received from creditors | 230    |
| Cash received from debtors        | 24,380 |
| Discounts allowed to debtors      | 150    |
| Bad debts written off             | 300    |

Goods are sold at cost plus 50%.

You are required to prepare a statement showing the calculation of inventory loss.

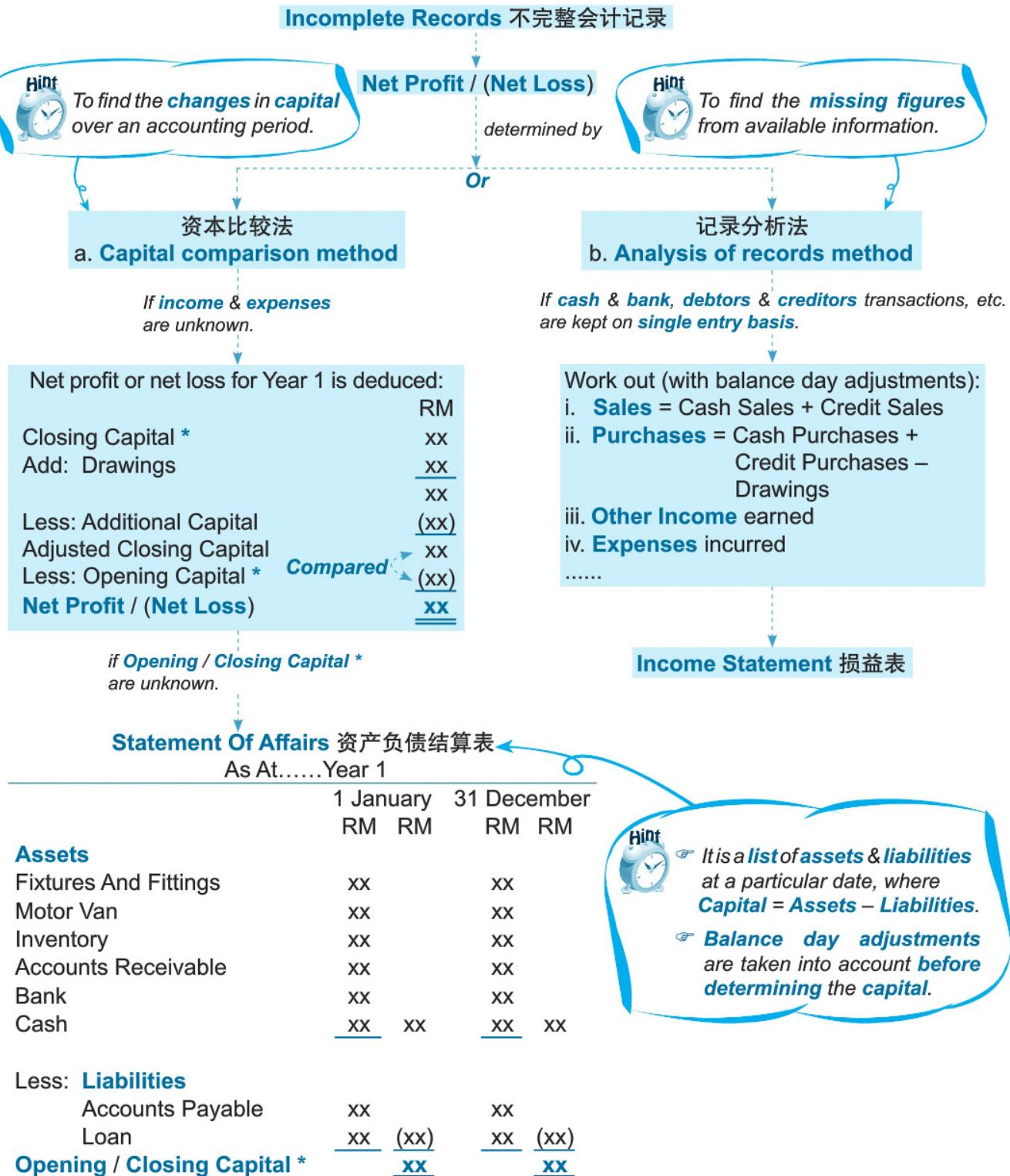


Deduce **margin** from **mark-up** to determine **gross profit**.

1. **Total Purchases**: RM 13,130.
2. **Gross Profit**: RM 8,000.
3. **Cost Of Sales**: RM 16,000.
4. **Inventory Loss**: RM 1,930.



## 1. Capital comparison method and analysis of records method:



## 2. Preparation of financial statements from incomplete records:



### Steps:

- Read the question** carefully.
- Put the available information in financial statements** in sequence.
- Work out the missing figures (?)** based on the **information given** with any **balance day adjustments** required:  
e.g.
  - Sales** = Cash Sales + Credit Sales
  - Purchases** = Cash Purchases + Credit Purchases – Drawings
  - Other Income** earned
  - Expenses** incurred
  - Opening Capital, Drawings**
  - Bank / Cash** balance = Opening balance + Receipts – Payments

.....

### Work out the missing figures using appropriate tools:

- Constructing **accounts**  
(e.g. Accounts Receivable & Payable, Income & Expenses accounts, Cash & Bank accounts)
- Preparing **statements**  
(e.g. Statement Of Affairs, etc.)
- Using accounting **ratios**  
(e.g. Margin 毛利率 / Markup 加成率)



(a)

### Company X Income Statement For The Year Ended 31 December Year 1

|                                                       | RM          | RM          | RM          |
|-------------------------------------------------------|-------------|-------------|-------------|
| Sales                                                 | <b>(W1)</b> |             | ?           |
| Less: Returns Inwards                                 |             |             | (xx)        |
| Discounts Allowed                                     |             |             | <u>(xx)</u> |
| <b>Net Sales</b>                                      |             |             | <b>xx</b>   |
| Less: <b>Cost Of Sales</b>                            |             |             |             |
| Opening Inventory                                     |             |             | xx          |
| Purchases                                             | <b>(W2)</b> | ?           |             |
| Less: Returns Outwards                                |             | (xx)        |             |
| Discounts Received                                    |             | <u>(xx)</u> |             |
| Net Purchases                                         |             | xx          |             |
| Carriage Inwards                                      | <u>xx</u>   | xx          | xx          |
| Less: Closing Inventory                               |             | (xx)        | <u>(xx)</u> |
| <b>Gross Profit / (Gross Loss)</b>                    |             |             | <b>xx</b>   |
| <b>Other Income</b>                                   |             |             |             |
| Commission Income                                     | <b>(W3)</b> |             | ?           |
| Less: <b>Expenses</b>                                 |             |             |             |
| Salaries                                              | <b>(W4)</b> | ?           |             |
| Increase / (Decrease) In Allowance For Doubtful Debts |             | xx          |             |
| Depreciation Of Machinery                             |             | <u>xx</u>   | <u>(xx)</u> |
| <b>Net Profit / (Net Loss )</b>                       |             |             | <b>xx</b>   |



(b)

Company X  
**Statement Of Financial Position**  
As At 31 December Year 1

|                                              | RM           | RM          | RM               |
|----------------------------------------------|--------------|-------------|------------------|
| <b>Non-current Assets</b>                    |              |             |                  |
| Machinery                                    |              | xx          |                  |
| Less: Accumulated Depreciation               |              | <u>(xx)</u> | <b>xx</b>        |
| <b>Current Assets</b>                        |              |             |                  |
| Inventory                                    |              | xx          |                  |
| Accounts Receivable                          |              | xx          |                  |
| Less: Allowance For Doubtful Debts           |              | <u>(xx)</u> | xx               |
| Accrued Income                               | <b>(W3)a</b> |             | xx               |
| Prepaid Expenses                             | <b>(W4)c</b> |             | xx               |
| Bank                                         |              | xx          |                  |
| Cash                                         |              | <u>xx</u>   | <b>xx</b>        |
| <i>Total Assets</i>                          |              |             | <u><u>xx</u></u> |
| <b>Owner's Equity</b>                        |              |             |                  |
| Opening Capital                              | <b>(W5)</b>  |             | ?                |
| Add: Net Profit / (Net Loss)                 | (a)          |             | <u>xx</u>        |
| Less: Drawings                               |              |             | <u>(xx)</u>      |
| <i>Closing Capital / Total Equity</i>        |              |             | <u><u>xx</u></u> |
| <b>Non-current Liabilities</b>               |              |             |                  |
| Bank Loan                                    |              | <b>xx</b>   |                  |
| <b>Current Liabilities</b>                   |              |             |                  |
| Accounts Payable                             |              | xx          |                  |
| Bank Overdraft                               |              | xx          |                  |
| Unearned Income / Income Received In Advance | <b>(W3)b</b> |             | xx               |
| Accrued Expenses                             | <b>(W4)d</b> | <u>xx</u>   | <b>xx</b>        |
| <i>Total Liabilities</i>                     |              |             | <u>xx</u>        |
| <i>Total Equity And Liabilities</i>          |              |             | <u><u>xx</u></u> |



**Hint**  
All the xx / xx are the  
*balancing figures*.

**Workings:**

(1) **Total Sales** = Cash Sales + Bank Sales + Credit Sales

**Accounts Receivable**

| Year 1            | RM | Year 1             | RM |
|-------------------|----|--------------------|----|
| Jan 1 Balance b/d | xx | Dec 31 Cash / Bank | xx |
| Dec 31 Sales      | xx | 31 Balance c/d     | xx |
|                   | xx |                    | xx |
| Year 2            |    |                    |    |
| Jan 1 Balance b/d | xx |                    |    |

(2) **Total Purchases** = Cash / Bank Purchases + Credit Purchases – Drawings

**Accounts Payable**

| Year 1             | RM | Year 1            | RM |
|--------------------|----|-------------------|----|
| Dec 31 Cash / Bank | xx | Jan 1 Balance b/d | xx |
| 31 Balance c/d     | xx | Dec 31 Purchases  | xx |
|                    | xx |                   | xx |
| Year 2             |    |                   |    |
| Jan 1 Balance b/d  |    |                   | xx |

(3)

**Income**

| Year 1                      | RM | Year 1                      | RM |
|-----------------------------|----|-----------------------------|----|
| Jan 1 Balance b/d (Accrued) | xx | Jan 1 Balance b/d (Prepaid) | xx |
| Dec 31 Profit And Loss      | xx | Dec 31 Cash / Bank          | xx |
| 31 Balance c/d (Prepaid)    | xx | 31 Balance c/d (Accrued)    | xx |
|                             | xx |                             | xx |
| Year 2                      |    | Year 2                      |    |
| Jan 1 Balance b/d (Accrued) | a  | Jan 1 Balance b/d (Prepaid) | b  |

(4)

**Expenses**

| Year 1                      | RM | Year 1                      | RM |
|-----------------------------|----|-----------------------------|----|
| Jan 1 Balance b/d (Prepaid) | xx | Jan 1 Balance b/d (Accrued) | xx |
| Dec 31 Cash / Bank          | xx | Dec 31 Profit And Loss      | xx |
| 31 Balance c/d (Accrued)    | xx | 31 Balance c/d (Prepaid)    | xx |
|                             | xx |                             | xx |
| Year 2                      |    | Year 2                      |    |
| Jan 1 Balance b/d (Prepaid) | c  | Jan 1 Balance b/d (Accrued) | d  |

(5)

Statement Of Affairs  
As At 1 January Year 1

|                                      | RM        | RM |
|--------------------------------------|-----------|----|
| <b>Assets</b>                        |           |    |
| Machinery, carrying amount           | xx        |    |
| Inventory                            | xx        |    |
| Accounts Receivable, carrying amount | xx        |    |
| Accrued Income                       | xx        |    |
| Prepaid Expenses                     | xx        |    |
| Bank                                 | xx        |    |
| Cash                                 | <u>xx</u> | xx |

Less: **Liabilities**

|                  |           |           |
|------------------|-----------|-----------|
| Accounts Payable | xx        |           |
| Bank Overdraft   | xx        |           |
| Unearned Income  | xx        |           |
| Accrued Expenses | xx        |           |
| Bank Loan        | <u>xx</u> | (xx)      |
| Opening Capital  |           | <u>xx</u> |

3. Calculation of **inventory loss** from **incomplete records**:



**Steps:**

- a. Put the **available information** in **Trading** account for the period from the **end of the last reporting period** to the **date of inventory loss**.
- b. **Work out the missing figures** based on the **information given**:
  - e.g.
  - i. **Sales** = Cash Sales + Credit Sales
  - ii. **Gross Profit**
  - iii. **Cost Of Sales**
  - iv. **Purchases** = Cash Purchases + Credit Purchases – Drawings
  - v. **Closing Inventory** (balancing figure)
- c. **Calculate:**  
$$\text{Inventory Loss} = \text{Closing Inventory} - \text{Inventory Saved} / \text{Actual Inventory} / \text{Remaining Inventory}$$

**Work out the missing figures** using appropriate **tools**:

- a. Constructing **accounts**  
(e.g. Accounts Receivable & Payable)
- b. Using accounting **ratios**  
(e.g. Margin / Markup)



## Chapter 21

# Non-profit-making organisation Accounts



### Learning Objectives

After studying this chapter, you should be able to:

- ☛ differentiate between profit-making and non-profit-making organisation;
- ☛ understand the nature and objective of non-profit-making organisation;
- ☛ distinguish between Receipts And Payments Account and Income And Expenditure Account;
- ☛ adjust and calculate subscriptions for the period;
- ☛ record entrance fees, life membership fees and donations / legacies in different ways;
- ☛ calculate accumulated fund;
- ☛ prepare financial reports with adjustments for accruals and prepayments:  
Receipts And Payments Account  
Trading Account for profit-making activity  
Income And Expenditure Account  
Statement Of Financial Position
- ☛ differentiate between revenue and capital expenditures / receipts.



21.1

### Differences between Profit-making and Non-profit-making Organisation

The differences between the profit-making and non-profit-making organisation are illustrated below:

| Profit-making organisation                                                    | Non-profit-making organisation                                                                                                                                                                                                                                           |
|-------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Main objective<br>To <b>make a profit</b> for its owner(s) / shareholders  | To <b>provide services</b> and <b>facilities</b> (such as social, recreation, sport or culture) to its members                                                                                                                                                           |
| 2. Examples<br>a. Sole proprietorship<br>b. Partnership<br>c. Limited company | a. Club, like sports club, social club, etc.<br>b. Society, like language society, oratory and debating society, etc.<br>c. Association, like cultural association, professional association, etc.<br>d. Other non-profit-making organisation, like church, temple, etc. |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                     |                     |                             |  |                                            |                               |                |                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |       |                     |                             |                        |                              |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|-----------------------------|--|--------------------------------------------|-------------------------------|----------------|-------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|---------------------|-----------------------------|------------------------|------------------------------|
| <p>3. Main source of funds</p> <p>From owner(s) / shareholders:</p> <ul style="list-style-type: none"> <li>a. Cash or assets introduced <b>or</b></li> <li>b. Shares subscribed</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | <p>From members:</p> <ul style="list-style-type: none"> <li>a. Subscriptions</li> <li>b. Entrance fees</li> <li>c. Life membership fees</li> <li>d. Donations / legacies</li> </ul> |                     |                             |  |                                            |                               |                |                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |       |                     |                             |                        |                              |
| <p>4. Financial reports</p> <ul style="list-style-type: none"> <li>a. <b>Cash Book</b> or Cash / Bank account</li> <br/><br/><br/><br/><br/> <li>b. <b>Income Statement:</b> <ul style="list-style-type: none"> <li>i. <b>Trading</b> account section           <table border="1" data-bbox="285 764 790 1034"> <tr><td>Sales</td></tr> <tr><td>Less: Cost Of Sales</td></tr> <tr><td>Gross Profit / (Gross Loss)</td></tr> <tr><td> </td></tr> <tr><td>ii. <b>Profit And Loss</b> account section</td></tr> <tr><td>→ Gross Profit / (Gross Loss)</td></tr> <tr><td>Less: Expenses</td></tr> <tr><td>Net Profit / (Net Loss)</td></tr> </table> </li> <br/><br/><br/><br/><br/> <li>c. <b>Statement Of Financial Position</b> <ul style="list-style-type: none"> <li><b>Owner's Equity</b></li> <li>Opening Capital</li> <li>Add: Net Profit</li> <li>Less: Drawings</li> <li><i>Total Equity / Closing Capital</i></li> </ul> </li> </ul> </li> </ul> | Sales                                                                                                                                                                               | Less: Cost Of Sales | Gross Profit / (Gross Loss) |  | ii. <b>Profit And Loss</b> account section | → Gross Profit / (Gross Loss) | Less: Expenses | Net Profit / (Net Loss) | <ul style="list-style-type: none"> <li>a. <b>Cash Book</b> or Cash / Bank account           <p style="text-align: center;">↓<br/>summarised</p> <p><b>Receipts And Payments Account</b></p> </li> <br/><br/><br/><br/><br/> <li>b. <b>Income And Expenditure Account</b> <p><u>Income</u></p> <p>Profit On Bar.....</p> <p><u>Expenditure</u></p> <p>Surplus / (Deficit)</p> <p>Bar / Refreshment / Cafeteria / Restaurant / Canteen<br/><b>Trading Account (if any)</b></p> <table border="1" data-bbox="825 899 1460 1102"> <tr><td>Sales</td></tr> <tr><td>Less: Cost Of Sales</td></tr> <tr><td>Gross Profit / (Gross Loss)</td></tr> <tr><td>Less: Trading Expenses</td></tr> <tr><td>Profit / (Loss) On Bar .....</td></tr> </table> </li> <br/><br/><br/><br/><br/> <li>c. <b>Statement Of Financial Position</b> <p><b>Accumulated Fund</b></p> <p>Balance, 1 January Year 1</p> <p>Add: Surplus</p> <p>Balance, 31 December Year 1</p> </li> </ul> | Sales | Less: Cost Of Sales | Gross Profit / (Gross Loss) | Less: Trading Expenses | Profit / (Loss) On Bar ..... |
| Sales                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                     |                     |                             |  |                                            |                               |                |                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |       |                     |                             |                        |                              |
| Less: Cost Of Sales                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                                                                                                     |                     |                             |  |                                            |                               |                |                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |       |                     |                             |                        |                              |
| Gross Profit / (Gross Loss)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                     |                     |                             |  |                                            |                               |                |                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |       |                     |                             |                        |                              |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                     |                     |                             |  |                                            |                               |                |                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |       |                     |                             |                        |                              |
| ii. <b>Profit And Loss</b> account section                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                                                                                                     |                     |                             |  |                                            |                               |                |                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |       |                     |                             |                        |                              |
| → Gross Profit / (Gross Loss)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                     |                     |                             |  |                                            |                               |                |                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |       |                     |                             |                        |                              |
| Less: Expenses                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                     |                     |                             |  |                                            |                               |                |                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |       |                     |                             |                        |                              |
| Net Profit / (Net Loss)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                     |                     |                             |  |                                            |                               |                |                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |       |                     |                             |                        |                              |
| Sales                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                     |                     |                             |  |                                            |                               |                |                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |       |                     |                             |                        |                              |
| Less: Cost Of Sales                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                                                                                                     |                     |                             |  |                                            |                               |                |                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |       |                     |                             |                        |                              |
| Gross Profit / (Gross Loss)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                     |                     |                             |  |                                            |                               |                |                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |       |                     |                             |                        |                              |
| Less: Trading Expenses                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                     |                     |                             |  |                                            |                               |                |                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |       |                     |                             |                        |                              |
| Profit / (Loss) On Bar .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                     |                     |                             |  |                                            |                               |                |                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |       |                     |                             |                        |                              |

## 21.2 Receipts And Payments Account

1. The Receipts And Payments Account is a **summary** of **Cash Book** showing **all cash** and **cheques received** and **paid** during an accounting period, and the **amount left** at the end of the period.
2. The **cash in hand** and the **cash at bank** are included in this account.
3. The **opening** and **closing balances** of this account are the amount of **cash in hand** and **cash at bank**.  
The **closing balance** is shown on Statement Of Financial Position as a **current asset**, and as a **current liability** if it is a **bank overdraft**.



## Example 1

The following was the information provided by Jessica Sports Club:

|                             | RM     |
|-----------------------------|--------|
| Cash At Bank, 1 Sept Year 1 | 12,500 |

### Receipts

|                        |        |
|------------------------|--------|
| Subscriptions          | 26,000 |
| Entrance Fees          | 8,000  |
| Locker Fees            | 2,800  |
| Income From Investment | 15,700 |

### Payments

|                               |        |
|-------------------------------|--------|
| Expenses Of Visiting Speakers | 1,200  |
| Rental Expenses               | 14,200 |
| Wages Of Management Staff     | 28,000 |
| Sports Equipment              | 11,700 |

You are required to prepare Receipts And Payments Account for the year ended 31 August Year 2.

### Solution:

Jessica Sports Club  
**Receipts And Payments Account**  
 For The Year Ended 31 August Year 2

| Receipts               | RM            | Payments                      | RM            |
|------------------------|---------------|-------------------------------|---------------|
| Balance b/d            | 12,500        | Expenses Of Visiting Speakers | 1,200         |
| Subscriptions          | 26,000        | Rental Expenses               | 14,200        |
| Entrance Fees          | 8,000         | Wages Of Management Staff     | 28,000        |
| Locker Fees            | 2,800         | Sports Equipment              | 11,700        |
| Income From Investment | 15,700        | Balance c/d                   | <u>9,900</u>  |
|                        | <u>65,000</u> |                               | <u>65,000</u> |
| Balance b/d            | 9,900         |                               |               |





## Practice 1

The Bank account of Jane Sports Club showed a bank overdraft of RM 5,000 on 1 January Year 1.

The following were the amounts received during Year 1:

|                                | RM     |
|--------------------------------|--------|
| Subscriptions                  | 25,150 |
| Entrance fees                  | 2,400  |
| Rental of lockers              | 1,500  |
| Rental of club's hall          | 2,600  |
| Contribution for annual dinner | 14,450 |

The payments during the same year were as follows:

|                                         | RM     |
|-----------------------------------------|--------|
| Salaries of club's staff                | 10,000 |
| Water and electricity bill              | 1,680  |
| Insurance expenses                      | 630    |
| Postage and telephone                   | 250    |
| Repairs and decorations to clubhouse    | 1,350  |
| Purchase of new furniture and equipment | 5,300  |
| Annual dinner expenses                  | 12,500 |

You are required to prepare Receipts And Payments Account for Jane Sports Club for the year ended 31 December Year 1.



1. **Bank** balance on 31 December Year 1: RM 9,390 (Dr).

## 21.3 Adjustments in Subscriptions account

1. **Subscriptions** (or known as membership fees) paid annually by members are the **main source of income** of a club, society or association.
2. Subscriptions are revenue receipts and recorded in **Subscriptions** account.
3. Subscriptions owed by members are called **subscriptions in arrears** / due / owing / outstanding.
4. Subscriptions paid by members in the current year but for the following year are called **subscriptions in advance**.
5. When **accruals** and **prepayments** happen, **Subscriptions** account has to be adjusted so that only the **actual revenue earned** for the **current year** is included in the current year's **Income And Expenditure Account**.



*In practice, a club may adopt the **prudence concept** 谨慎概念 to **ignore** the **subscriptions in arrears**.  
☞ **Subscriptions owed** for a **long period** usually are **uncollectible** as the members may **lose interest** and **leave** the organisation.*



### Example 2

1. The subscriptions amount of RM 35,800 was extracted from the Receipts And Payments Account of E-West Club for the year ended 31 December Year 2.

Additional information:

|                          | 1 Jan Year 2 | 31 Dec Year 2 |
|--------------------------|--------------|---------------|
|                          | RM           | RM            |
| Subscriptions in arrears | 1,200        | 900           |

You are required to:

- (a) prepare Subscriptions account;
- (b) record the amount of subscriptions in:
  - (i) Income And Expenditure Account (Extract) for the year ended 31 December Year 2;
  - (ii) Statement Of Financial Position (Extract) as at 31 December Year 2.

**Solution:**

|         |                                         | <i>Subscriptions for Year 1<br/>was <b>in arrears</b> &amp; received<br/>in Year 2</i>                  | <i>Amount received<br/>during Year 2</i>                                                                    |
|---------|-----------------------------------------|---------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|
| (a)     |                                         | Subscriptions                                                                                           |                                                                                                             |
|         | Year 2                                  | RM                                                                                                      | RM                                                                                                          |
|         | Jan 1 Balance b/d ( <i>In Arrears</i> ) | 1,200                                                                                                   | 35,800                                                                                                      |
|         | Dec 31 Income And Expenditure Account   | <b>35,500</b>                                                                                           | 900                                                                                                         |
|         |                                         | 36,700                                                                                                  | 36,700                                                                                                      |
|         | Year 3                                  |                                                                                                         |                                                                                                             |
|         | Jan 1 Balance b/d ( <i>In Arrears</i> ) | 900                                                                                                     | <i>i.e. RM 35,800 – RM 1,200 + RM 900</i>                                                                   |
|         |                                         | <i>Subscriptions for Year 2<br/>was <b>in arrears</b> &amp; <b>not received</b><br/>in Year 2</i>       |                                                                                                             |
| (b) (i) |                                         | E-West Club<br><b>Income And Expenditure Account</b> (Extract)<br>For The Year Ended 31 December Year 2 |                                                                                                             |
|         |                                         | Income                                                                                                  | RM                                                                                                          |
|         |                                         | Subscriptions                                                                                           | <b>35,500</b>                                                                                               |
|         |                                         |  Hint                | <i>It was the <b>amount due</b> for Year 2 but<br/><b>not</b> the amount <b>received</b> during Year 2.</i> |
| (ii)    |                                         | E-West Club<br><b>Statement Of Financial Position</b> (Extract)<br>As At 31 December Year 2             |                                                                                                             |
|         |                                         | RM                                                                                                      |                                                                                                             |
|         | <b>Current Assets</b>                   |                                                                                                         |                                                                                                             |
|         | ► Subscriptions In Arrears              | <b>900</b>                                                                                              |                                                                                                             |

2. Same information as in 1. of **Example 2**, except for the following:

Additional information:

|                          | 1 Jan Year 2<br>RM | 31 Dec Year 2<br>RM |
|--------------------------|--------------------|---------------------|
| Subscriptions in advance | 400                | 200                 |

**Solution:**

|                                       |               | <i>Subscriptions for Year 2<br/>received in advance<br/>in Year 1</i> | <i>Amount received<br/>during Year 2</i> |
|---------------------------------------|---------------|-----------------------------------------------------------------------|------------------------------------------|
| (a)                                   | Subscriptions |                                                                       |                                          |
| Year 2                                | RM            | Year 2                                                                | RM                                       |
| Dec 31 Income And Expenditure Account | <b>36,000</b> | Jan 1 Balance b/d (In Advance)                                        | 400                                      |
| 31 Balance c/d (In Advance)           | 200           | Dec 31 Bank                                                           | 35,800                                   |
|                                       | <b>36,200</b> |                                                                       | <b>36,200</b>                            |
|                                       |               | Year 3                                                                |                                          |
|                                       |               | Jan 1 Balance b/d (In Advance)                                        | 200                                      |
|                                       |               | i.e. RM 35,800 – RM 200 + RM 400                                      |                                          |

(b) (i)

E-West Club  
**Income And Expenditure Account** (Extract)  
For The Year Ended 31 December Year 2

| Income        | RM            |
|---------------|---------------|
| Subscriptions | <b>36,000</b> |

(ii)

E-West Club  
**Statement Of Financial Position** (Extract)  
As At 31 December Year 2

| Current Liabilities      | RM         |
|--------------------------|------------|
| Subscriptions In Advance | <b>200</b> |

3. Same information as in 1. of **Example 2**, except for the following:  
Additional information:

|                          | 1 Jan Year 2 | 31 Dec Year 2 |
|--------------------------|--------------|---------------|
|                          | RM           | RM            |
| Subscriptions in arrears | 1,200        | 900           |
| Subscriptions in advance | 400          | 200           |

**Solution:**

|                                         | <i>Subscriptions for Year 1<br/>was <b>in arrears</b> &amp; received<br/>in Year 2</i> | <i>Subscriptions for Year 2<br/>received in advance<br/>in Year 1</i>                             | <i>Amount received<br/>during Year 2</i> |
|-----------------------------------------|----------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|------------------------------------------|
| (a)                                     |                                                                                        |                                                                                                   |                                          |
|                                         | <b>Subscriptions</b>                                                                   |                                                                                                   |                                          |
| Year 2                                  | RM                                                                                     | Year 2                                                                                            | RM                                       |
| Jan 1 Balance b/d ( <i>In Arrears</i> ) | 1,200                                                                                  | Jan 1 Balance b/d ( <i>In Advance</i> )                                                           | 400                                      |
| Dec 31 Income And Expenditure Account   | <b>35,700</b>                                                                          | Dec 31 Bank                                                                                       | 35,800                                   |
| 31 Balance c/d ( <i>In Advance</i> )    | 200                                                                                    | 31 Balance c/d ( <i>In Arrears</i> )                                                              | 900                                      |
|                                         | <b>37,100</b>                                                                          |                                                                                                   | <b>37,100</b>                            |
| Year 3                                  |                                                                                        | Year 3                                                                                            |                                          |
| Jan 1 Balance b/d ( <i>In Arrears</i> ) | <b>900</b>                                                                             | Jan 1 Balance b/d ( <i>In Advance</i> )                                                           | <b>200</b>                               |
|                                         |                                                                                        | <i>Subscriptions for Year 2<br/>was <b>in arrears</b> &amp; <b>not received</b><br/>in Year 2</i> |                                          |
|                                         |                                                                                        | <i>Subscriptions for Year 3<br/>received in advance<br/>in Year 2</i>                             |                                          |

i.e. RM 35,800 – RM 1,200 – RM 200 + RM 400 + RM 900

(b) (i)

E-West Club  
**Income And Expenditure Account** (Extract)  
For The Year Ended 31 December Year 2

|               | <b>Income</b> | RM            |
|---------------|---------------|---------------|
| Subscriptions |               | <b>35,700</b> |

(ii)

E-West Club  
**Statement Of Financial Position** (Extract)  
As At 31 December Year 2

|                            | RM         | RM                         |            |
|----------------------------|------------|----------------------------|------------|
| <b>Current Assets</b>      |            | <b>Current Liabilities</b> |            |
| ► Subscriptions In Arrears | <b>900</b> | Subscriptions In Advance   | <b>200</b> |

## Practice 2

The following information was extracted from the Receipts And Payments Account of Jolin Friends Club for the year ended 31 December Year 2:

|                          |           |
|--------------------------|-----------|
| Subscriptions for Year 1 | RM 1,300  |
| Subscriptions for Year 2 | RM 35,000 |
| Subscriptions for Year 3 | RM 450    |



How to **interpret** 解释 these 3 amounts of **subscriptions**?

Additional information:

- Subscriptions in advance as at 1 January Year 2 was RM 370;
- Subscriptions in arrears as at 31 December Year 2 was RM 980.

You are required to:

- draw up Subscriptions account;
- record the amount of subscriptions in:
  - Income And Expenditure Account (Extract) for the year ended 31 December Year 2;
  - Statement Of Financial Position (Extract) as at 31 December Year 2.



☞ Find out the **opening accrual & closing prepayment** from the **subscriptions received**.

- Subscriptions** for the year: RM 36,350.

## 21.4 Income And Expenditure Account

- The Income And Expenditure Account is equivalent to the Profit And Loss account of a profit-making organisation.
- Accruals and prepayments must be adjusted in the Income And Expenditure Account.
- The aim of the Income And Expenditure Account is to find out whether there is a surplus or deficit of a non-profit-making organisation for a financial year.



### Example 3

(Same information as in Example 1)

You are required to prepare Income And Expenditure Account for the year ended 31 August Year 2.



*Under what circumstance would this subscriptions amount be the same as that in the Receipts And Payments Account of Example 1?*

**Solution:**

(a) **T** format:

| Jessica Sports Club                 |               |
|-------------------------------------|---------------|
| Income And Expenditure Account      |               |
| For The Year Ended 31 August Year 2 |               |
| Expenditure                         | RM            |
| Expenses Of Visiting Speakers       | 1,200         |
| Rental Expenses                     | 14,200        |
| Wages Of Management Staff           | 28,000        |
| Surplus                             | <u>9,100</u>  |
|                                     | <u>52,500</u> |
| Income                              | RM            |
| Subscriptions                       | 26,000        |
| Entrance Fees                       | 8,000         |
| Locker Fees                         | 2,800         |
| Income From Investment              | 15,700        |
|                                     | <u>52,500</u> |



*Total income RM 52,500 >  
Total expenditure RM 43,400*

(b) **Vertical** format:

|                               | RM            | RM              |
|-------------------------------|---------------|-----------------|
| <b>Income</b>                 |               |                 |
| Subscriptions                 |               | 26,000          |
| Entrance Fees                 |               | 8,000           |
| Locker Fees                   |               | 2,800           |
| Income From Investment        |               | <u>15,700</u>   |
|                               |               | <u>52,500</u>   |
| <b>Less: Expenditure</b>      |               |                 |
| Expenses Of Visiting Speakers | 1,200         |                 |
| Rental Expenses               | 14,200        |                 |
| Wages Of Management Staff     | <u>28,000</u> | <u>(43,400)</u> |
| Surplus                       |               | <u>9,100</u>    |



### Practice 3

The Receipts And Payments Account of Waikiki Sports Club was as shown below:

**Receipts And Payments Account**  
For The Year Ended 30 September Year 3

| <b>Receipts</b>            | RM     | <b>Payments</b>            | RM     |
|----------------------------|--------|----------------------------|--------|
| Balance b/d - Cash In Hand | 500    | Wages                      | 3,600  |
| - Cash At Bank             | 1,500  | Postages And Sundries      | 360    |
| Subscriptions              | 4,800  | Rental Of Club Premises    | 2,400  |
| Locker Rental              | 1,800  | Stationery                 | 260    |
| Entrance Fees              | 2,500  | General Expenses           | 350    |
| Stage Show Income          | 3,000  | Stage Show Expenses        | 2,200  |
|                            |        | Balance c/d - Cash In Hand | 930    |
|                            |        | - Cash At Bank             | 4,000  |
|                            | 14,100 |                            | 14,100 |
| Balance b/d - Cash In Hand | 930    |                            |        |
| - Cash At Bank             | 4,000  |                            |        |

Additional information:

|                                     | 1 October Year 2 | 30 September Year 3 |
|-------------------------------------|------------------|---------------------|
|                                     | RM               | RM                  |
| (a) Inventory of stationery         | 50               | 40                  |
| (b) Subscriptions in arrears        | 600              | 460                 |
| (c) Accrued rental of club premises | 200              | 400                 |

You are required to prepare Income And Expenditure Account for the year ended 30 September Year 3.



1. **Subscriptions** for the year: RM 4,660.
2. **Surplus**: RM 2,580.

## 21.5 Trading Account

- Clubs, societies or associations are formed **not** for the purpose of **making a profit**. However, sometimes they are involved in **trading activities**. For example, a club restaurant supplies food and drinks to serve the **needs** of its **members**.
- A **Trading Account** has to be prepared to show the **profit** or **loss** made from **trading activities** for a financial year after all the **costs** are deducted.



### Example 4

The following information was extracted from the books of Fancy Tennis Club as at 30 June Year 4:

**Receipts And Payments Account (Extract)**  
For The Year Ended 30 June Year 4

| <b>Receipts</b>   | <b>RM</b> | <b>Payments</b>              | <b>RM</b> |
|-------------------|-----------|------------------------------|-----------|
| Refreshment Sales | 33,950    | Refreshment Accounts Payable | 5,820     |
|                   |           | Wages Of Refreshment Staff   | 6,500     |
|                   |           | Refreshment Purchases        | 3,570     |

Additional information:

|                                  | 1 July Year 3 | 30 June Year 4 |
|----------------------------------|---------------|----------------|
|                                  | RM            | RM             |
| (a) Refreshment inventory        | 1,350         | 1,980          |
| (b) Refreshment accounts payable | 4,390         | 5,980          |

You are required to prepare Refreshment Trading Account for the year ended 30 June Year 4.



**Hint** It is similar to the **Trading** account and **Profit And Loss** account sections in **Income Statement** of a **profit-making organisation**.

**Solution:**

| Fancy Tennis Club<br>Refreshment Trading Account |         |                  |        |
|--------------------------------------------------|---------|------------------|--------|
| For The Year Ended 30 June Year 4                |         |                  |        |
|                                                  | RM      | RM               |        |
| Opening Inventory                                | 1,350   | Sales            | 33,950 |
| Purchases (Working)                              | 10,980  |                  |        |
|                                                  | 12,330  |                  |        |
| Less: Closing Inventory                          | (1,980) |                  |        |
| Cost Of Sales                                    | 10,350  |                  |        |
| Gross Profit c/d                                 | 23,600  |                  |        |
|                                                  | 33,950  |                  | 33,950 |
| Wages Of Refreshment Staff                       | 6,500   | Gross Profit b/d | 23,600 |
| Profit On Refreshment                            | 17,100  |                  |        |
|                                                  | 23,600  |                  | 23,600 |



**Hint** It was the **profit** from the **refreshment trading** after all the **costs & expenses** of the activities are deducted.

**Profit On Refreshment** is **credited** to **Income And Expenditure** account as an **income**.  
**Loss On Refreshment** is **debited** to **Income And Expenditure** account as an **expense**.

**Working:**

#### Refreshment Accounts Payable

| Year 4                          | RM        | Year 3            | RM     |
|---------------------------------|-----------|-------------------|--------|
| Jun 30 Bank / Cash              | 5,820     | Jul 1 Balance b/d | 4,390  |
| 30 Balance c/d                  | 5,980     | Year 4            |        |
|                                 |           | Jun 30 Purchases  | 7,410  |
|                                 | 11,800    |                   | 11,800 |
|                                 |           | Jul 1 Balance b/d | 5,980  |
| Credit purchases of refreshment | RM 7,410  |                   |        |
| Cash purchases of refreshment   | 3,570     |                   |        |
| Total purchases of refreshment  | RM 10,980 |                   |        |



Differentiate between the **Trading Account** for a **non-profit-making organisation** and that for a **profit-making organisation**.



## Practice 4

The Receipts And Payments Account of Blue Legend Club for the year ended 30 September Year 4 was shown below:

| Receipts And Payments Account          |               |                           |               |
|----------------------------------------|---------------|---------------------------|---------------|
| For The Year Ended 30 September Year 4 |               |                           |               |
| Receipts                               | RM            | Payments                  | RM            |
| Balance b/d                            | 6,500         | Bar Purchases             | 2,100         |
| Subscriptions                          | 4,900         | Sports Equipment          | 2,000         |
| Life Membership Fees                   | 500           | Wages Of Secretary        | 2,200         |
| Bar Sales                              | 3,500         | Expenses Of Social Events | 560           |
| Income From Social Events              | 1,800         | Hire Of Boats             | 4,400         |
| Rental Of Sports Equipment             | 1,200         | Interest And Bank Charges | 150           |
|                                        |               | Sundry Expenses           | 240           |
|                                        |               | Balance c/d               | 6,750         |
|                                        | <u>18,400</u> |                           | <u>18,400</u> |
| Balance b/d                            | 6,750         |                           |               |

Additional information:

|                              | 1 October Year 3 | 30 September Year 4 |
|------------------------------|------------------|---------------------|
|                              | RM               | RM                  |
| (a) Bar Inventory            | 200              | 310                 |
| (b) Subscriptions in arrears | 200              | 280                 |
| (c) Subscriptions in advance | 100              | 140                 |
| (d) Sports equipment         | 6,000            | 7,200               |
| (e) Hire of boats owing      | 250              | 480                 |

You are required to prepare Income And Expenditure Account for the year ended 30 September Year 4.



1. **Subscriptions** for the year: RM 4,940.
2. **Profit On Bar**: RM 1,510.
3. **Depreciation Of Sports Equipment**: RM 800.
4. **Surplus**: RM 1,370.



## Practice 5

The Receipts And Payments for the year ended 31 December Year 5 of the Blue Lagoon Club was shown below:

### Receipts And Payments Account For The Year Ended 31 December Year 5

| <b>Receipts</b>            | RM     | <b>Payments</b>                     | RM     |
|----------------------------|--------|-------------------------------------|--------|
| Balance b/d                | 4,500  | Rental Of Clubhouse                 | 4,550  |
| Subscriptions: Year 4      | 100    | Payments For Cafeteria Supplies     | 1,650  |
| Year 5                     | 4,350  | Computer And Printer                | 3,700  |
| Year 6                     | 250    | Purchase Of T-shirts                | 380    |
| Donations                  | 2,500  | Tournament Expenses 比赛费用            | 500    |
| Sale Of Used Table Clothes | 50     | Newspapers And Magazines            | 580    |
| Cafeteria Takings          | 2,700  | Wages Of Maintenance Staff          | 2,500  |
| Sale Of T-shirts           | 510    | Water And Electricity And Insurance | 750    |
|                            |        | Balance c/d                         | 350    |
|                            | 14,960 |                                     | 14,960 |
| Balance b/d                | 350    |                                     |        |

Additional information:

- There are 100 members in the club and the yearly subscription is RM 50 per member;
- Rental in advance as at 31 December Year 5 amounted to RM 350;
- Amount payable for newspapers and magazines as at 31 December Year 5 stood at RM 50;
- Accrued electricity for Year 4 amounting to RM 80 was paid in Year 5;
- Cafeteria inventory of foods and drinks at 31 December Year 5 was RM 950.

You are required to prepare Income And Expenditure Account for the year ended 31 December Year 5.



Find out the **opening** and **closing accruals & closing prepayment** from the **subscriptions received**.

- Subscriptions** for the year: RM 5,000.
- Profit On Cafeteria**: RM 2,000.
- Surplus**: RM 1,180.

## 21.6 Statement Of Financial Position

The only **difference** between **Statement Of Financial Position** of non-profit-making organisation and that of profit-making organisation is in the **Equity** section as shown below:

### Statement Of Financial Position (Extract)

As At 31 December Year 1

|                                       | RM        |
|---------------------------------------|-----------|
| <b>Owner's Equity</b>                 |           |
| Opening Capital                       | xx        |
| Add: Net Profit                       | <u>xx</u> |
|                                       | xx        |
| Less: Drawings                        | (xx)      |
| <b>Total Equity / Closing Capital</b> | <u>xx</u> |

### Statement Of Financial Position (Extract)

As At 31 December Year 1

|                           | RM                          |
|---------------------------|-----------------------------|
| <b>Accumulated Fund</b>   |                             |
| Balance, 1 January Year 1 | xx                          |
| Add: Surplus              | <u>xx</u>                   |
|                           | xx                          |
|                           | <i>Assets – Liabilities</i> |



### Example 5

Asean Sports Club provided its Receipts And Payments Account as shown below:

#### Receipts And Payments Account

For The Year Ended 31 December Year 5

| Receipts              | RM            | Payments                | RM            |
|-----------------------|---------------|-------------------------|---------------|
| Balance b/d           | 3,300         | Fire Insurance Expenses | 250           |
| Subscriptions: Year 4 | 150           | Tools And Equipment     | 2,000         |
| Year 5                | 4,800         | Secretarial Expenses    | 1,500         |
| Year 6                | 200           | Seminar Expenses        | 450           |
| Locker Rental         | 450           | Balance c/d             | 6,900         |
| Seminar Income        | 2,200         |                         |               |
|                       | <u>11,100</u> |                         | <u>11,100</u> |
| Balance b/d           | 6,900         |                         |               |

Additional information:

On 1 January Year 5, the club possessed the following non-current assets:

|                     | RM     |
|---------------------|--------|
| Furniture           | 850    |
| Tools and equipment | 2,600  |
| Club premises       | 30,000 |

You are required to calculate the accumulated fund as at 1 January Year 5 after taking into consideration the following appropriate items:

1 January Year 5:

|                              |        |
|------------------------------|--------|
| Accrued secretarial expenses | RM 300 |
| Accrued locker rental        | RM 25  |
| <br>                         |        |
| 31 December Year 5:          |        |

RM 20



**Hint** It was the **opening balance** (including the **cash in hand & cash at bank**) in the **Receipts And Payments Account**.

### Solution:

Statement showing the calculation of Accumulated Fund as at 1 January Year 5

#### Assets

|                          | RM            |
|--------------------------|---------------|
| Cash And Bank            | 3,300         |
| Furniture                | 850           |
| Tools And Equipment      | 2,600         |
| Club Premises            | 30,000        |
| Accrued Locker Rental    | 25            |
| Subscriptions In Arrears | 150           |
|                          | <u>36,925</u> |

#### Less: Liabilities

|                                                |               |
|------------------------------------------------|---------------|
| Accrued Secretarial Expenses                   | (300)         |
| <b>Accumulated Fund</b> as at 1 January Year 5 | <u>36,625</u> |

## 21.7 Entrance Fees, Life Membership Fees and Donations / Legacies

### 1. Entrance / Joining fee 入会费:

It is a **one-time payment** made by a new member at the **time of admission** into a club, society or association.

### 2. Life membership fee / Lifetime subscription 终身会费:

It is paid by a member by making a **single lump sum once** in his life to become a **life member** 终身会员. He can then enjoy the benefits and services provided by the organisation for the rest of his life.

### 3. Donation / Legacy 捐赠/遗赠:

It is the amount in cash or assets received from members or other interested parties.



**In practice**, a club, society or association could decide to **treat** the accounting entries for **entrance fees**, **life membership fees** & **donations / legacies differently**.  
It all depends on the decision of the committee.

#### 4. Accounting entries:

|                            | <b>Not specified</b> 没指定                                                                                                                                                                                                                                                    | <b>Specified</b> 指定                                                                                                                                                                                                                                                                   |
|----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| a. Entrance / Joining fees | <p>Dr Bank<br/>Cr Entrance Fees<br/>(Being entrance fees received)</p> <p>Dr Entrance Fees<br/>Cr Income And Expenditure Account<br/>(Being full amount of entrance fees credited to Income And Expenditure Account in the year of receipt)</p>                             | <p>Dr Bank<br/>Cr Entrance Fees<br/>(Being entrance fees received)</p> <p>Dr Entrance Fees<br/>Cr Income And Expenditure Account<br/>(Being entrance fees apportioned over a number of years and credited to Income And Expenditure Account annually)</p>                             |
|                            | <p><b>Hint</b>: The <b>basis of apportionment</b> depends on the <b>accounting policy</b> of a club, society or association.</p>                                                                                                                                            |                                                                                                                                                                                                                                                                                       |
| b. Life membership fees    | <p>Dr Bank<br/>Cr Life Membership Fees<br/>(Being life membership fees received)</p> <p>Dr Life Membership Fees<br/>Cr Income And Expenditure Account<br/>(Being full amount of life membership fees credited to Income And Expenditure Account in the year of receipt)</p> | <p>Dr Bank<br/>Cr Life Membership Fees<br/>(Being life membership fees received)</p> <p>Dr Life Membership Fees<br/>Cr Income And Expenditure Account<br/>(Being life membership fees apportioned over a number of years and credited to Income And Expenditure Account annually)</p> |

**Remark:**

The credit **balance** of Entrance Fees Account is shown on Statement Of Financial Position as a **liability**.

**Or**

Dr Entrance Fees  
Cr Accumulated Fund  
(Being full amount of entrance fees credited to Accumulated Fund in the year of receipt)

Dr Bank  
Cr Life Membership Fees  
(Being life membership fees received)

Dr Life Membership Fees  
Cr Income And Expenditure Account  
(Being life membership fees apportioned over a number of years and credited to Income And Expenditure Account annually)

**Remark:**

The credit **balance** of Life Membership Fees Account is shown on Statement Of Financial Position as a **liability**.

|                         |                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                               |
|-------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                         |                                                                                                                                                                                                                                                                                                       | <p>Dr Life Membership Fees<br/>Cr Accumulated Fund<br/>(Being full amount of life membership fees credited to Accumulated Fund in the year of receipt)</p> <p><b>Or</b></p> <p>Dr Life Membership Fees<br/>Cr Accumulated Fund<br/>(Being balance of Life Membership Fees Account transferred to Accumulated Fund on the death of member)</p> |
| c. Donations / Legacies | <p>Dr Bank / Assets<br/>Cr Donations / Legacies<br/>(Being donations / legacies of cash / assets received)</p> <p>Dr Donations / Legacies<br/>Cr Income And Expenditure Account<br/>(Being full amount of donations / legacies credited to Income And Expenditure Account in the year of receipt)</p> | <p>Dr Bank / Assets<br/>Cr Donations / Legacies<br/>(Being donations / legacies of cash / assets received)</p> <p>Dr Donations / Legacies<br/>Cr Accumulated Fund<br/>(Being full amount of donation / legacies credited to Accumulated Fund in the year of receipt)</p>                                                                      |



## Practice 6

J & J Social Club provided the Receipts And Payments Account as follows:

### Receipts And Payments Account

For The Year Ended 30 June Year 6

| Receipts                 | RM             | Payments                         | RM             |
|--------------------------|----------------|----------------------------------|----------------|
| Balance b/d              | 15,000         | Advertising Expenses             | 720            |
| Subscriptions            | 34,800         | Furniture And Fittings           | 1,200          |
| Rental Of Hall           | 2,000          | Repairs And Maintenance          | 4,200          |
| Restaurant Sales         | 30,950         | Electricity And Telephone        | 980            |
| Fun Fair Receipts        | 15,430         | Fun Fair Expenses                | 2,450          |
| Donation From Government | 10,000         | Restaurant Accounts Payable      | 14,580         |
|                          |                | Wages Of Restaurant Staff        | 6,500          |
|                          |                | Committee Expenses               | 480            |
|                          |                | Investment in Public Mutual Fund | 50,000         |
|                          |                | Balance c/d                      | 27,070         |
|                          | <u>108,180</u> |                                  | <u>108,180</u> |
| Balance b/d              | 27,070         |                                  |                |

Additional information:

|        |                                                                                 | 1 July Year 5 | 30 June Year 6 |
|--------|---------------------------------------------------------------------------------|---------------|----------------|
|        |                                                                                 | RM            | RM             |
| (i)    | Subscriptions in advance                                                        | 1,200         | 2,400          |
| (ii)   | Subscriptions in arrears                                                        | 1,150         | 950            |
| (iii)  | Restaurant inventory                                                            | 2,240         | 2,000          |
| (iv)   | Accrued repairs and maintenance                                                 | 1,200         | 1,600          |
| (v)    | Clubhouse                                                                       | 38,000        | 38,000         |
| (vi)   | Furniture and fittings                                                          | 3,000         | 3,800          |
| (vii)  | Restaurant accounts payable                                                     | 6,380         | 5,500          |
| (viii) | The investment should be accrued 9 months interest at the rate of 5% per annum. |               |                |
| (ix)   | Donation from government was for the construction of a new tennis court.        |               |                |

You are required to prepare:

- Restaurant Trading Account for the year ended 30 June Year 6;
- Income And Expenditure Account for the year ended 30 June Year 6;
- Statement Of Financial Position as at 30 June Year 6.



The **donation** was for a specific capital project.

- Subscriptions** for the year: RM 33,400.
- Profit On Restaurant**: RM 10,510.
- Surplus**: RM 53,585.
- Opening / Closing Accumulated Fund**: RM 50,610 / RM 114,195.
- Statement Of Financial Position** total: RM 123,695.



Why was there only **Restaurant Accounts Payable** but **no Restaurant Accounts Receivable**?

## 21.8 Revenue and Capital Expenditures, Revenue and Capital Receipts

1. The differences between revenue expenditure and capital expenditure of an organisation (either non-profit-making or profit-making) are summarised below:

| Expenditure                                                                                                                                              |                                                                                                                                                                                                                                                                                                                                  |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Revenue                                                                                                                                                  | Capital                                                                                                                                                                                                                                                                                                                          |
| a. It is an <b>expense</b> for the <b>daily operation</b> 日常运作 of an entity.<br>e.g. Purchase of foods and drinks<br>Salaries<br>Repair cost of building | a. i. It is an <b>acquisition</b> / purchase of a <b>non-current asset</b> , including the <b>cost of acquiring</b> and <b>getting it ready for use</b> .<br>e.g. Purchase price of machine, freight and installation cost.<br>ii. It will increase the value of an existing non-current asset.<br>e.g. Extension cost of office |
| b. It benefits the entity for the accounting period in which it is incurred.                                                                             | b. It benefits the entity for more than one accounting period.                                                                                                                                                                                                                                                                   |
| c. It is shown as an <b>expenditure</b> in <b>Income And Expenditure Account</b> or as an <b>expense</b> in <b>Income Statement</b> .                    | c. It is shown as a <b>non-current asset</b> on <b>Statement Of Financial Position</b> .                                                                                                                                                                                                                                         |



How would the **surplus** of the club be affected if it was treated as a **revenue expenditure**?



### Practice 7

Indicate whether each of the following transactions is a revenue expenditure or a capital expenditure of a **club** by **ticking** (✓) the appropriate boxes:

|      | Transactions                             | Expenditure |         |
|------|------------------------------------------|-------------|---------|
|      |                                          | Revenue     | Capital |
| e.g. | (a) Purchase of sports equipment         |             | ✓       |
|      | (b) Petrol cost for motor van            |             |         |
|      | (c) Extension of club                    |             |         |
|      | (d) Renting an office                    |             |         |
|      | (e) Legal cost of buying a new clubhouse |             |         |
|      | (f) Management fees                      |             |         |
|      | (g) Purchase of prizes and souvenirs     |             |         |
|      | (h) Purchase of a billiard table         |             |         |
|      | (i) Maintenance fees of clubhouse        |             |         |



## Practice 8

**Tick (✓)** the appropriate boxes to classify the following transactions as a revenue expenditure or a capital expenditure for Wong's **trading firm**:

|      | Transactions                                                | Expenditure |         |
|------|-------------------------------------------------------------|-------------|---------|
|      |                                                             | Revenue     | Capital |
| e.g. | (a) Bought an extra delivery vehicle                        |             | ✓       |
|      | (b) Cost of rebuilding a warehouse wall which had collapsed |             |         |
|      | (c) Extension of warehouse                                  |             |         |
|      | (d) Transportation expenses of collecting debts             |             |         |
|      | (e) Legal charges on acquiring a new business premise       |             |         |
|      | (f) Premium for fire insurance of a new business premise    |             |         |



## Practice 9

Ang started a business and wished to distinguish between revenue expenditure and capital expenditure. She produced the following list of her transactions.

You are required to **tick (✓)** the appropriate boxes for the following transactions:

|      | Transactions                                     | Expenditure |         |
|------|--------------------------------------------------|-------------|---------|
|      |                                                  | Revenue     | Capital |
| e.g. | (a) Payment of telephone bill                    | ✓           |         |
|      | (b) Purchase of a copying machine for office use |             |         |
|      | (c) Installation wages of copying machine        |             |         |
|      | (d) Cost of decorating office                    |             |         |
|      | (e) Purchase of a computer for office use        |             |         |
|      | (f) Payment of salaries for employees            |             |         |
|      | (g) Payment of a bill for advertisement          |             |         |
|      | (h) Payment of insurance on motor vehicle        |             |         |
|      | (i) Purchase of goods for resale                 |             |         |

2. The differences between revenue receipts and capital receipts of an organisation (either non-profit-making or profit-making) are summarised below:

| Receipts                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Revenue                                                                                                                                                                                                                | Capital                                                                                                                                                                                                                                                                                         |
| <p>a. It is the <b>income</b> derived <b>from</b> the sale or other income related to the <b>normal activity</b> of the entity.</p> <p>e.g. Sale of refreshment<br/>Subscriptions<br/>Commission / interest income</p> | <p>a. It is the <b>receipts</b> derived from the source <b>other than</b> the <b>normal activity</b> of the entity.</p> <p>e.g. <b>Legacies</b> of assets received<br/><b>Capital</b> introduced to business<br/><b>Loan</b> 贷款 received<br/><b>Proceeds</b> from sale of non-current asset</p> |
| <p>b. It is shown as an <b>income</b> in <b>Income And Expenditure Account</b> or <b>Income Statement</b>.</p>                                                                                                         | <p>b. It is shown as an <b>accumulated fund / capital</b> or <b>non-current liability</b> on <b>Statement Of Financial Position</b>.</p>                                                                                                                                                        |



**Proceeds from sale of non-current asset**  
**Acquisition** of non-current asset is a **capital expenditure**.  
When the asset is sold, the **proceeds** is a **capital receipts**.

## Practice 10

Indicate whether each of the following transactions is a revenue receipts or a capital receipts by **ticking** (✓) the appropriate boxes:

|      | Transactions                                           | o | Receipts |         |
|------|--------------------------------------------------------|---|----------|---------|
|      |                                                        |   | Revenue  | Capital |
| e.g. | (a) Proceeds from sale of refreshment of a club        | o | ✓        |         |
|      | (b) Rental income received by a property company       |   |          |         |
|      | (c) Interest of fixed deposit of a trading firm        |   |          |         |
|      | (d) Additional capital brought in by a sole proprietor |   |          |         |
|      | (e) A loan received from an outsider                   |   |          |         |
|      | (f) A sum received on loan notes                       |   |          |         |
|      | (g) Proceeds from disposal of used furniture           |   |          |         |



How would the club's **surplus** be affected if it was treated as a **capital receipts**?



## Review



It is a **summary** of Cash Book.

- The **financial reports** of a non-profit-making organisation 非盈利组织 are shown below:  
a. T format

i.

| X Sports Club<br>Receipts And Payments Account 收入与支出账户<br>For The Year Ended 31 December Year 1 |           |                              |           |
|-------------------------------------------------------------------------------------------------|-----------|------------------------------|-----------|
| Receipts                                                                                        | RM        | Payments                     | RM        |
| Balance b/d – Cash & Cash At Bank                                                               | xx        | Sports Equipment             | xx        |
| *Subscriptions 会费                                                                               | yy        | Rental Of Clubhouse          | xx        |
| Entrance Fees 入会费                                                                               | xx        | Canteen Purchases            | xx        |
| Life Membership Fees 终身会费                                                                       | xx        | Wages Of Canteen Staff       | xx        |
| Donations 捐赠 / Legacies 遗赠                                                                      | xx        | Club Manager's Salaries      | xx        |
| Canteen Sales                                                                                   | xx        | Expenses Of Social Functions | xx        |
| Income From Social Functions                                                                    | xx        | Balance c/d – Cash And Bank  | xx        |
|                                                                                                 | <u>xx</u> |                              | <u>xx</u> |
| Balance b/d – Cash And Bank                                                                     | <b>xx</b> |                              |           |

Revenue & capital receipts

Revenue & capital expenditures



It is for a **profit-making activity** of the club.

ii.

| X Sports Club<br>Canteen Trading Account 食堂营业账户<br>For The Year Ended 31 December Year 1 |           |                  |           |
|------------------------------------------------------------------------------------------|-----------|------------------|-----------|
|                                                                                          | RM        | RM               |           |
| Opening Inventory                                                                        | xx        | Sales            | xx        |
| Purchases                                                                                | xx        |                  |           |
|                                                                                          | <u>xx</u> |                  |           |
| Less: Closing Inventory                                                                  | (xx)      |                  |           |
|                                                                                          | <u>xx</u> |                  |           |
| Gross Profit c/d                                                                         | xx        |                  |           |
|                                                                                          | <u>xx</u> |                  |           |
| Wages Of Canteen Staff                                                                   | xx        | Gross Profit b/d | xx        |
| Profit On Canteen 餐厅利润                                                                   | xx        |                  | <u>xx</u> |
|                                                                                          | <u>xx</u> |                  | <u>xx</u> |



Trading profit

iii.

| X Sports Club<br>Income And Expenditure Account 收益与开销账户<br>For The Year Ended 31 December Year 1 |           |                                    |   |           |
|--------------------------------------------------------------------------------------------------|-----------|------------------------------------|---|-----------|
| Expenditure                                                                                      | RM        | Income                             |   |           |
| Rental Of Clubhouse                                                                              | xx        | Subscriptions                      | ⑤ | xx        |
| Club Manager's Salaries                                                                          | xx        | Profit On Canteen                  |   | xx        |
| Surplus / (Deficit) 盈余/ (不敷)                                                                     | xx        | Entrance Fees                      |   | xx        |
|                                                                                                  | <u>xx</u> | Life Membership Fees               |   | xx        |
|                                                                                                  |           | Donations / Legacies               |   | xx        |
|                                                                                                  |           | Income From Social Functions       |   | xx        |
|                                                                                                  |           | Less: Expenses Of Social Functions |   | (xx)      |
|                                                                                                  |           | Profit /(Loss) On Social Functions |   | <u>xx</u> |
|                                                                                                  | <u>xx</u> |                                    |   | <u>xx</u> |

Income > Expenditure / (Income < Expenditure):  
Surplus is **added** to Accumulated Fund;  
Deficit is **deducted**.



It is the **profit** or loss of a **special activity**.

Assets – Liabilities

iv.

X Sports Club  
Statement Of Financial Position 财务状况表  
As At 31 December Year 1

| Capital expenditure |                                 | RM |                                  | RM        |
|---------------------|---------------------------------|----|----------------------------------|-----------|
|                     |                                 |    |                                  |           |
|                     | <b>Non-current Assets</b>       |    | <b>Accumulated Fund 累计基金</b>     |           |
|                     | Sports Equipment                | xx | Balance, 1 January Year 1        | xx        |
|                     |                                 |    | Add: Surplus / (Deficit) 盈余/(不敷) | <u>xx</u> |
|                     |                                 |    | Balance, 31 December Year 1      | xx        |
|                     | <b>Current Assets</b>           |    | <b>Current Liabilities</b>       |           |
|                     | Canteen Inventory               | xx | Subscriptions In Advance 预收会费 ④  | <u>xx</u> |
|                     | Subscriptions In Arrears 应收会费 ③ | xx | Canteen Accounts Payable         | <u>xx</u> |
|                     | Cash And Bank                   | xx |                                  | <u>xx</u> |



It is the **closing balance** on **Receipts And Payments Account**.

### Working:

① **Opening accrual**

② **Opening prepayment**

Subscriptions 会费

|                                       |   | RM        |                                |              | RM        |
|---------------------------------------|---|-----------|--------------------------------|--------------|-----------|
| Year 1                                |   |           | Year 1                         |              |           |
| ► Jan 1 Balance b/d (In Arrears)      |   | xx        | Jan 1 Balance b/d (In Advance) |              | xx        |
| Dec 31 Income And Expenditure Account | ⑤ | <u>xx</u> | Dec 31 *Bank                   | ①&④ included | yy        |
| 31 Balance c/d (In Advance)           |   | xx        | 31 Balance c/d (In Arrears)    |              | <u>xx</u> |
| Year 2                                |   | <u>xx</u> | Year 2                         |              | <u>xx</u> |
| ► Jan 1 Balance b/d (In Arrears)      |   | xx        | Jan 1 Balance b/d (In Advance) |              | xx        |

③ **Closing accrual**

④ **Closing prepayment**



It is the **subscription due** for Year 1 but **not the amount received** during Year 1, thus **accruals & prepayments** have to be taken into account.

b. **Vertical** format

i. X Sports Club

**Canteen Trading Account**

For The Year Ended 31 December Year 1

|                              | RM        | RM        |
|------------------------------|-----------|-----------|
| Sales                        |           | xx        |
| Less: Cost Of Sales          |           | xx        |
| Opening Inventory            | <u>xx</u> |           |
| Purchases                    | <u>xx</u> |           |
| Less: Closing Inventory      | (xx)      | (xx)      |
| Gross Profit                 |           | xx        |
| Less: Wages Of Canteen Staff |           | (xx)      |
| Profit On Canteen            |           | <u>xx</u> |

ii. X Sports Club

**Income And Expenditure Account**

For The Year Ended 31 December Year 1

|                                     | RM        | RM        |
|-------------------------------------|-----------|-----------|
| <b>Income</b>                       |           |           |
| Subscriptions                       |           | ⑤         |
| Profit On Canteen                   | <u>xx</u> |           |
| Entrance Fees                       |           | xx        |
| Life Membership Fees                |           | xx        |
| Donations / Legacies                |           | xx        |
| <i>Income From Social Functions</i> | xx        |           |
| Less: Expenses Of Social Functions  | (xx)      |           |
| Profit /(Loss) On Social Functions  |           | xx<br>xx  |
| Less: <b>Expenditure</b>            |           |           |
| Rental Of Clubhouse                 | xx        |           |
| Club Manager's Salaries             | <u>xx</u> | (xx)      |
| Surplus / (Deficit)                 |           | <u>xx</u> |

iii. X Sports Club

**Statement Of Financial Position**

As At 31 December Year 1

|                                               | RM        | RM              |
|-----------------------------------------------|-----------|-----------------|
| <b>Non-current Assets</b>                     |           |                 |
| Sports Equipment                              |           | xx              |
| <b>Current Assets</b>                         |           |                 |
| Canteen Inventory                             | xx        |                 |
| Subscriptions In Arrears                      | ③         | <u>xx</u>       |
| Cash And Bank                                 | <u>xx</u> | xx<br><u>xx</u> |
| <i>Total Assets</i>                           |           |                 |
| <b>Accumulated Fund</b>                       |           |                 |
| Balance, 1 January Year 1                     |           | xx              |
| Add: Surplus / (Deficit)                      | xx        | xx<br>xx        |
| Balance, 31 December Year 1                   |           | xx              |
| <b>Current Liabilities</b>                    |           |                 |
| Subscriptions In Advance                      | ④         | <u>xx</u>       |
| Canteen Accounts Payable                      | <u>xx</u> | xx<br><u>xx</u> |
| <i>Total Accumulated Fund And Liabilities</i> |           |                 |

2. **Revenue and Capital Expenditures** 收益与资本支出, **Revenue and Capital Receipts**  
收益与资本收入 of a non-profit-making organisation:

