

# Bookkeeping And Accounts

## Reference Book 1

(修订本)

簿记与会计参考书

1



董教总华文独中工委会统一课程委员会编纂

高中适用

《簿记与会计参考书1》(修订本)

Bookkeeping And Accounts Reference Book 1

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# 编辑说明

1. 这套参考书是根据董教总全国华文独中工委会课程局所拟定的《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，点选“簿记与会计/会计学”。

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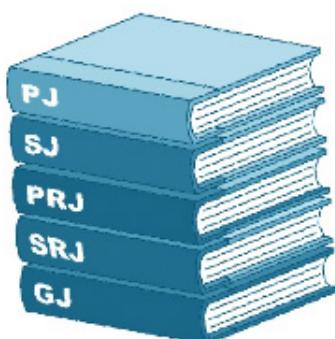
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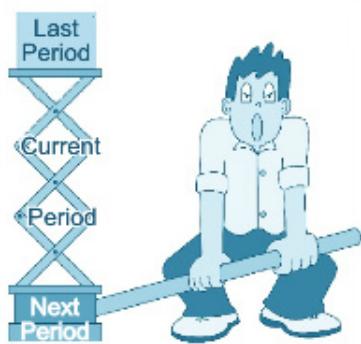
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# Chapter 1

# Introduction To Bookkeeping



## Learning Objectives

After studying this chapter, you should be able to:

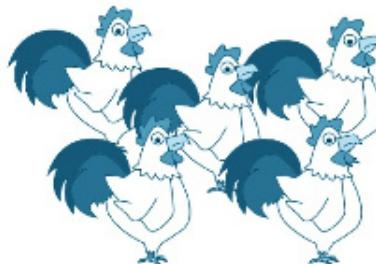
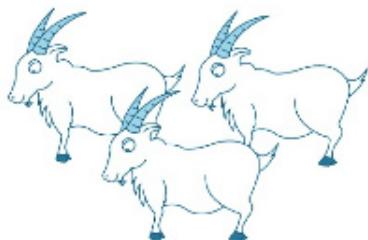
- ☛ understand the evolution and development of accounting;
- ☛ briefly define bookkeeping and state its objectives;
- ☛ identify the main users of accounting information, and explain why they need the information;
- ☛ differentiate between the roles played by bookkeeper and accountant;
- ☛ explain the difference and relationship between bookkeeping and accounting.



1.1

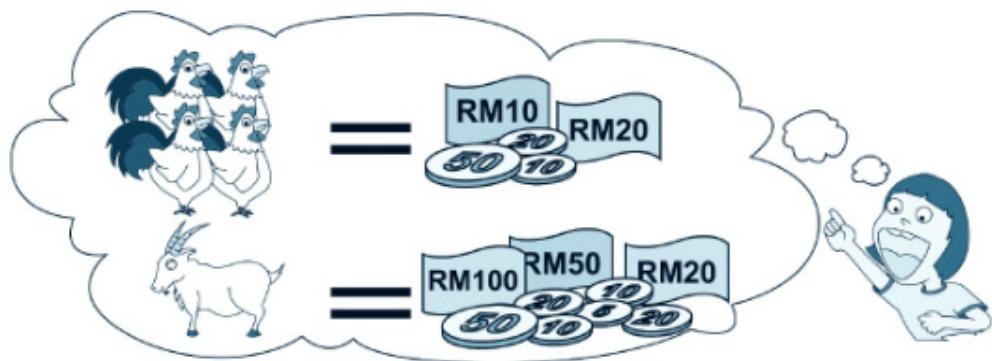
## Evolution and Development of Accounting

1. In ancient times, before the advent of currencies, the **barter transactions** 物物交易 were the only form of trade. Most record consisted of a list of objects as shown below:



It would be difficult to compare any object of one person to another when there is no **common basis of measurement**. How many chickens will you get in exchange for one goat? Four chickens? or Ten chickens?

2. The Chinese invented **coinage** 硬币 around the year 1000 BC. Nowadays, transactions can be **measured** by **currency** and paid by **banknotes** 纸币 and **coinage, cheques, credit cards**, etc.



3. In 1494, an Italian friar **Luca Pacioli** was the first to introduce **double-entry bookkeeping system** to record daily transactions. The system is still in use today.
4. Bookkeeping record is important to business owners, lenders, taxation authority, etc. Accurate accounting is even more relevant in the modern era.

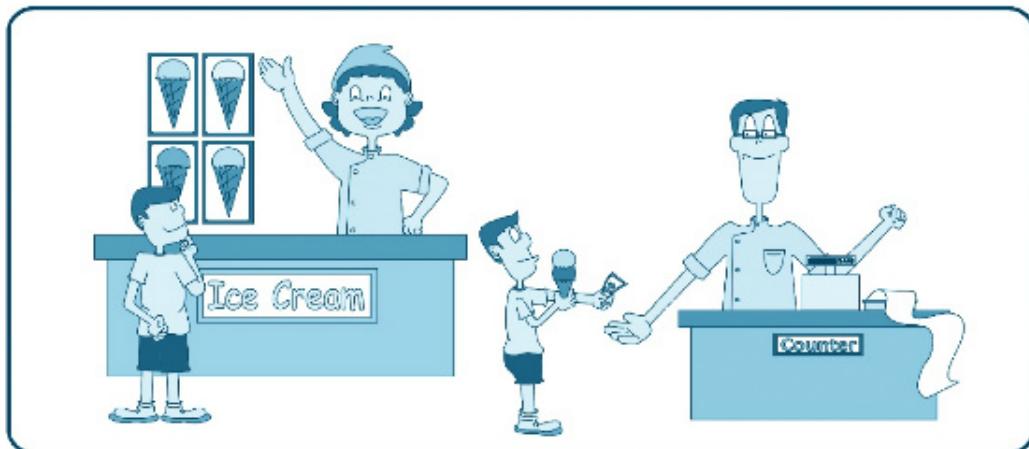


**Input**

**Double-entry bookkeeping system** 复式记账法

A system where every business transaction is recorded on the **debit** 借 side (on the left) of an account and on the **credit** 贷 side (on the right) of another account.

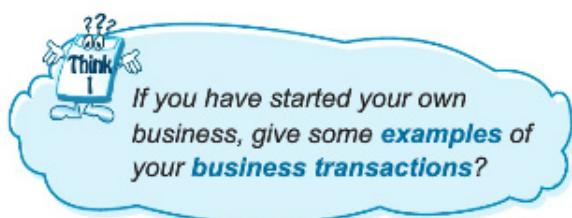
## 1.2 What is Bookkeeping



1. **Bookkeeping** is the process of recording business transactions accurately and systematically in accordance with the accounting principles or rules 会计原则/法则.
2. A **business transaction** is the occurrence of a business which can be expressed in monetary terms.

Payment of money in exchange for **goods** 货物 or **services** 服务 is an example of a business transaction.

- e.g. a. Bought goods for cash;  
b. Paid staff salaries by cheques.



## 1.3 Objectives of Bookkeeping

The **objectives** of bookkeeping can be summarised as follows:

1. To keep the records of a business operations;
2. To ascertain the **profit** 利润 or **loss** 亏损 of a business for a particular period;
3. To show the **financial position** 财务状况 of a business at a particular date to find out what it **owns** 拥有 and **owes** 欠.
4. To provide useful accounting information for **decision making** 决策 of a business.

The **main users** of accounting information are as follows:

1. **Business owners:**



- Business owners can know exactly how much profit or loss they have made and what the business owns and owes.

2. **Managers / Executives:**



- They are the people appointed by the business to supervise the daily operating activities.
- They need the information to enable them to manage the business efficiently in order to take effective control and make decision.

3. **Employees:**

- Employees' future careers and their wages and salaries depend on the business operating results.

4. **Trade contacts:**

- **Suppliers** will be able to know the ability of the business to pay its debts.
- **Customers** need to know whether the business is secured and able to supply goods or services continuously.

5. **Lenders:**

- The lenders may be banks / finance companies, other companies or individuals.
- The lenders' primary concern is the ability of the business to make loan repayment.

6. **Taxation authority:**



- In Malaysia, it is Lembaga Hasil Dalam Negeri(**LHDN**) / Inland Revenue Board(**IRB**).
- Its main interest is to make sure that the business pays tax on the profit earned.



Can you give more **examples** of the **users of accounting information**?  
Briefly **explain** why they are interested in the information.

## 1.5 Bookkeeper versus Accountant



- There are different **job functions** and **responsibilities** for **bookkeeper** and **accountant**.
- The **roles** played by them are listed below:



Bookkeeper	Accountant
<p>a. Keeps the <b>source documents</b> 原始凭证 that flow into the business.</p> <p>b. <b>Makes entries</b> 记录 in the <b>books</b> 账簿 for the transactions of the business.</p> <p>c. Organises the recorded <b>data</b> 资料.</p> <p>d. Prepares reports at the end of a period.</p>	<p>a. Reviews the detailed bookkeeping transactions and summaries to detect errors or omissions.</p> <p>b. <b>Presents</b> 呈现 and <b>interprets</b> 解释 the summarised financial information to the management.</p> <p>c. Explains the differences between the <b>actual performance</b> 实际成果 and the <b>forecasted result</b> 预测成果 of the business.</p> <p>d. <b>Forecasts</b> 预测 the future growth of the business.</p> <p>e. Sets up the <b>internal control system</b> 内部控制系统 to assist daily operations of the business and to prevent <b>fraud</b> 舞弊.</p>

- From the above respective roles, the difference and the relationship between **bookkeeping** and **accounting** can now be illustrated as follows:

Recording 记录

Classifying 分类

Summarising 汇总

Preparing financial reports 编制财务报表

Analysing, Interpreting & Reporting 分析、解释与报告

Bookkeeping

Accounting



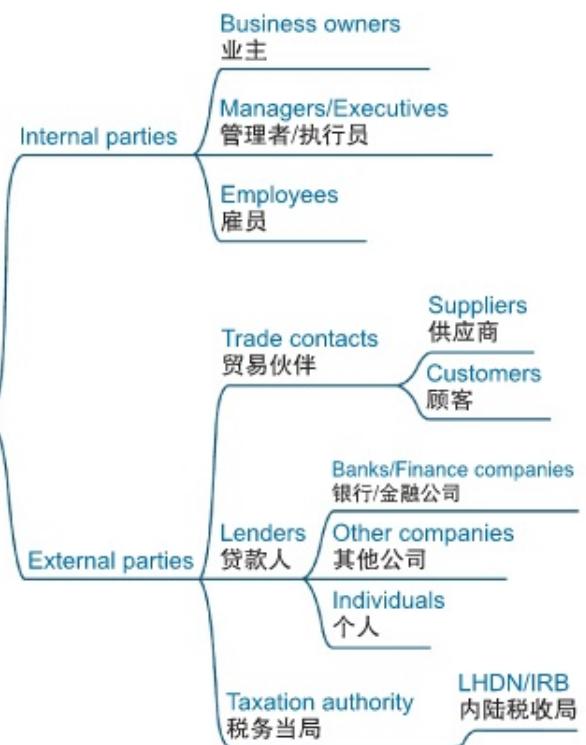
With the help of the above diagram, what do you understand by "**bookkeeping**" and "**accounting**"? Briefly explain in your own words.



## Evolution 演变 and Development 发展 of Accounting

### Introduction To Bookkeeping

#### Users of Accounting Information 会计信息



#### Bookkeeper 记账员 vs Accountant 会计师

#### Bookkeeping 算术 vs Accounting 会计

Job functions  
&  
Responsibilities

Recording  
vs  
Analysing

## Chapter 2

# Rules Of Debit And Credit And General Ledger



### Learning Objectives

After studying this chapter, you should be able to:

- ☞ understand the rules of debit and credit for assets, liabilities, equity, income and expenses;
- ☞ use the double entry to record business transactions in General Ledger;
- ☞ extract a Trial Balance.



### 2.1 General Ledger and T-account

1. All **accounts** 账户 are kept in the **book** 账簿 called “**General Ledger** 总分类账”, which is the main book of accounts.
2. The **format** of an **account** is shown below :



☞ It is a **T-account** T字形账户.  
☞ It is also known as a **ledger account** 分类账户.

Date 日期	Particulars 摘要	Folio 账页	Amount 数额	Date	Particulars	Folio	Amount

**Debit (Dr)** 借

Left-hand side

**Credit (Cr)** 贷

Right-hand side

## 2.2 Transactions and Accounting Elements

1. A **transaction** is referred to an economic event or activity that affects the financial position of a business. They are two types of transaction, namely **cash transaction** and **credit transaction**.
2. Every business transaction affects one or more accounting elements. The **accounting elements** are defined as follows:

Accounting elements	Definitions	Examples
a. <b>Assets</b>	<b>Resources</b> that are <b>owned by</b> 拥有 a business.	Inventory, Accounts receivable, Cash at bank, Lands and buildings, Furniture and fixtures, Office equipment, etc.
b. <b>Liabilities</b>	<b>Debts 债务</b> that a business <b>owes to</b> 欠 <b>outsiders 外人</b> , other than its owner.	Accounts payable, Bank overdraft, Bank loan, etc.
c. <b>Equity / Owner's equity</b>	<b>Debts</b> that a business <b>owes to its owner</b> / proprietor <b>业主</b> .  From a business point of view, it is considered as the <b>business borrows</b> from its <b>owner</b> .  It represents the total <b>resources 资源</b> (cash and non-cash) <b>invested</b> in a business <b>by</b> its <b>owner</b> .  <b>Profit</b> / loss of a business belongs to its owner. Thus it is also <b>part</b> of the <b>equity</b> .	Capital
d. <b>Income</b>	i <b>Revenue</b> earned from <b>sale of goods or rendering of services</b> from the <b>ordinary activities</b> during an accounting period.  ii <b>Income</b> earned <b>not</b> derived from <b>sales</b> during an accounting period.	Sales, Fees, etc.  Commission income, Interest income, etc.
e. <b>Expenses</b>	<b>Costs</b> incurred in earning income during an accounting period.	Purchases, Wages and salaries, Printing and stationery, etc.



Refer to: **Appendix II: Definitions of Elements of Financial Statements (IFRS Framework)**



For more examples, refer to:  
**Appendix I: Chart of Accounts.**

## 2.3 Rules of Debit and Credit and Double-entry Bookkeeping

1. The whole of financial accounting is based on a formula called **accounting equation**:

What a business owns      What a business owes to  
owner & outsiders

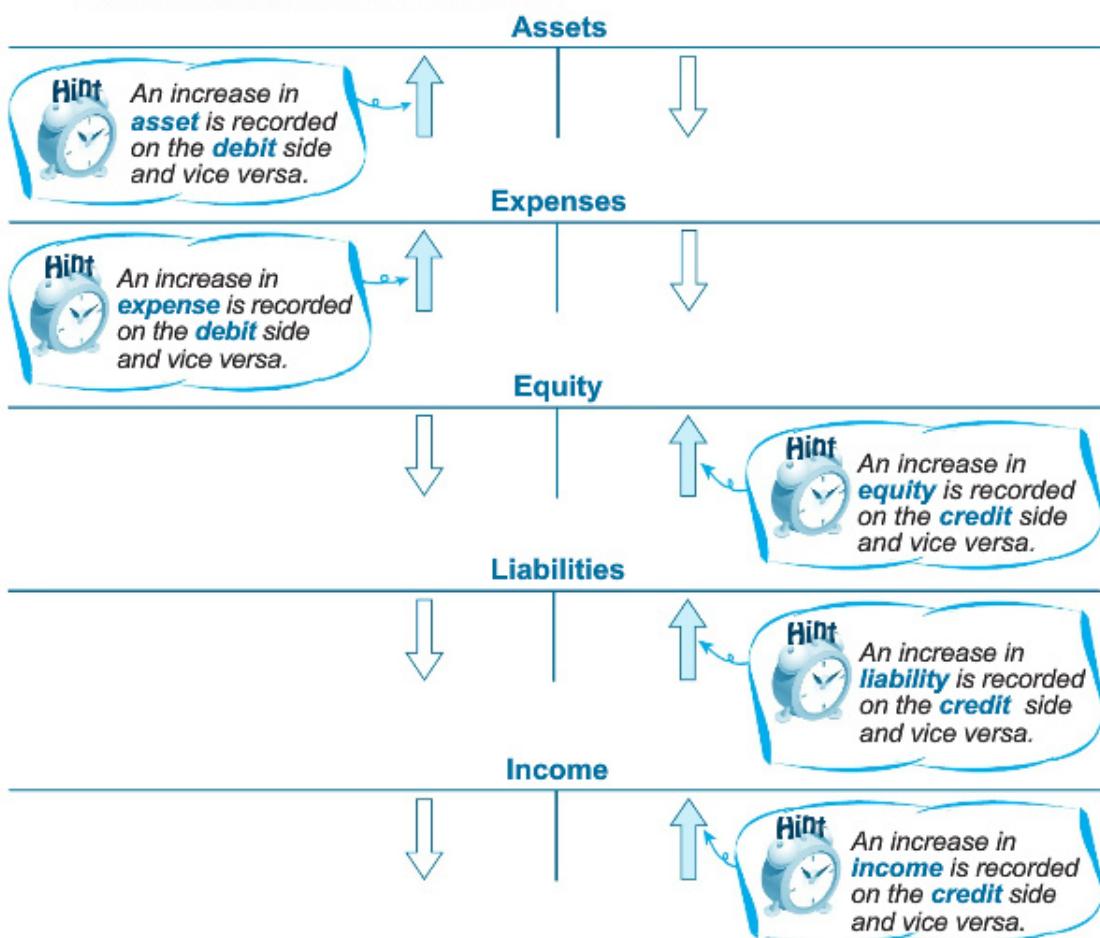
$$\text{Assets} = \text{Equity} + \text{Liabilities}$$

$$\text{Assets} = \text{Equity} + \text{Liabilities}$$

$$\text{Assets} = [\text{Equity} + (\text{Income} - \text{Expenses})] + \text{Liabilities}$$



2. Every business transaction affects one or more accounting elements. The **rules of debit and credit** are shown below:



3. In order to record business transactions accurately and completely, the following rules must be followed:

- Every transaction must be recorded by using **double entry** 复式记录 (i.e. every **debit** entry must have a corresponding **credit** entry and vice versa);
- Every transaction must involve **at least two accounts**;
- The basic **format** of an account must be prepared;
- The "**Particulars**" in an account refers to the name of the corresponding account.
- There must be an **equivalent amount** on the debit and credit sides respectively.



### Example 1

The following transactions are related to Teng's business:

- (a) Teng brought in cash and his personal furniture for the business.
- (b) Cash transferred to the business bank account.
- (c) Received cheque as a loan from bank.
- (d) A van was bought by cheque.
- (e) Repayment of the loan by cheque.
- (f) Goods purchased by cheque.
- (g) Cash received from sale of goods.
- (h) Office expenses paid for cash.
- (i) Salaries paid to staff by cheque.
- (j) Goods purchased from Ong by cheque.
- (k) Purchased goods on credit from Tan.
- (l) Sold goods on credit to Koh.

#### Input

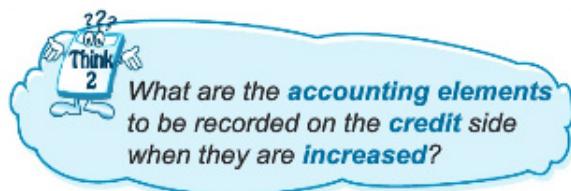
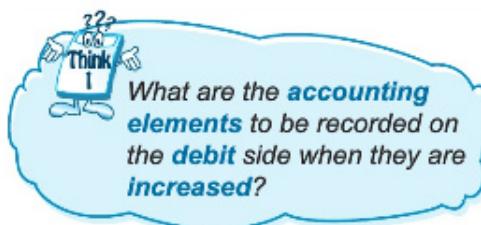
For items (k) & (l), refer to:  
**2.5 Credit Transaction.**

You are required to state the accounts to be debited and credited and the reasons for the above transactions.

#### Solution:

	Accounts to be debited	Reasons	Accounts to be credited	Reasons
(a)	Cash Office Furniture	Asset ↑ Asset ↑	Capital Capital	Equity ↑ Equity ↑
(b)	Bank	Asset ↑	Cash	Asset ↓
(c)	Bank	Asset ↑	Loan	Liability ↑
(d)	Van / Motor Vehicle	Asset ↑	Bank	Asset ↓
(e)	Loan	Liability ↓	Bank	Asset ↓
(f)	Purchases	Expense ↑	Bank	Asset ↓
(g)	Cash	Asset ↑	Sales	Income ↑
(h)	Office Expenses	Expense ↑	Cash	Asset ↓
(i)	Salaries	Expense ↑	Bank	Asset ↓
(j)	Purchases	Expense ↑	Bank	Asset ↓
(k)	Purchases	Expense ↑	Account Payable - Tan	Liability ↑
(l)	Account Receivable - Koh	Asset ↑	Sales	Income ↑

*Accounting elements*





## Practice 1

You are required to complete the table below, showing the accounts to be debited and credited and the reasons:

	Transactions	Accounts to be <b>debited</b>	Reasons	Accounts to be <b>credited</b>	Reasons
(a)	Goods were sold for cash.				
(b)	Additional capital was introduced into the business in cash.				
(c)	Telephone fee was paid for cash.				
(d)	Goods were purchased for cash.				
(e)	A computer for business use was paid by cheque.				
(f)	Cash was drawn from the bank.				
(g)	Goods sold to Chia on credit.				
(h)	Received defective goods from Chia.				
(i)	Received cheque from Chia in full settlement.				
(j)	Goods purchased from Ng on credit.				
(k)	Returned part of the goods to Ng.				
(l)	Sent cheque to Ng to settle the amount owed.				

**Input**


For items (g) ~ (l), refer to:  
**2.5 Credit Transaction.**

## 2.4 Cash Transaction

It is a transaction in which **cash** is paid **on the spot** **当场/立即** for the goods purchased or services rendered, i.e. **payment** is **made** by cash / cheque / credit card on the **same day** as the **trade**.



### Example 2

Wong started his handphone business on 1 August Year 2, his transactions were shown as follows:

Year 2

- |          |   |
|----------|---|
| August 1 | Started business with capital of RM 2,800 in cash.    |
| 9        | Purchased 4 handphones for cash RM 360 each.          |
| 13       | Sold 1 handphone for cash RM 540.                     |
| 15       | Sold 2 more handphones for cash RM 600 each.          |
| 16       | Bought another handphone for cash RM 400.             |
| 19       | Sold the 2 remaining handphones for cash RM 500 each. |
| 25       | Paid advertising expenses for cash RM 300.            |

You are required to show the above transactions by using double entry in **Wong's** General Ledger and **balance off** all the accounts.



**Hint**  
For the **name of accounts** 账户名称 & **definition** 定义,  
refer to: **Appendix I: Chart of Accounts** 账户一览表.

**Solution:**

In the book of Wong:



General Ledger		
Capital		
Year 2 Aug 31 Balance c/d	RM 2,800	Year 2 Aug 1 Cash
		RM 2,800
		Sept 1 Balance b/d 2,800
Cash		
Year 2 Aug 1 Capital	RM 2,800	Year 2 Aug 9 Purchases
13 Sales	540	16 Purchases
15 Sales	1,200	25 Advertising Expenses
19 Sales	1,000	31 Balance c/d
	5,540	3,400
Sept 1 Balance b/d	3,400	5,540
Purchases		
Year 2 Aug 9 Cash	RM 1,440	Year 2 Aug 31 Balance c/d
16 Cash	400	1,840
	1,840	1,840
Sept 1 Balance b/d	1,840	1,840
Sales		
Year 2 Aug 31 Balance c/d	RM 2,740	Year 2 Aug 13 Cash
		540
		15 Cash
		1,200
		19 Cash
	2,740	1,000
		2,740
		Sept 1 Balance b/d
		2,740
Advertising Expenses		
Year 2 Aug 25 Cash	RM 300	Year 2 Aug 31 Balance c/d
Sept 1 Balance b/d	300	300



## Practice 2

The following transactions are related to Amanda's business for the month of September

Year 2:

Year 2

- |             |   |
|-------------|---|
| September 1 | Balance of cash in hand RM 2,000.                 |
| 3           | Purchased goods for cash RM 800.                  |
| 4           | Paid wages for cash RM 60.                        |
| 5           | Sold goods for cash RM 1,000.                     |
| 6           | Paid transport expenses for cash RM 100.          |
| 17          | Received cash RM 200 from sales.                  |
| 18          | Paid rental for cash RM 160.                      |
| 19          | Paid salaries for cash RM 800.                    |
| 20          | Bought goods for cash RM 200.                     |
| 22          | Cash sales RM 320.                                |
| 23          | Bought <b>filing cabinet</b> 档案柜 for cash RM 120. |
| 27          | Sold goods for cash RM 80.                        |
| 29          | Paid stationery for cash RM 24.                   |

You are required to record the above transactions by using double entry in the General Ledger of **Amanda** and balance off all the accounts.



1. **Cash:** RM 1,336.



## Example 3

Year 3

		RM
January 1	Cash in hand	800
2	Received cash from Leong as a <b>loan</b> 贷款	400
5	Sold goods for cash	500
8	Bought stationery for cash	60
15	Paid water and electricity bills for cash	200
17	Purchased goods for cash	220
25	Paid wages for cash	300
30	<b>Paid off</b> 偿清 the loan from Leong by cash	400
30	Purchased furniture for cash	270

You are required to enter the above transactions in a **Cash** account, and balance off the account.

**Solution:**

General Ledger			Year 3
Cash			
Year 3	RM	Year 3	RM
Jan 1 Balance b/d	800	Jan 8 Stationery	60
2 Loan From Leong	400	15 Water And Electricity	200
5 Sales	500	17 Purchases	220
		25 Wages	300
		30 Loan From Leong	400
		30 Furniture	270
		31 Balance c/d	250
	<u>1,700</u>		<u>1,700</u>
Feb 1 Balance b/d	250		



Year 3	RM
July 1 Cash in hand	3,000
3 Bought goods for cash	500
5 Bought a delivery van for cash	1,000
7 Repaid a debt 债务 to Teh by cash	400
9 Sold goods for cash	700
15 Paid motor expenses for cash	200
20 Sold goods to Ahmad for cash	800
24 Bought electronic calculators for cash	300
26 Paid insurance for cash	600
30 Paid for repairs to the delivery van by cash	150
31 Paid salaries for cash	900

You are required to prepare a **Cash** account to record the above transactions, and balance off the account.





## Practice 4

Year 4		RM
August 1	Cash balance	850
3	Received a bank loan from Ambank in cash	1,000
5	Paid water and electricity for cash	200
8	Bought goods for cash	400
10	Repaid part of the loan from Ambank by cash	200
13	Goods sold for cash	650
15	Bought machinery for cash	500
17	Paid carriage for cash	180
22	Sold some of the goods for cash	250
25	Paid telephone bill for cash	450
26	Received rental in cash	550
30	Bought additional goods for cash	600

You are required to record the above transactions in a **Cash** account, and balance off the account.




## Practice 5

Year 5		RM
June 2	Sold goods for cash	800
5	Bought goods for cash	500
7	Cash purchases	600
8	Sold goods to Ali for cash	700
15	Bought some more goods for cash	400
20	Cash sales	600

You are required to record the above transactions in a **Sales** account and a **Purchases** account, and balance off the accounts.





## Practice 6



**Hint** All the assets bought were for business use and not for resale.

Year		RM
May 4	Bought a lorry by cheque	20,000
8	Bought office furniture by cheque	5,000
15	Bought a <b>notebook computer</b> 笔记型电脑 and a printer for office use by cheque	10,000
20	Bought more office furniture by cheque	2,500
25	Bought <b>showcases</b> 陈列柜 by cheque	1,800
30	Bought a delivery van by cheque	8,000

You are required to write up **Motor Vehicles** account, **Furniture And Fixtures** account and **Office Equipment** account from the above transactions, and balance off the accounts.



- Motor Vehicles:** RM 28,000.
- Furniture And Fixtures:** RM 9,300.
- Office Equipment:** RM 10,000.



If the assets of the above transactions were bought for resale, what account should be debited?

## 2.5 Credit Transaction

It is a transaction in which **cash** will be paid **in the future** (i.e. **on credit** 赊账) although goods have been bought or services have been rendered.



**Debtor** 债务人 / **Trade Debtor** 销货债务人 & **Account Receivable** 应收账款 / **Trade Receivable** 销货应收账款

- A **debtor** is a person (or a business) who **owes** 欠 **money** to a **business** for goods or services supplied **to him**.
- The **amount owed by the debtor** is known as **account receivable** / **trade receivable**.



### Example 4

A trader, Beh, made the following transactions with his customer, Yap:

Year		RM
November 2	Sold goods to Yap on credit	500
8	Sold some more goods to Yap on credit	1,200
12	Received some unsuitable goods from Yap	350
28	Received cheque from Yap	1,000

You are required to write up the accounts concerned in the book of **Beh**, and balance off the **Account Receivable** account and **Sales** account.

**Solution:**

In the book of **Beh**:

<b>General Ledger</b>		
Account Receivable – Yap		
Year 4	RM	
Nov 2 Sales	500	Year 4
8 Sales	1,200	Nov 12 Returns Inwards
	1,700	350
Dec 1 Balance b/d	350	28 Bank
		30 Balance c/d
		350
		1,700



This was the amount owed to Beh by Yap.

Sales		
Year 4	RM	
Nov 30 Balance c/d	1,700	Year 4
	1,700	Nov 2 Account Receivable
		– Yap
		8 Account Receivable
		– Yap
		1,700
Dec 1 Balance b/d	1,700	

**Returns Inwards 销货退回**

Year 4	RM	
Nov 12 Account Receivable – Yap	350	Input
		Returns Inwards account = Sales Returns account It is to record the goods returned to a business by its customers at selling price.

Bank		
Year 4	RM	
Nov 28 Account Receivable – Yap	1,000	???



**Example 5**



In cash sales 现销, Cash or Bank account is debited, whereas in credit sales 赊销, what account should be debited?

A trader, Beh, had the following transactions with his supplier, Lee Trading:

Year 5		RM
December 5	Bought goods from Lee Trading	850
8	Returned goods to Lee Trading	110
10	Paid Lee Trading by cheque	600

You are required to write up the accounts concerned in the book of **Beh**, and balance off the **Account Payable** account.

**Solution:**

In the book of Beh:

- Input**
- Creditor 债权人 / Trade Creditor 购货债权人 & Account Payable 应付账款 / Trade Payable 购货应付账款**
- ☞ A **creditor** is a person (or a business) **to whom money is owed** 被欠 for goods or services supplied **by him**.
  - ☞ The amount owing to the **creditor** is known as **account payable / trade payable**.

**General Ledger**

## Account Payable – Lee Trading

Year 5	RM	Year 5	RM
Dec 8 Returns Outwards	110	Dec 5 Purchases	850
10 Bank	600		
31 Balance c/d	140		
	<hr/> 850		<hr/> 850
		Year 6	
		Jan 1 Balance b/d	140

**Hint** This was the amount owed to Lee Trading by Beh.

## Purchases

Year 5	RM
Dec 5 Account Payable – Lee Trading	850

**Returns Outwards 购货退出**

Year 5	RM
Dec 8 Account Payable – Lee Trading	110
Bank	

Year 5	RM
Dec 10 Account Payable – Lee Trading	600

Input	
Returns Outwards account = Purchases Returns account It is to record the <b>goods returned</b> by a business <b>to its suppliers</b> at <b>purchase price</b> .	

**Think 5** In cash purchases 现购, Cash or Bank account is credited, whereas in credit purchases 贷购, what account should be credited?

??	For goods returned,
??	a. if <b>Returns Inwards</b> account / Sales Returns account is not opened, what other account can be debited?
??	b. if <b>Returns Outwards</b> account / Purchases Returns account is not opened, what other account can be credited?

In each of the following **credit transactions** for **Practice 7 ~ 12**, you are required to write up **Account Receivable / Trade Receivable** or / and **Account Payable / Trade Payable** in the General Ledger, and balance off the accounts.



## Practice 7

Year 7		RM
January 1	Sold goods to Hassan on credit	620
12	Sold some more goods to Hassan	300
25	Hassan returned goods which were damaged	150
31	Received cash from Hassan	500



## Practice 8

Year 8		RM
February 1	Amount owed by Lee	750
3	Sold goods to Lee on credit	1,020
5	Received cash from Lee	500
10	Lee returned half of the goods sold to him on 3 February	?
15	Lee settled his account by cheque	?





## Practice 9

Year 9		RM
May 1	Purchased goods from Ali	2,500
7	Returned goods to Ali	240
10	<b>Paid Ali on account 部分付款</b> by cheque	2,000
15	Purchased some more goods from Ali	500



1. **Ali:** RM 760.



## Practice 10

Year 10		RM
June 1	Amount owed to Hee	750
3	Bought goods from Hee	300
12	Returned goods to Hee	120
15	Hee supplied us goods	500
30	Paid Hee by cash as <b>full settlement 清偿</b> of the debt	?



1. **Amount settled:** RM 1,430.



## Practice 11



Year 11		RM
June 1	<b>Sim</b> owed us	220
	We owed <b>Ahmad</b>	350
4	Bought goods from Ahmad	1,500
5	Sim paid us cash	150
10	Paid Ahmad by cheque	1,200
15	Sold goods to Sim	680
26	Sim returned goods	180
28	Purchased goods from Ahmad	400



1. **Sim:** RM 570.  
2. **Ahmad:** RM 1,050.



## Practice 12



Who were they? Debtor or creditor?

Year 12		RM
July 1	Amount owed by Lim	800
	Amount owed to Yip	500
4	Sold goods to Lim on credit	3,300
6	Purchased goods from Yip on credit	1,750
12	Lim returned goods	200
15	Returned goods to Yip	400
20	Lim paid her account owed on 1 July by cheque	?
25	Sold some more goods to Lim on credit	650
31	Paid Yip by cash as part settlement of the debt	1,000



1. Lim: RM 3,750.
2. Yip: RM 850.

## 2.6 Capital and Drawings Accounts

1. **Capital** is a **debt** that a business **owes to** its **owner / proprietor**.
2. **Capital** represents the total **resources** (cash and non-cash) **invested** in a business **by its owner**.
3. The personal withdrawals by owner are called **drawings 提取 / 提用**.
4. **Personal withdrawals** mean **owner** takes **money, goods or other assets** out of business for **personal use**.
5. When a **business pays** for its **owner's private items**, it is also known as **drawings**.
6. All the withdrawals are shown as **debits in Drawings account**.
7. **Drawings will reduce** the amount of **equity**.



## Example 6

### Year 6

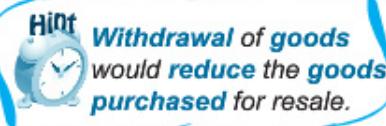
- July 1 Lee started business in cash RM 5,000 as his capital.  
 3 He bought goods for cash RM 500.  
 8 He sold goods for cash RM 230.  
 13 He drew out cash RM 50 for personal use.  
 15 Cash sales RM 600.  
 18 Cash purchases RM 300.  
 30 Lee drew out goods which was worth RM 100 for private purpose.  
 31 Lee brought in his own motor van valued at RM 3,500.

You are required to enter the above transactions in the book of Lee, and balance off all the accounts.

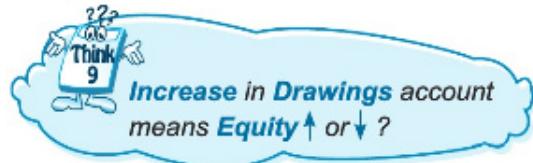
**Solution:**

In the book of Lee:

General Ledger			
Cash			
Year 6		Year 6	RM
Jul 1 Capital	5,000	Jul 3 Purchases	500
8 Sales	230	13 Drawings	50
15 Sales	600	18 Purchases	300
		31 Balance c/d	4,980
	5,830		5,830
Aug 1 Balance b/d	4,980		
Capital			
Year 6	RM	Year 6	RM
Jul 31 Balance c/d	8,500	Jul 1 Cash	5,000
		31 Motor Vehicle	3,500
	8,500		8,500
Aug 1 Balance b/d	8,500		
Purchases			
Year 6	RM	Year 6	RM
Jul 3 Cash	500	Jul 30 Drawings	100
18 Cash	300	31 Balance c/d	700
	800		800
Aug 1 Balance b/d	700		
Sales			
Year 6	RM	Year 6	RM
Jul 31 Balance c/d	830	Jul 8 Cash	230
		15 Cash	600
	830		830
Aug 1 Balance b/d	830		



Drawings			
			RM
Year 6		Year 6	
Jul 13 Cash	50	Jul 31 Balance c/d	150
30 Purchases	100		
	150		
	<u>150</u>		<u>150</u>
Aug 1 Balance b/d	150		



Motor Vehicle			
			RM
Year 6		Year 6	
Jul 31 Capital	3,500	Jul 31 Balance c/d	3,500
	<u>3,500</u>		<u>3,500</u>
Aug 1 Balance b/d	3,500		



Year 13

- January 1 Ahmad started business in cash RM 2,000 as capital.
- 10 He drew out goods RM 100 for his private purpose.
- 18 He took out cash RM 120 from his business for his personal use.
- 20 He deposited RM 3,000 cash in the business bank account as an additional capital.

You are required to write up **Capital** and **Drawings** accounts for the above transactions in the book of **Ahmad**, and balance off the accounts.





## Practice 14

Year 14

- April 1 Mei started business with cash RM 2,000 and his own personal computer RM 2,800.
- May 3 She drew out RM 120 cash for personal use.
- June 5 A further amount of RM 300 cash was drawn out of the business for personal use.
- July 1 Mei brought in additional cash of RM 2,000 as capital.

You are required to enter the above transactions in **Cash**, **Capital** and **Drawings** accounts in the book of **Mei**, and balance off the accounts.



1. **Cash:** RM 3,580.
2. **Capital:** RM 6,800.
3. **Drawings:** RM 420.



## Practice 15

Year 15

	RM
March 1 Yee started business and brought in:	
Cash	6,000
Furniture	3,000
2 Cash purchases	500
8 Paid carriage for goods purchased by cash	80
10 Cash sales	680
15 Drew out goods for private purpose	100
18 Paid wages for cash	200
20 Bought furniture for cash	850
21 Received cash for rental	300
25 Drew out cash for personal use	60
30 Brought in additional cash as capital	1,000

You are required to enter the above transactions in the book of **Yee**, and balance off all the accounts.



1. **Cash:** RM 6,290.
2. **Capital:** RM 10,000.
3. **Drawings:** RM 160.
4. **Office Furniture:** RM 3,850.
5. **Purchases:** RM 400.

1. A Trial Balance is **prepared periodically** to check the **accuracy 正確** and **completeness 完整** of the **double entry** of all the accounts in the General Ledger.
2. It is a **list of accounts** and the **balances** (either **debit** or **credit**) are extracted from the **General Ledger** at any given date.
3. If the **total of debit balances** equals the **total of credit balances**, the accounts are proved to be the mathematical **equality** of **debits** and **credits** in the General Ledger.



## Example 7

On 1 January Year 7, Ho invested RM 8,000 in his business as capital. The following transactions took place:

- |           |   |
|-----------|---|
| January 3 | Purchased a lorry for cash RM 3,200.                                |
| 7         | Purchased goods on credit from Syarikat Songkit RM 2,800.           |
| 10        | Paid rental for cash RM 1,600.                                      |
| 12        | Purchased goods on credit from Bok RM 1,200.                        |
| 13        | Sold goods for cash RM 800.   |
| 20        | Sold goods on credit to Ding RM 1,600.                              |
| 22        | Paid office maintenance expenses for cash RM 80.                    |
| 27        | Sold goods on credit to Sin Meng Trading RM 2,000.                  |
| 28        | Paid Syarikat Songkit in full settlement for cash.                  |
| 31        | Paid wages (putting goods into saleable condition) for cash RM 152. |

You are required to make the necessary entries in the book of **Ho**. Balance off all the accounts and extract a Trial Balance as at 31 January Year 7.

**Solution:**

In the book of **Ho**:

General Ledger			
Cash			
Year 7	RM	Year 7	RM
Jan 1 Capital	8,000	Jan 3 Motor Vehicles	3,200
13 Sales	800	10 Rental	1,600
		22 Office Maintenance Expenses	80
		28 Account Payable	
		– Syarikat Songkit	2,800
		31 Wages	152
		31 Balance c/d	968
			8,800
Feb 1 Balance b/d	968		8,800

Capital			
Year 7 Jan 31 Balance c/d	RM 8,000	Year 7 Jan 1 Cash	RM 8,000
		Feb 1 Balance b/d	8,000
Motor Vehicles			
Year 7 Jan 3 Cash	RM 3,200	Year 7 Jan 31 Balance c/d	RM 3,200
Feb 1 Balance b/d	3,200		
Purchases			
Year 7 Jan 7 Account Payable – Syarikat Songkit	RM 2,800	Year 7 Jan 31 Balance c/d	RM 4,000
12 Account Payable – Bok	1,200		
	4,000		4,000
Feb 1 Balance b/d	4,000		
Rental			
Year 7 Jan 10 Cash	RM 1,600	Year 7 Jan 31 Balance c/d	RM 1,600
Feb 1 Balance b/d	1,600		
Sales			
Year 7 Jan 31 Balance c/d	RM 4,400	Year 7 Jan 13 Cash	RM 800
		20 Account Receivable – Ding	1,600
		27 Account Receivable – Sin Meng Trading	2,000
	4,400		4,400
		Feb 1 Balance b/d	4,400
Office Maintenance Expenses			
Year 7 Jan 22 Cash	RM 80	Year 7 Jan 31 Balance c/d	RM 80
Feb 1 Balance b/d	80		
Wages			
Year 7 Jan 31 Cash	RM 152	Year 7 Jan 31 Balance c/d	RM 152
Feb 1 Balance b/d	152		



**Hint** Close off the account 结账  
if there is no balance.

#### Account Payable – Syarikat Songkit

Year 7 Jan 28 Cash	RM 2,800	Year 7 Jan 7 Purchases	RM 2,800
-----------------------	-------------	---------------------------	-------------

#### Account Payable – Bok

Year 7 Jan 31 Balance c/d	RM 1,200	Year 7 Jan 12 Purchases	RM 1,200
		Feb 1 Balance b/d	1,200

#### Account Receivable – Ding

Year 7 Jan 20 Sales	RM 1,600	Year 7 Jan 31 Balance c/d	RM 1,600
Feb 1 Balance b/d	1,600		

#### Account Receivable – Sin Meng Trading

Year 7 Jan 27 Sales	RM 2,000	Year 7 Jan 31 Balance c/d	RM 2,000
Feb 1 Balance b/d	2,000		

#### Trial Balance

As At 31 January Year 7

	Debit RM	Credit RM
Cash	968	
Capital		8,000
Motor Vehicles	3,200	
Purchases	4,000	
Rental	1,600	
Sales		4,400
Office Maintenance Expenses	80	
Wages	152	
Account Payable – Bok		1,200
Account Receivable – Ding – Sin Meng Trading	1,600 2,000	
	13,600	13,600



**Hint** Total debit balances = Total credit balances  
i.e. The Trial Balance was balanced.



In the transaction on 10 Jan, if the rental was wrongly debited to the Wages account, would the Trial Balance still balance 平衡?



## Practice 16

The following transactions are related to Lee's business for the month of May Year 16:

Year 16		RM
May 1	Lee started business as a stationer in cash as capital	3,000
5	Purchased pencils and ballpoint pens for cash	930
8	Bought writing papers and envelopes in bulk from Toby Trading on credit	2,100
11	Sold stationery to Rahmat Company on credit	1,200
12	Returned spoilt goods to Toby Trading	180
14	Bought a <b>shelf</b> 櫃架 for cash	225
18	Sold stationery for cash	90
21	Sold stationery to Mary Nursery on credit	360
25	Received commission in cash	120
29	Drew out cash for personal use	375
31	Paid Toby Trading for cash	900
31	Paid rental for cash	300

You are required to enter the above transactions in the General Ledger of **Lee** and check the work by extracting a Trial Balance as at 31 May Year 16.



1. **Cash:** RM 480.
2. **Purchases:** RM 3,030.
3. **Sales:** RM 1,650.
4. **Trial Balance total:** RM 5,970.



## Practice 17

The following transactions are related to Lim's business for the month of January Year 17:  
Year 17

- January 1 Started business with RM 50,000 in bank.  
 2 Goods purchased on credit from Lee for RM 10,000.  
 3 A van purchased on credit from Ng for RM 15,000.  
 4 Cash sales RM 2,000.  
 5 Bought goods on credit from Low for RM 3,000.  
 9 Goods sold on credit to Tan for RM 2,500.  
 10 Cash sales RM 3,100.  
 15 Paid salaries by cheque RM 5,000.  
 16 Bought goods on credit from Lee RM 1,000.  
 17 Tan returned goods sold to him for RM 600.  
 21 Ng's account was settled by cheque.  
 23 Cheque received from Tan RM 1,000.  
 25 Cash sales RM 2,200.  
 26 Cheque sent to Low RM 1,500.  
 27 Returned goods to Lee RM 700.

You are required to write up the above transactions in the book of **Lim**, and extract a Trial Balance as at 31 January Year 17.



1. **Bank:** RM 29,500.
2. **Cash:** RM 7,300.
3. **Purchases:** RM 14,000.
4. **Sales:** RM 9,800.
5. **Trial Balance total:** RM 72,300.

**Input**


**Other Creditor** 其他债权人 / **Non-trade Creditor** 非购货债权人 &  
**Other Payable** 其他应付账款 / **Non-trade Payable** 非购货应付账款

- ☞ An **other creditor** is a person (or a business) **to whom money is owed** for assets other than goods (e.g. new motor van **to be used in business**) supplied **by him**.
- ☞ The **amount owing to the creditor** is known as **other payable / non-trade payable**.

**Input**

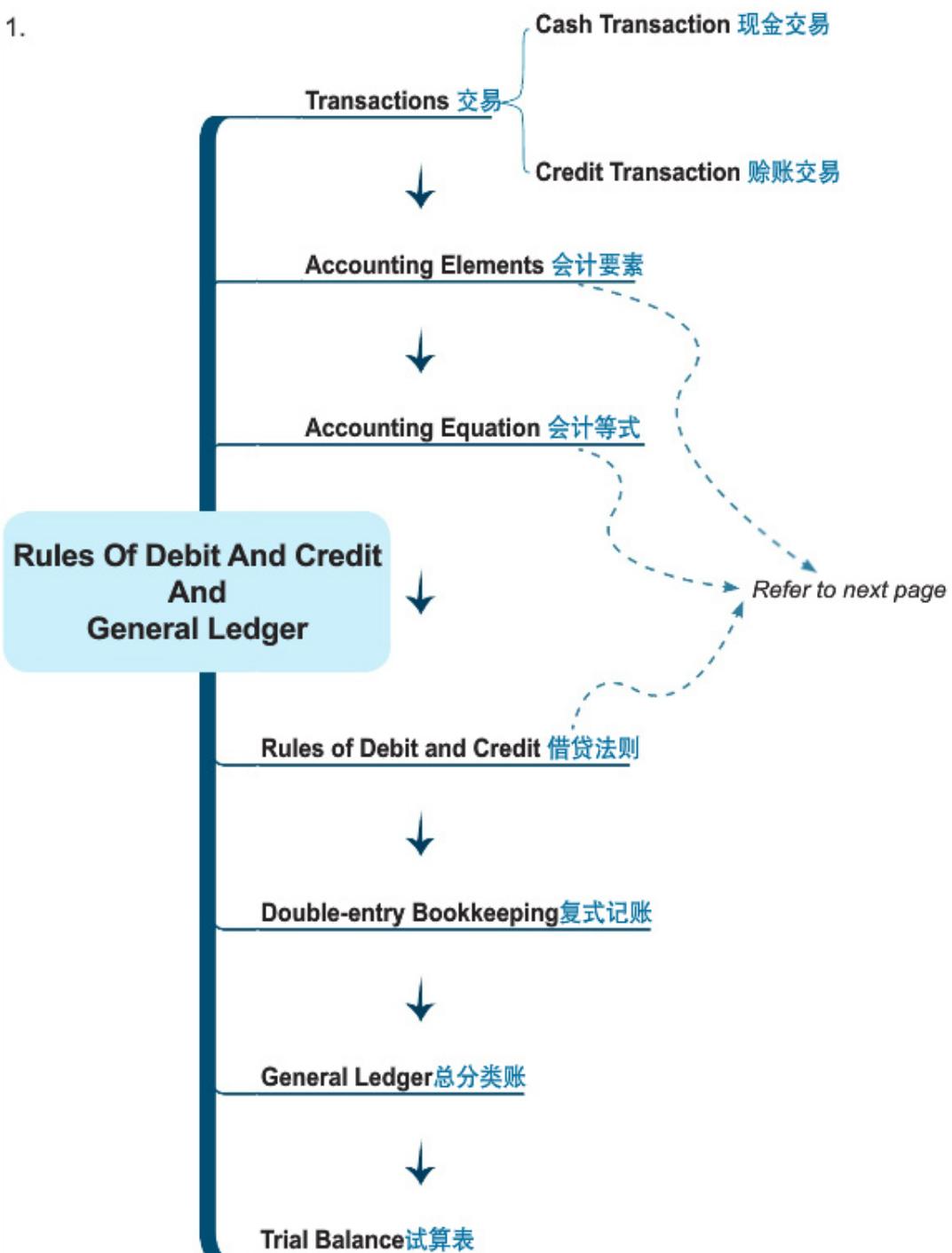

**Other Debtor** 其他债务人 / **Non-trade Debtor** 非销货债务人 &  
**Other Receivable** 其他应收账款 / **Non-trade Receivable** 非销货应收账款

- ☞ An **other debtor** is a person (or a business) who **owes money to a business** for assets other than goods (e.g. old motor van **used in business**) supplied **to him**.
- ☞ The **amount owed by the debtor** is known as **other receivable / non-trade receivable**.



## Review

1.



### Accounting Elements

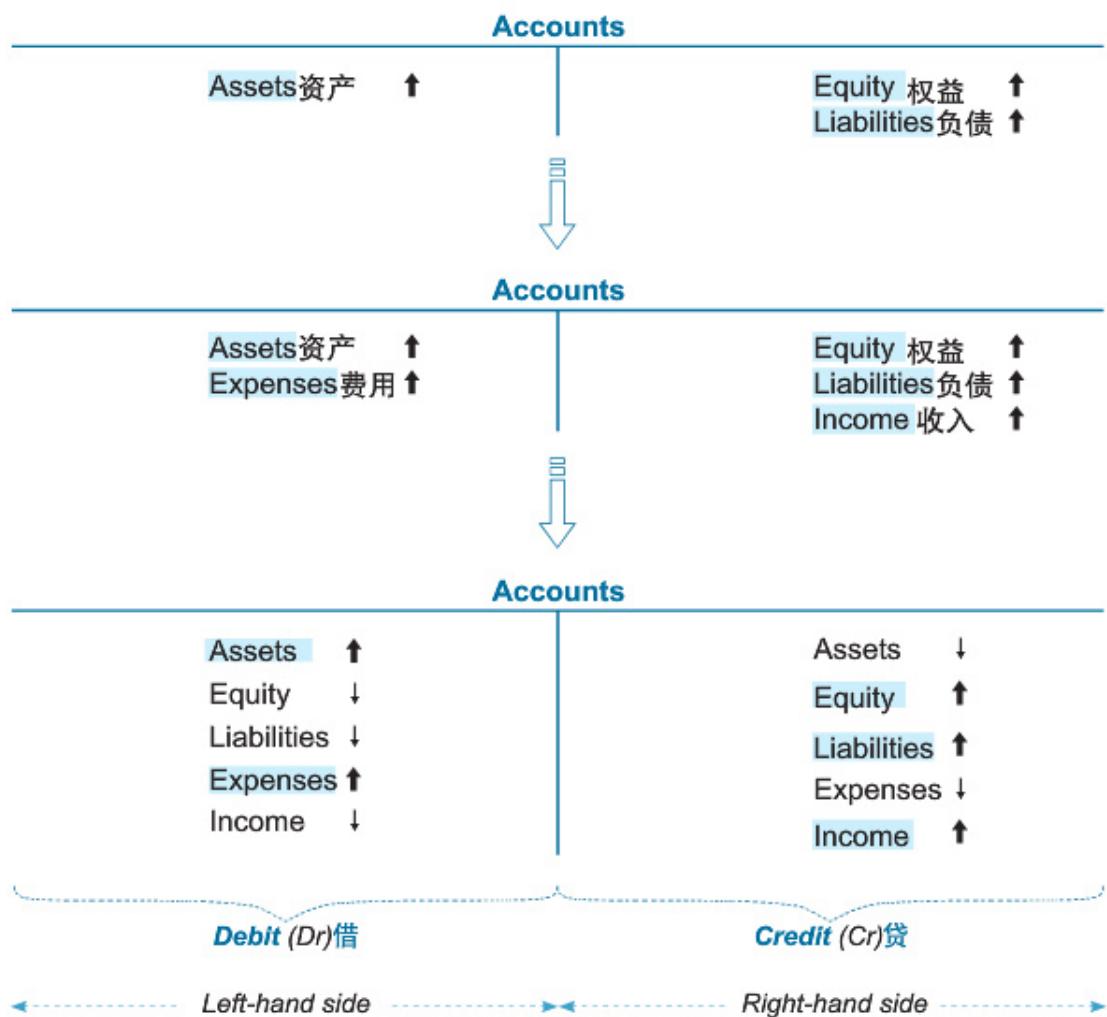
2. Accounting Equation:

$$A = E + L$$



$$A = [E + (I - X)] + L$$

3. Rules of Debit and Credit / Rules of Double Entry:



4. Types of debtors and creditors:

a. **Debtors 债务人:**

i. Trade debtors 销货债务人

→ Trade receivables 销货应收账款/  
Accounts receivable 应收账款

ii. Non-trade debtors 非销货债务人/  
Other debtors 其他债务人

→ Non-trade receivables 非销货应收账款/  
Other receivables 其他应收账款

b. **Creditors 债权人:**

i. Trade creditors 购货债权人

→ Trade payables 购货应付账款/  
Accounts payable 应付账款

ii. Non-trade creditors 非购货债权人/  
Other creditors 其他债权人

→ Non-trade payables 非购货应付账款/  
Other payables 其他应付账款

## Chapter 3

# Income Statement



### Learning Objectives

After studying this chapter, you should be able to:

- ☞ understand the purpose of preparing Income Statement;
- ☞ explain and calculate net sales, net purchases, cost of sales, gross profit / loss and net profit / loss;
- ☞ prepare Income Statement in T or vertical format;
- ☞ make closing entries.



3.1

### Introduction

1. After operating a business for a period of time, the owner will be anxious to know the **financial performance / result** of the **operation** 经营成果 for a particular period (i.e. whether it is running at a **profit** 利润 or at a **loss** 亏损), and the **financial position** 财务状况 of the business at a particular date (i.e. what the business **owns** 拥有 and **owes** 欠).
2. For this purpose, the following **financial statements** 财务报表 are prepared:
  - a. **Income Statement**;
  - b. **Statement Of Financial Position** (Chapter 4).
3. At the end of an accounting period, all the **income** and **expense accounts** are **closed** and **transferred** to **Trading** account (to arrive at a **gross profit**) and **Profit And Loss** account (to arrive at a **net profit**). At the same time, **Income Statement** is **prepared** from these **two accounts** to **report** the **financial performance** for the period.

4. The **components** of **Income Statement** are as follows:

a.	<b>Net Sales</b>	=	Sales – Returns Inwards
b.	<b>Net Purchases</b>	=	Purchases – Returns Outwards
c.	<b>Cost Of Purchases (N<sup>①</sup>)</b>	=	Net Purchases + Carriage Inwards + any related expenses on purchases
d.	<b>Cost Of Goods Available For Sales</b>	=	Opening Inventory + Cost Of Purchases for the year
e.	<b>Cost Of Sales / Cost Of Goods Sold</b>	=	Cost Of Goods Available For Sales – Closing Inventory (N <sup>②</sup> )
f.	<b>Gross Profit or Gross Loss</b>	=	Net Sales – Cost Of Sales > 0 or Net Sales – Cost Of Sales < 0
g.	<b>Net Profit or Net Loss</b>	=	Gross Profit + Other Income (N <sup>③</sup> ) – Expenses (N <sup>④</sup> ) > 0 or Gross Profit + Other Income – Expenses < 0

**Notes:**

- ① They are **all the costs of purchases** incurred in **bringing** the **goods** to their **present condition** 现况 and **location** where they will be sold.  
(i.e. They refer to the **cost price** of the **goods bought** and any **related direct expenses**.)
- ② They are the **unsold goods** which are counted and valued at the end of a period.
- ③ They are also known as **non-trading income**, which are the **income earned** but **not derived from sales**.
- ④ They are the costs incurred in the course of running the business.  
They normally include the **selling and distribution** expenses, **administrative** expenses, **finance** expenses, etc.

## 3.2 Format of Income Statement

Income Statement of a business entity can be presented in **T** format or **vertical** format as follows:

- a. **T / Horizontal** format:



- ☞ It shows the **financial performance** of a business.
- ☞ It is also known as **Statement Of Profit Or Loss**.

Company X Income Statement For The Year Ended .....			
	RM	RM	RM
Opening Inventory		XX	Sales
Purchases	XX		Less: Sales Returns
Less: Purchases Returns	(XX)		<b>Net Sales *</b>
Net Purchases *	XX		
Carriage Inwards	XX		
Wages For Packing Goods	XX		
Handling Charges	XX		
Customs Duties	XX		
Cost Of Purchases *		XX	
Cost Of Goods Available For Sales *	XX		
Less: Closing Inventory	(XX)		
<b>Cost Of Sales</b>	<b>XX</b>		
<b>Gross Profit / (Gross Loss) c/d</b>	<b>XX</b>		
<i>Balancing figure</i>	<i>XX</i>		<i>XX</i>
Discounts Allowed	XX		<b>Gross Profit / (Gross Loss) b/d</b>
Carriage Outwards	XX		Discounts Received
Wages And Salaries	XX		Commission Income
Commission Expenses	XX		Rental Income
Rental Expenses	XX		Interest Income
Printing And Stationery	XX		
Water And Electricity	XX		
Travelling Expenses	XX		
Advertising Expenses	XX		
Insurance Expenses	XX		
Bad Debts	XX		
Interest On Loan	XX		
Motor Vehicle Expenses	XX		
<b>Net Profit / (Net Loss)</b>	<b>XX</b>		
<i>Balancing figure</i>	<i>XX</i>		<i>XX</i>

*Trading account section*

*Profit And Loss account section*



These are the **Expenses**.



These are the **Other Income**.

**Note:** Sometimes the terms with \* are omitted省略.

**Input**

**Wages, Wages And Salaries**

(Refer to: **Appendix I: Chart of Accounts**)

b. **Vertical / Statement** format:



*It shows how the **income earned** is matched with the **expenses incurred** in an accounting period.*

Company X <b>Income Statement</b> For The Year Ended .....			
	RM	RM	RM
Sales			
Less: Sales Returns		XX (XX)	
<b>Net Sales *</b>			<b>XX</b>
Less: <b>Cost Of Sales</b>			
Opening Inventory		XX	
Purchases	XX		
Less: Purchases Returns	(XX)		
Net Purchases *	XX		
Carriage Inwards	XX		
Wages For Packing Goods	XX		
Handling Charges	XX		
Customs Duties	XX		
Cost Of Purchases *	XX		
Cost Of Goods Available For Sales *	XX		
Less: Closing Inventory	(XX)		<b>(XX)</b>
<b>Gross Profit / (Gross Loss)</b>			<b>XX</b>
<b>Other Income</b>			
Discounts Received	XX		
Commission Income	XX		
Rental Income	XX		
Interest Income	XX		<b>XX</b>
Less: <b>Expenses</b>			
Discounts Allowed	XX		
Carriage Outwards	XX		
Wages And Salaries	XX		
Commission Expenses	XX		
Rental Expenses	XX		
Printing And Stationery	XX		
Water And Electricity	XX		
Travelling Expenses	XX		
Advertising Expenses	XX		
Insurance Expenses	XX		
Bad Debts	XX		
Interest On Loan	XX		
Motor Vehicle Expenses	XX		<b>(XX)</b>
<b>Net Profit / (Net Loss)</b>			<b>XX</b>

*Trading account section*

*Profit And Loss account section*

### 3.3 Preparation of Income Statement



#### Example 1

The following was a Trial Balance as at 31 December Year 1 of AB Company:

AB Company  
Trial Balance  
As At 31 December Year 1

	Debit RM	Credit RM
Sales		41,000
Carriage Inwards	1,800	
Returns Outwards		2,700
Wages And Salaries	8,000	
Purchases	26,000	
Inventory, 1 January Year 1	3,000	
Returns Inwards	2,000	
Discounts Allowed	1,400	
Customs Duties	1,000	
Insurance Expenses	1,300	
Bad Debts	500	
Discounts Received		2,500
Rental	2,800	
Office Furniture	2,000	
Commission Income		3,800
Legal Fees	1,300	
Motor Vans	32,000	
Salesmen Commissions	300	
Motor Van Expenses	1,500	
Interest Expenses	700	
Capital		36,800
Drawings	1,200	
	<hr/> 86,800	<hr/> 86,800
	<hr/>	<hr/>



Inventory at 31 December Year 1 was valued at RM 3,600.

You are required to prepare an Income Statement for AB Company for the year ended 31 December Year 1.

**Note:** A Statement Of Financial Postion was not required.

**Solution:**



*It is in T format.*

AB Company  
**Income Statement**

For The Year Ended 31 December Year 1

	RM	RM		RM	RM
Opening Inventory		3,000	Sales		41,000
Purchases	26,000		Less: Returns Inwards		(2,000)
Less: Returns Outwards	(2,700)				
<b>Net Purchases *</b>	<b>23,300</b>		<b>Net Sales *</b>		<b>39,000</b>
Carriage Inwards	1,800				
Customs Duties	1,000				
<b>Cost Of Purchases *</b>	<b>26,100</b>				
Cost Of Goods Available For Sales *	29,100				
Less: Closing Inventory	(3,600)				
<b>Cost Of Sales</b>	<b>25,500</b>				
<b>Gross Profit c/d</b>	<b>13,500</b>				
	39,000				39,000
Discounts Allowed	1,400		<b>Gross Profit b/d</b>		<b>13,500</b>
Wages And Salaries	8,000		Discounts Received		2,500
Insurance Expenses	1,300		Commission Income		3,800
Bad Debts	500				
Rental	2,800				
Legal Fees	1,300				
Salesmen Commissions	300				
Motor Van Expenses	1,500				
Interest Expenses	700				
<b>Net Profit</b>	<b>2,000</b>				
	19,800				19,800



*What were the **two main figures** to be ascertained 确定 in the above Income Statement?*

Or



It is in **vertical** format.

AB Company  
**Income Statement**

For The Year Ended 31 December Year 1

	RM	RM	RM
Sales			41,000
Less: Returns Inwards			(2,000)
<b>Net Sales *</b>			<b>39,000</b>
<b>Less: Cost Of Sales</b>			
Opening Inventory		3,000	
Purchases	26,000		
Less: Returns Outwards	(2,700)		
Net Purchases *	23,300		
Carriage Inwards	1,800		
Customs Duties	1,000		
Cost Of Purchases *	<u>26,100</u>		
Cost Of Goods Available For Sales *	29,100		
Less: Closing Inventory	(3,600)		<b>(25,500)</b>
<b>Gross Profit</b>			<b>13,500</b>
<b>Other Income</b>			
Discounts Received	2,500		
Commission Income	3,800		<b>6,300</b>
			19,800
<b>Less: Expenses</b>			
Discounts Allowed	1,400		
Wages And Salaries	8,000		
Insurance Expenses	1,300		
Bad Debts	500		
Rental	2,800		
Legal Fees	1,300		
Salesmen Commissions	300		
Motor Van Expenses	1,500		
Interest Expenses	700		<b>(17,800)</b>
<b>Net Profit</b>			<b>2,000</b>



If the **Cost Of Sales** > the **Net Sales**, what would AB Company get?



After you had calculated the **Gross Profit** of RM **13,500** and the **Net Profit** of RM **2,000**, explain what they mean for the company.



## Practice 1

You were given the following Trial Balance as at 31 December Year 1 of Ali Enterprise:

	Debit RM	Credit RM
Cash In hand	4,000	
Inventory, 1 January Year 1	1,500	
Purchases	18,500	
Capital		39,510
Sales		35,000
Salaries	2,500	
Wages	3,500	
Purchases Returns		500
Sales Returns	700	
Rental	2,000	
Discounts Received		800
Discounts Allowed	300	
Interest	200	
Printing And Stationery	400	
Commissions	650	
Freight Inwards	470	
Sundry Expenses	260	
Accounts Receivable	4,250	
Accounts Payable		2,100
Loan From Ah Ming		320
Land And Buildings	30,000	
Motor Vehicles	10,000	
Bank Overdraft		1,000
	<hr/> <u>79,230</u>	<hr/> <u>79,230</u>

The inventory at 31 December Year 1 was valued at RM 3,000.

You are required to prepare an Income Statement for the year ended 31 December Year 1.

**Note:** A Statement Of Financial Position was not required.



1. **Cost Of Sales:** RM 20,470.
2. **Gross Profit:** RM 13,830.
3. **Expenses:** RM 6,310.
4. **Net Profit:** RM 8,320.



## Practice 2

The following were the ledger balances extracted from the books of C. K. Lee as at 31 August Year 2:

	RM		RM
Inventory, 1 September Year 1	400	Carriage Inwards	110
Interest On loan	100	Net Purchases	15,200
Stationery	150	Net Sales	21,000
Insurance Expenses	220	Office Expenses	300
Machinery	3,400	Accounts Receivable	1,700
Office Furniture	2,300	Accounts Payable	1,450
Commission Income	70	Rental Expenses	400
Wages And Salaries	800	Water And Electricity	650
Cash At bank	1,500	Drawings	740
Cash In Hand	50	Capital	5,500

Inventory at 31 August Year 2 was RM 500.

You are required to prepare an Income Statement for the year ended 31 August Year 2.

**Note:** A Statement Of Financial Position was not required.



1. **Cost Of Sales:** RM 15,210.
2. **Gross Profit:** RM 5,790.
3. **Expenses:** RM 2,620.
4. **Net Profit:** RM 3,240.



Ah Kong had been trading for a few years and his books showed the following balances as at 31 October Year 3:

	RM
Trade Payables	10,800
Purchases	51,500
General Expenses	1,160
Premises	40,400
Inventory, 1 November Year 2	6,700
Discounts Received	400
Cash In Hand	80
Sales	88,100
Interest Expenses	1,110
Carriage Inwards	50
Maintenance Of Premises	2,700
Discounts Allowed	2,000
Furniture And Fixtures	6,000
Trade Receivables	12,000
Motor Vehicles	10,000
Advertising Expenses	1,530
Mortgage On Premises	3,000
Insurance Expenses	1,460
Bad Debts	1,200
Drawings	1,500
Capital	37,090

Inventory at 31 October Year 3 was RM 5,900.

You are required to prepare an Income Statement for the year ended 31 October Year 3.

**Note:** A Statement Of Financial Position was not required.



1. **Cost Of Sales:** RM 52,350.
2. **Gross Profit:** RM 35,750.
3. **Expenses:** RM 11,160.
4. **Net Profit:** RM 24,990.

## 3.4 Closing Entries

At the end of each accounting period, the following entries are made:

- |   |   |
|---|---|
| 1. <b>Opening inventory</b> is closed and transferred to <b>Trading</b> account.  | <i>To determine gross &amp; net profit / loss</i> |
| 2. <b>Closing inventory</b> is counted, valued and recorded.  |   |
| 3. <b>Income and expense accounts</b> (i.e. nominal accounts) are closed and transferred to <b>Trading</b> account or <b>Profit And Loss</b> account. |   |
| <b>Remark:</b> <b>Trading</b> and <b>Profit And Loss</b> accounts are <b>opened</b> in order to complete the <b>closing entries</b> .                 | <i>To determine closing capital</i>               |
| 4. <b>Net profit / loss</b> is transferred to <b>Capital</b> account.   |   |
| 5. <b>Drawings</b> account is closed and transferred to <b>Capital</b> account.   |   |



### Example 2

Below is the **Solution** (without balance off the nominal accounts and the Capital account) of **Example 7** from **2.7 Trial Balance**:

In the book of **Ho**:

General Ledger			
Cash			
Year 7	RM	Year 7	RM
Jan 1 Capital	8,000	Jan 3 Motor Vehicles	3,200
13 Sales	800	10 Rental	1,600
		22 Office Maintenance Expenses	80
		28 Account Payable	
		– Syarikat Songkit	2,800
		31 Wages	152
		31 Balance c/d	968
	<u>8,800</u>		<u>8,800</u>
Feb 1 Balance b/d	968		

Capital		
Year 7		RM
Jan 1 Cash		8,000

Motor Vehicles			
Year 7 Jan 3 Cash	RM 3,200	Year 7 Jan 31 Balance c/d	RM 3,200
Feb 1 Balance b/d	3,200		
Purchases			
Year 7 Jan 7 Account Payable – Syarikat Songkit	RM 2,800		
12 Account Payable – Bok	1,200		
Rental			
Year 7 Jan 10 Cash	RM 1,600		
Sales			
		Year 7 Jan 13 Cash	RM 800
		20 Account Receivable – Ding	1,600
		27 Account Receivable – Sin Meng Trading	2,000
Office Maintenance Expenses			
Year 7 Jan 22 Cash	RM 80		
Wages			
Year 7 Jan 31 Cash	RM 152		
Account Payable – Syarikat Songkit			
Year 7 Jan 28 Cash	RM 2,800	Year 7 Jan 7 Purchases	RM 2,800
Account Payable – Bok			
Year 7 Jan 31 Balance c/d	RM 1,200	Year 7 Jan 12 Purchases	RM 1,200
		Feb 1 Balance b/d	1,200

Account Receivable – Ding		
Year 7	RM	Year 7
Jan 20 Sales	1,600	Jan 31 Balance c/d
Feb 1 Balance b/d	1,600	

Account Receivable – Sin Meng Trading		
Year 7	RM	Year 7
Jan 27 Sales	2,000	Jan 31 Balance c/d
Feb 1 Balance b/d	2,000	

Ho Trial Balance As At 31 January Year 7		
	Debit RM	Credit RM
Cash	968	
Capital		8,000
Motor Vehicles	3,200	
Purchases	4,000	
Rental	1,600	
Sales		4,400
Office Maintenance Expenses	80	
Wages	152	
Account Payable – Bok		1,200
Account Receivable – Ding	1,600	
– Sin Meng Trading	2,000	
	13,600	13,600

Additional information: Inventory at 31 January Year 7 was valued at RM 2,100.

You are required to:

- (a) close and transfer all the nominal accounts;
- (b) record the closing inventory;
- (c) transfer the relevant account balance to the Capital account;
- (d) prepare an Income Statement for the month ended 31 January Year 7.

**Solution:**

In the book of Ho:

<b>General Ledger</b>		
Purchases		
(a),(b)		
Year 7 Jan 7 Account Payable – Syarikat Songkit	RM 2,800	Year 7 Jan 31 <b>Trading</b>
12 Account Payable – Bok	1,200	
	<u>4,000</u>	<u>4,000</u>
Sales		
Year 7 Jan 31 <b>Trading</b>	RM 4,400	Year 7 Jan 13 Cash 20 Account Receivable – Ding 27 Account Receivable – Sin Meng Trading
	<u>4,400</u>	<u>800</u> <u>1,600</u> <u>2,000</u> <u>4,400</u>
Wages		
Year 7 Jan 31 Cash	RM <u>152</u>	Year 7 Jan 31 <b>Trading</b>
		<u>152</u>
Inventory		
Year 7 Jan 31 <b>Trading</b> – Closing Inventory	RM 2,100	Year 7 Jan 31 Balance c/d
Feb 1 Balance b/d	2,100	<u>2,100</u>
<b>Trading</b>		
Year 7 Jan 31 Purchases	RM 4,000	Year 7 Jan 31 Sales
31 Wages	152	31 Inventory – Closing Inventory
31 <b>Profit And Loss</b> – Gross Profit	2,348	<u>4,400</u> <u>2,100</u>
	<u>6,500</u>	<u>6,500</u>
Rental		
Year 7 Jan 10 Cash	RM <u>1,600</u>	Year 7 Jan 31 <b>Profit And Loss</b>
		<u>1,600</u>
Office Maintenance Expenses		
Year 7 Jan 22 Cash	RM <u>80</u>	Year 7 Jan 31 <b>Profit And Loss</b>
		<u>80</u>
<b>Profit And Loss</b>		
Year 7 Jan 31 Rental	RM 1,600	Year 7 Jan 31 <b>Trading – Gross Profit</b>
31 Office Maintenance Expenses	80	<u>2,348</u>
31 <b>Capital – Net Profit</b>	668	
	<u>2,348</u>	<u>2,348</u>
Capital		
(c)		
Year 7 Jan 31 Balance c/d	RM 8,668	Year 7 Jan 1 Cash 31 <b>Profit And Loss</b> – Net Profit
	<u>8,668</u>	<u>8,000</u> <u>668</u>
		<u>8,668</u>
Feb 1 Balance b/d		8,668



**From all the information in the above **Trading** account & **Profit And Loss** account, **Income Statement** is then prepared as follows:**

(d)

Ho  
**Income Statement**  
For The Month Ended 31 January Year 7

	RM	RM	RM
Opening Inventory	4,000	-	<b>Sales</b>
Purchases	152		4,400
Wages	<u>152</u>		
Cost Of Purchases*	<u>4,152</u>		
Cost Of Goods Available For Sales *	<u>4,152</u>		
Less: Closing Inventory	<u>(2,100)</u>		
<b>Cost Of Sales</b>	<u>2,052</u>		
<b>Gross Profit c/d</b>	<u>2,348</u>		
	<u>4,400</u>		<u>4,400</u>
Rental	1,600		
Office Maintenance Expenses	80		
<b>Net Profit</b>	<u>668</u>		<u>2,348</u>
	<u>2,348</u>		



*It is originally **included** in purchases. It is **deducted** from the purchases in order to arrive at **cost of sales**.*



*Although **Trading** & **Profit And Loss** accounts and **Income Statement** look alike, they are **different** in nature.*

***Trading** & **Profit And Loss** accounts are **part** of the **double-entry system**.  
**Income Statement** is a financial statement for reporting purpose, **not part** of the **double-entry system**.*



## Practice 4

Using the **General Ledger** you have done in **Practice 16** of **Chapter 2**, you are required to:

- close and transfer all the nominal accounts;
- record the closing inventory;
- transfer the relevant account balances to the Capital account;
- prepare an Income Statement for the month ended 31 May Year 16.

Additional information: Inventory at 31 May Year 16 was valued at RM 1,800.



- Cost Of Sales:** RM 1,050.
- Net Profit:** RM 420.
- Closing Capital:** RM 3,045.



The **Closing Inventory** of RM 1,800 would be the **Opening Inventory** for the following month.  
What was the **closing entry** for the **Opening Inventory** if a **Trading** account would be prepared for the month of **June Year 16**?



## Practice 5

Using the **General Ledger** you have done in **Practice 17** of **Chapter 2**, you are required to:

- close and transfer all the nominal accounts;
- record the closing inventory;
- transfer the relevant account balance to the Capital account;
- prepare an Income Statement for the month ended 31 January Year 17.

Additional information: Inventory at 31 January Year 17 was valued at RM 7,300.



- Cost Of Sales:** RM 6,000.
- Net Loss:** RM 1,800.
- Closing Capital:** RM 48,200.



1. **Format** of Income Statement:

a. **T / Horizontal** format **T/横式**:

Company X Income Statement / Statement Of Profit Or Loss 损益表 For The Year Ended .....		
	RM	RM
Opening Inventory 期初存货		XX
Purchases 购货	XX	
Less: Purchases Returns 购货退回	(XX)	
Net Purchases 购货净额 *	XX	
Carriage Inwards.....	XX	
Cost Of Purchases 购货成本 *	XX	
Cost Of Goods Available For Sales *		
可供销售的货物成本	XX	
Less: Closing Inventory 期末存货	(XX)	
<b>Cost Of Sales 销货成本</b>	<b>XX</b>	
<b>Gross Profit/(Gross Loss)毛利/(毛损) c/d</b>	<b>XX</b>	
	XX	
Expenses 费用	XX	
<b>Net Profit/(Net Loss)净利/(净损)</b>	<b>XX</b>	
	XX	
<i>Trading account 营业账户 section</i>		
Sales 销货		RM
Less: Sales Returns 销货退回		XX
<b>Net Sales 销货净额 *</b>	<b>XX</b>	
<i>Profit And Loss account 损益账户 section</i>		
<b>Gross Profit/(Gross Loss) b/d</b>	<b>XX</b>	
Other Income 其他收入	XX	
	XX	

b. Vertical / Statement format 纵/直/陈述式:

Company X Income Statement / Statement Of Profit Or Loss For The Year Ended .....		
	RM	RM
Sales		XX
Less: Sales Returns		<u>(XX)</u>
<b>Net Sales *</b>		<b>XX</b>
Less: <b>Cost Of Sales</b>		
Opening Inventory		XX
Purchases	XX	
Less: Purchases Returns	<u>(XX)</u>	
Net Purchases *	XX	
Carriage Inwards.....	<u>XX</u>	
Cost Of Purchases *	<u>XX</u>	
Cost Of Goods Available For Sales *	XX	
Less: Closing Inventory	<u>(XX)</u>	<u>(XX)</u>
<b>Gross Profit / (Gross Loss)</b>	<b>XX</b>	
<b>Other Income</b>	<b>XX</b>	
Less: <b>Expenses</b>		<u>XX</u>
<b>Net Profit / (Net Loss)</b>	<b>XX</b>	<b>XX</b>



Apply the formulas:

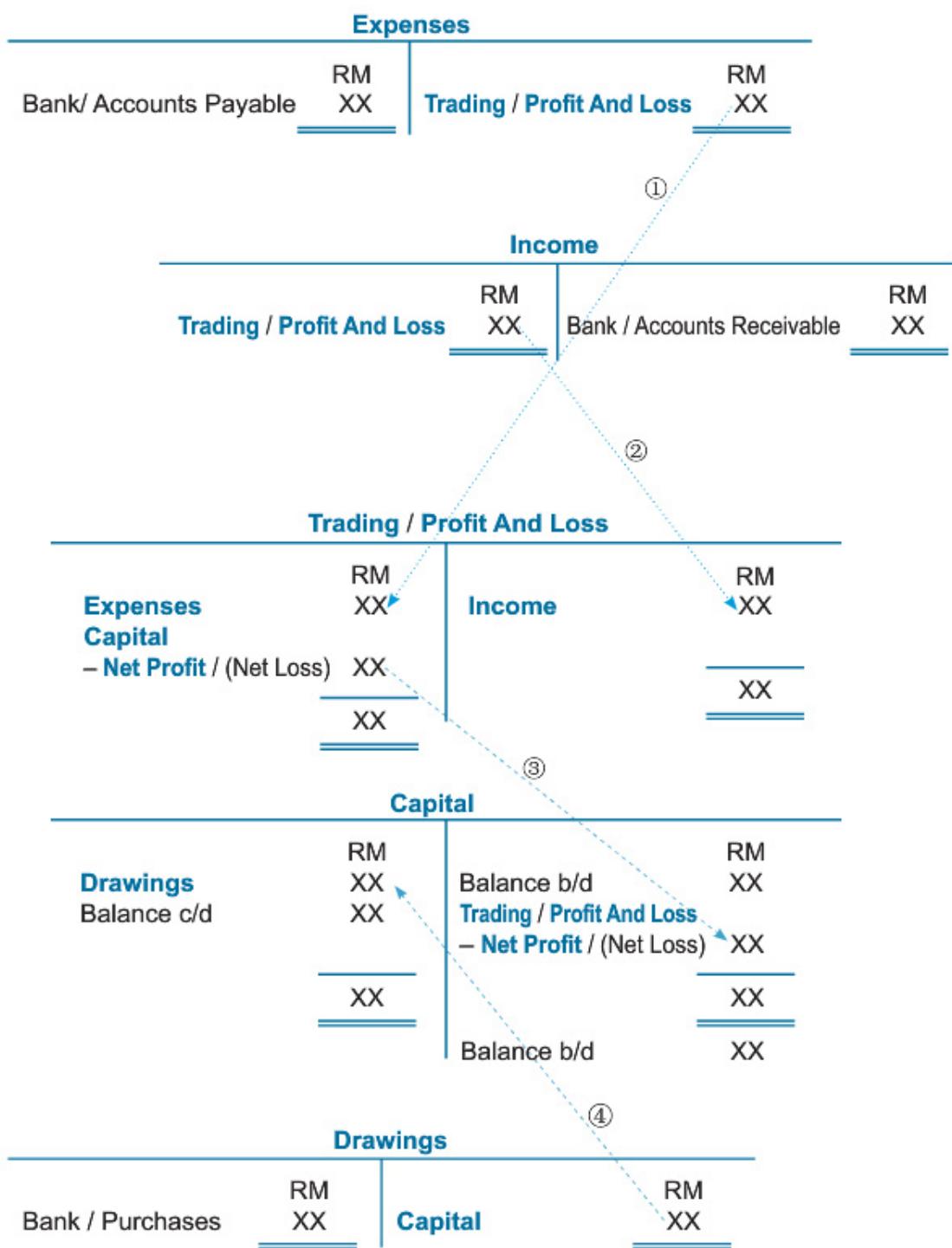
- ☞ **Net Sales – Cost Of Sales = Gross Profit / (Gross Loss)**
- ☞ **Gross Profit + Other Income – Expenses = Net Profit / (Net Loss)**

Note: Sometimes the terms with \* are omitted.

Trading account section

Profit And Loss account section

2. **Closing entries** 结账记录 or end-of-period double entries are illustrated as follows:



3. **Closing entry of opening inventory** 期初存货 and the recording of **closing inventory** 期末存货 for the year ended 31 December **Year 2** are illustrated as follows:

e.g.

Inventory		
	RM	
<b>Year 2</b>		<b>Year 2</b>
Jan 1 Balance b/d	1,000	Dec 31 Trading - Opening Inventory
Dec 31 Trading - Closing Inventory	1,500	1,000
<b>Year 3</b>		<b>31 Balance c/d</b>
Jan 1 Balance b/d	1,500	1,500

Trading		
	RM	
<b>Year 2</b>		<b>Year 2</b>
Dec 31 Inventory - Opening Inventory	1,000	Dec 31 Inventory - Closing Inventory
	1,500	1,500

# Statement Of Financial Position



## Learning Objectives

After studying this chapter, you should be able to:

- ☛ understand the purpose of preparing Statement Of Financial Position;
- ☛ explain the terms non-current assets, current assets, non-current liabilities, current liabilities and equity;
- ☛ prepare Statement Of Financial Position in T or vertical format;
- ☛ understand the relationship and the differences between Income Statement and Statement Of Financial Position;
- ☛ distinguish between personal and impersonal accounts.



4.1

## Introduction

1. After completing the **Income Statement** in Chapter 3, the accounts left behind are the assets, liabilities and owner's equity balances. These accounts that are not included in the Income Statement, are listed in a statement called **Statement Of Financial Position**.
2. Statement Of Financial Position is a **financial statement** showing the financial position of a company in terms of **assets, liabilities** and **owner's equity** at a **particular date**, normally at the end of an accounting period.  
In other words, Statement Of Financial Position shows what a business **owns** and **owes** at a **particular date**.
3. Statement Of Financial Position is a statement that reflects and shows the balances of **real** and **personal accounts** (refer to: **Review 4.**) in a systematic order.

## 4.2 Format of Statement Of Financial Position

1. Assets, liabilities and owner's equity of a business entity can be presented on a Statement Of Financial Position in **T** format or **vertical** format as follows:

- a. **T / Horizontal** format:

Company X Statement Of Financial Position As At.....			
	RM	RM	RM
<b>Non-current Assets</b>			<b>Owner's Equity</b>
Lands And Buildings	XX		Opening Capital
Furniture And Fixtures	XX		Add: Net Profit / Less:(Net Loss)
Office Equipment	XX		
Motor Vehicles	XX	XX	Less: Drawings
			Closing Capital
<b>Current Assets</b>			<b>Non-current Liabilities</b>
Inventory	XX		Mortgage Loan
Accounts Receivable	XX		Bank Loan
Cash At bank	XX		
Cash In Hand	XX	XX	
			<b>Current Liabilities</b>
			Accounts Payable
			Bank Overdraft
		XX	

**Left-hand side**      **Right-hand side**

*Hint: Listed in descending order of life permanency / durability 永久性.*

*Hint: It shows where the money comes from and how it is being used in a business. i.e. It shows what a business owns and owes.*

*Hint: Listed in increasing order of liquidity 变现性.*

*Hint: Obligations 债务 which are due later 最迟到期 are listed first.*

b. **Vertical / Statement** format:

Company X  
**Statement Of Financial Position**  
As At.....

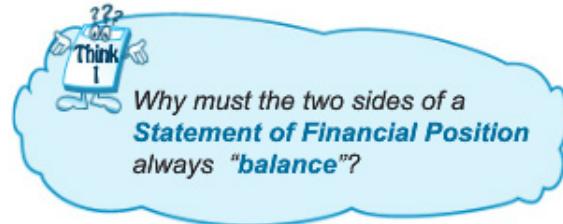
	RM	RM
<b>Non-current Assets</b>		
Lands And Buildings		XX
Furniture And Fixtures		XX
Office Equipment		XX
Motor Vehicles		XX
		<b>XX</b>
<b>Current Assets</b>		
Inventory		XX
Accounts Receivable		XX
Cash At bank		XX
Cash In Hand	XX	<b>XX</b>
<i>Total Assets</i>		<b>XX</b>
<b>Owner's Equity</b>		
Opening Capital		XX
Add: Net Profit / Less: (Net Loss)		XX
		XX
Less: Drawings		(XX)
<i>Total Equity / Closing Capital</i>		<b>XX</b>
<b>Non-current Liabilities</b>		
Mortgage Loan		XX
Bank Loan		XX
		<b>XX</b>
<b>Current Liabilities</b>		
Accounts Payable		XX
Bank Overdraft		XX
		<b>XX</b>
<i>Total Liabilities</i>		<b>XX</b>
<i>Total Equity And Liabilities</i>		<b>XX</b>

2. Statement Of Financial Position can be expressed as the **accounting equation**  
**会计等式:**

What a business **owns** 拥有 = What a business **owes** 欠



**Assets** = **Equity / Owner's Equity + Liabilities**



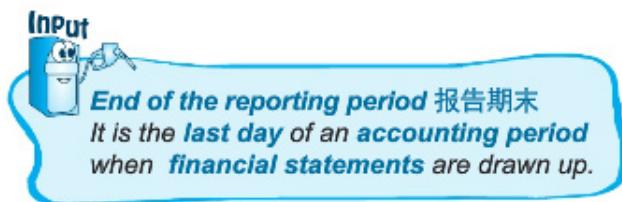
3. On a Statement Of Financial Position, the total value of all **assets** must equal the combined value of **owner's equity** and all **liabilities**.  
e.g. Swiss Garden Company has RM 20,000 in assets and RM 13,000 in liabilities, thus, the owner's equity is RM 7,000 (i.e. Assets RM 20,000 - Liabilities RM 13,000).
4. The **components** of Statement Of Financial Position are as follows:  
a. **Assets: Resources** that are **owned by** a business, which are divided into two categories:

<b>Assets</b>	
i. <b>Non-current Assets</b>	ii. <b>Current Assets</b>
① e.g. Lands and buildings, Plant and machinery, Furniture and fixtures, Office equipment, Motor vehicles, etc.	① e.g. Inventory, Accounts Receivable, Cash at bank, Cash in hand, etc.
② They are held for <b>usage</b> 用途 (i.e. They are used in the business to <b>generate revenue</b> either directly or indirectly).	② They have <b>direct contribution</b> to the business, and are more <b>related</b> to the <b>trading activities</b> .
③ They can be used for <b>more than 12 months</b> from the end of the reporting period.	③ They are likely to <b>change</b> their <b>forms within 12 months</b> from the end of the reporting period. e.g. Inventory is <b>converted</b> into cash.



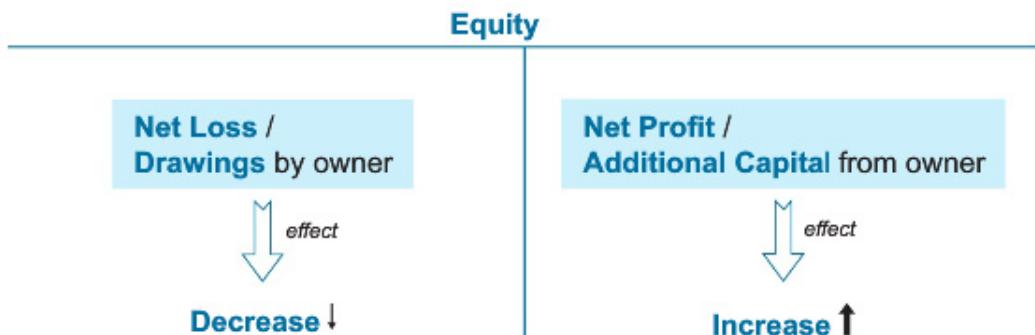
- b. **Liabilities: Debts** that a business **owes to outsiders**, other than its owner.  
They are divided into two categories :

Liabilities	
i. Non-current Liabilities	ii. Current Liabilities
① e.g. Mortgage loan 抵押贷款, Bank Loan, etc.	① e.g. Accounts payable, Bank overdraft, etc.
② Debts which are <b>payable after or more than 12 months</b> from the end of the reporting period.	② Debts which are <b>payable within the next 12 months</b> from the end of the reporting period.



- c. **Equity / Owner's equity:** **Debts** that a business **owes to its owner** / proprietor 业主. It represents the total **resources invested** in a business **by its owner**.

The elements which affect the increase or decrease of equity are illustrated below:



### 4.3 Preparation of Statement Of Financial Position



#### Example 1

Mr Chang was the owner of Swiss Enterprise in Kuala Lumpur.

The following balances were extracted from the books of the business on 31 December Year 1 after the Income Statement was completed:

	RM
Plant And Machinery	45,000
Motor Vehicles	12,000
Office Equipment	5,000
Accounts Receivable	2,500
Accounts Payable	3,600
Inventory, 31 December Year 1	900
Bank Loan (repayable in Year 15 )	40,000
Bank	5,200
Cash	1,400
Capital, 1 January Year 1	35,000
Drawings	2,600

You are required to prepare a Statement Of Financial Position as at 31 December Year 1.

#### Solution:

**Swiss Enterprise  
Statement Of Financial Position  
As At 31 December Year 1**



*It is in T format.*

	RM	RM		RM
<b>Non-current Assets</b>			<b>Owner's Equity</b>	
Plant And Machinery	45,000		Opening Capital	35,000
Office Equipment	5,000		Less: Net Loss	(W2) (4,000)
Motor Vehicles	12,000	<b>62,000</b>		31,000
			Less: Drawings	(2,600)
			Closing Capital	(W1) <b>28,400</b>
<b>Current Assets</b>			<b>Non-current Liabilities</b>	
Inventory	900		Bank Loan	40,000
Accounts Receivable	2,500			
Bank	5,200			
Cash	1,400	<b>10,000</b>	<b>Current Liabilities</b>	
			Accounts Payable	<b>3,600</b>
				<b>72,000</b>

### Workings:

$$(1) \text{ Closing Capital} = \text{Total Assets} - \text{Total Liabilities}$$

$$= \text{RM} (62,000 + 10,000) - \text{RM} (40,000 + 3,600)$$

$$= \text{RM} (72,000 - 43,600)$$

$$= \text{RM} \ 28,400$$

$$(2) \text{ Opening Capital} + \text{Net Profit / (Net Loss)} - \text{Drawings} = \text{Closing Capital}$$

$$\therefore \text{Net Profit / (Net Loss)} = \text{Closing Capital} - \text{Opening Capital} + \text{Drawings}$$

$$= \text{RM} (28,400 - 35,000 + 2,600)$$

$$= (\text{RM} \ 4,000)$$

Or



*It is in vertical format.*



*The date of Statement Of Financial Position is always written as "As At....." instead of "For The Year Ended.....". Why?*

Swiss Enterprise  
**Statement Of Financial Position**  
As At 31 December Year 1

	RM	RM
<b>Non-current Assets</b>		
Plant And Machinery	45,000	
Office Equipment	5,000	
Motor Vehicles	12,000	
	<b>62,000</b>	
<b>Current Assets</b>		
Inventory	900	
Accounts Receivable	2,500	
Bank	5,200	
Cash	1,400	
	<b>10,000</b>	
<i>Total Assets</i>		<b>72,000</b>
<b>Owner's Equity</b>		
Opening Capital	35,000	
Less: Net Loss	(W2)	(4,000)
	31,000	
Less: Drawings	(2,600)	
	<b>28,400</b>	
<i>Total Equity / Closing Capital</i>	<b>(W1)</b>	
<b>Non-current Liabilities</b>		
Bank Loan	<b>40,000</b>	
<b>Current Liabilities</b>		
Accounts Payable	<b>3,600</b>	
<i>Total Liabilities</i>		<b>43,600</b>
<i>Total Equity And Liabilities</i>		<b>72,000</b>

*What was the effect of the Net Loss made by Swiss Enterprise on the owner's equity?*



## Practice 1

Assume that you were the sole proprietor of Chong Heng Enterprise dealing with stationery business.

Below were the balances of assets, liabilities and equity as at 30 April Year 1:

	RM		RM
Land And Building	10,000	Capital	12,000
Motor Vehicles	13,000	Bank Overdraft	1,400
Accounts Receivable	4,000	Inventory, 30 April Year	1,000
Accounts Payable	5,000	Drawings	2,000
Cash In Hand	2,000	Loan From Hong Leong Finance	9,000

You are required to:

- prepare a Statement Of Financial Position as at 30 April Year 1;
- find out the net profit or net loss.



- Total Assets:** RM 30,000.
- Net Profit:** RM 4,600.
- Total Liabilities:** RM 15,400.



## Practice 2

Kong started a car dealer business on 1 July Year 1 with RM 40,000 capital in cash.

The assets, liabilities and capital of the business as at 30 June Year 2 were as follows:

	RM		RM
Freehold Premises	76,000	Cash And Bank balances	5,400
Mortgage On Premises	50,000	Accounts Payable	7,600
Inventory, 30 June Year 2	24,000	Capital	40,000
Accounts Receivable	2,800		

During the year, Kong withdrew RM 1,000 cash for his personal use. He also paid RM 3,000 into the business bank account, the amount was from the sale of his private car.

You are required to prepare a Statement Of Financial Position as at 30 June Year 2 indicating the net profit or net loss for the year.



☞ Accounting entry for **drawings**: Dr Drawings  
Cr Cash  
**additional capital**: Dr Bank Cr Capital

- Total Assets:** RM 108,200.
- Net Profit:** RM 8,600.
- Total Liabilities:** RM 57,600.

The following provides the information related to Chang's business:

<u>Assets and liabilities</u>	31 December Year 2 RM	31 December Year 3 RM
Furniture And Fixtures	18,000	16,200
Inventory	24,000	28,000
Motor Vehicles	6,000	16,000
Cash In Hand	760	240
Accounts Payable	8,000	3,000
Cash At bank	15,600	4,600
Loan From Kong	6,000	12,000
Accounts Receivable	4,800	5,800

During Year 3, Chang sold his private investments for RM 4,000 which he paid into the business bank account, and he withdrew RM 200 monthly for his private use.

You are required to:

- calculate the capital as at 31 December Year 2 and Year 3;
- prepare a Statement Of Financial Position as at 31 December Year 3 showing the net profit or net loss for the year



- ☞ *Opening / Closing Capital = Total Assets – Total Liabilities*
- Opening Capital** (Year 2): RM 55,160.
  - Closing Capital** (Year 3): RM 55,840.
  - Total Assets**: RM 70,840.
  - Net Loss**: RM 920.
  - Total Liabilities**: RM 15,000.

4.4

## Relationship and Differences between Income Statement and Statement Of Financial Position

- The relationship between the two financial statements is shown in the following example:



### Example 2

An example of the **Income Statement** and **Statement Of Financial Position** of Wal-Shark Company was shown below:

Wal-Shark Company <b>Income Statement</b>			Wal-Shark Company <b>Statement Of Financial Position</b>		
For The Year Ended 31 March Year 2			As At 31 March Year 2		
	RM	RM		RM	RM
<b>Gross Profit</b>		14,860	<b>Non-current Assets</b>		
<b>Other Income</b>			Land And Building	45,000	
Interest Income	100		Office Equipment	3,000	
	<u>14,960</u>		Motor Vehicles	<u>7,000</u>	55,000
<b>Less: Expenses</b>					
Rental	1,400		<b>Current Assets</b>		
Salaries	3,000		Inventory	3,000	
Advertising Expenses	900		Accounts Receivable	1,500	
Stationery	180		Cash At Bank	3,500	
Carriage Outwards	120		Cash In Hand	500	8,500
Commission Expenses	<u>360</u>	<u>(5,960)</u>		<u>Total Assets</u>	<u>63,500</u>
<b>Net Profit</b>		<u>9,000</u>			
			<b>Owner's Equity</b>		
			Opening Capital	35,000	
			Add: Net Profit	<u>9,000</u>	
				<u>44,000</u>	
			Less: Drawings	<u>(2,000)</u>	
				<u>42,000</u>	
			<b>Non-current Liabilities</b>		
			Bank Loan	20,000	
			<b>Current Liabilities</b>		
			Accounts Payable	<u>1,500</u>	
				<u>21,500</u>	
			<b>Total Liabilities</b>		
				<u>21,500</u>	
			<b>Total Equity And Liabilities</b>		
				<u>63,500</u>	



The two statements were linked through the **Net Profit** earned for the period.



Who would be the people interested to know the **financial statements** of Wal-Shark Company?



What were the double entries for the **Net Profit** and **Drawings** in order to **carry down** the closing balance of RM **42,000** in the **Capital** account to the next accounting period?

2. The **differences** between the two financial statements are summarised as follows:

<b>Income Statement</b>	<b>Statement Of Financial Position</b>
a. It is usually prepared for a <b>financial period</b> .	a. It is prepared for a <b>specific date</b> usually on the <b>last day</b> of a <b>financial year</b> .
b. It shows the <b>financial year's net profit</b> , deriving from <b>sales, other income, cost of sales</b> and <b>expenses</b> of a business <b>over a period of time</b> , usually 1 year.	b. It summaries the financial position of a business <b>at a particular date</b> , showing the <b>assets</b> owned and <b>debts</b> owed to <b>outsiders</b> and <b>owner</b> .
c. It is <b>not part</b> of the <b>double-entry system</b> . The information presented is the <b>income and expense accounts</b> which have been <b>closed off</b> to <b>Trading account and Profit And Loss account</b> .	c. It is <b>not part</b> of the <b>double-entry system</b> . The information presented is the <b>balances of real and personal accounts</b> which have been <b>brought down</b> .



## Practice 4

Tan was a trader of shoes in Kuantan. He set up his own business as Heng Enterprise on 1 July Year 3. Its financial year ended on 30 June each year.

Below were the balances extracted from his books:

	RM		RM
Rental Income	300	Accounts Receivable	5,000
Transportation	400	Accounts Payable	5,000
Salaries	900	Drawings	1,200
Stationery	200	Capital	10,000
General Expenses	800	Gross Profit	850
Bank Overdraft	2,000	Mortgage	5,000
Office Equipment	5,200	Furniture And Fixtures	7,000
Commission Income	350		

Inventory at 30 June Year 4 was RM 2,800.

You are required to:

- (a) prepare an Income Statement for the year ended 30 June Year 4;
- (b) prepare a Statement Of Financial Position as at 30 June Year 4.



1. **Net Loss:** RM 800.
2. **Total Assets:** RM 20,000.
3. **Total Liabilities:** RM 12,000.



## Practice 5

Fong was a retailer of toys in Petaling Jaya. He intended to prepare the financial statements from the following Trial Balance which were extracted from his books on 30 April Year 5:

	Debit RM	Credit RM
Sales		20,400
Purchases	8,680	
Inventory, 1 May Year 4	1,400	
Carriage Outwards		500
Carriage Inwards	840	
Returns Inwards	900	
Returns Outwards	700	
Salaries And Wages	5,800	
Motor Expenses		950
Rental Expenses		3,800
Sundry Expenses	300	
Motor Vehicles	14,400	
Fixtures And Fittings		9,100
Accounts Receivable	8,000	
Accounts Payable		12,000
Cash At Bank		4,100
Cash In Hand	240	
Drawings	3,000	
Capital		28,810
Interest Income	100	
	<b>44,360</b>	<b>79,660</b>

Inventory at 30 April Year 5 was RM 4,000.

You are required to:

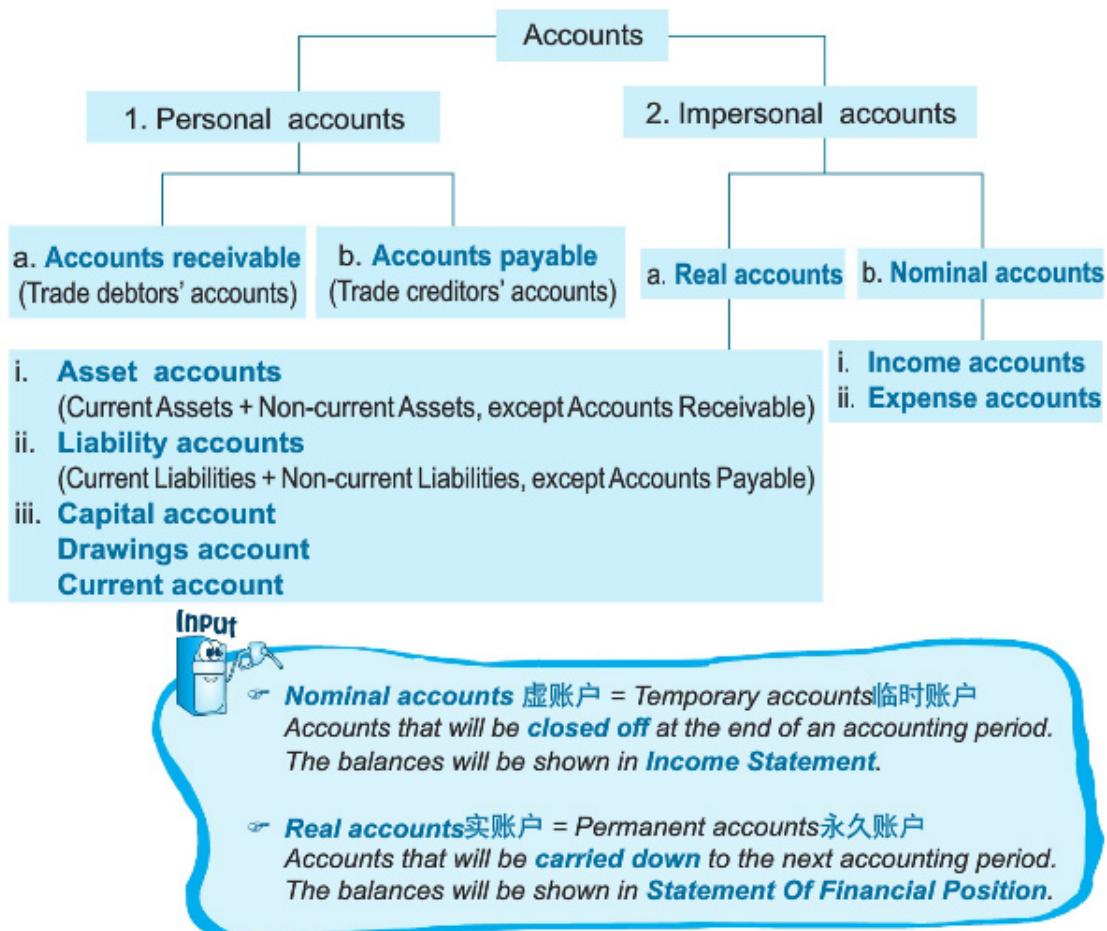
- redraft the above Trial Balance;
- show the ledger accounts and
  - close off the nominal accounts;
  - record the closing inventory;
  - transfer the relevant account balances to the Capital account;
  - carry down the balances of the real and personal accounts.
- prepare an Income Statement for the year ended 30 April Year 5;
- prepare a Statement Of Financial Position as at 30 April Year 5.



- Trial Balance** total: RM 62,010.
- Gross Profit**: RM 13,280.
- Net Profit**: RM 2,030.
- Non-current Assets**: RM 23,500.
- Current Assets**: RM 16,340.
- Owner's Equity**: RM 27,840.

## 4.5 Personal and Impersonal Accounts

All the **ledger accounts** are classified as follows:



## Practice 6

The following was a list of accounts that appeared in the Trial Balance of Gan, a sole trader as at 30 September Year 6.

You are required to classify the accounts by placing a **tick** (✓) in the appropriate column for each account:

Names of accounts	Types of accounts		
	Personal	Real	Nominal
Inventory		✓	
Furniture And Fixtures			
Account Receivable – Siva			
Wages			
Rental			
Motor Vehicles			
Sales			
Account Payable – Kong			

**Hint**  
This is a **customer** 顾客.

e.g.

**Hint**  
This is a **supplier** 供应商.



The books of Wong showed the following balances as at 31 December Year 7:

	RM
Accounts Payable	11,380
Discounts Allowed	760
Bank Overdraft	12,400
Accounts Receivable	20,490
Sales	191,350
Delivery Van	27,000
Discounts Received	630
Purchases	151,060
Sundry Expenses	695
Commission Income	4,200
Drawings	1,400
Delivery Van Running Expenses	520
Premises	120,000
Water And Electricity	520
Capital	120,000
Inventory, 31 December Year 6	1,469
Carriage Outwards	162
Salaries And Wages	5,390
Rental Income	590

You are required to classify each of the above items in the appropriate columns:

(Note: The **figures** need **not** be included.)

e.g.	Types of accounts		
	Personal	Real	Nominal
	Accounts Payable	Bank Overdraft	Discounts Allowed



## Practice 8

The following accounts were shown in the Trial Balance of Fatimah as at 31 December Year 8.

You are required to complete the table below by **ticking** () the appropriate boxes:

- (a) **Classify** the accounts;
- (b) **Indicate** whether it is a **debit** or a **credit** balance.

e.g.

Names of accounts	(a) Types of accounts			(b) Balances of accounts	
	Personal	Real	Nominal	Debit	Credit
Purchases			<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Fixtures And Fittings					
Drawings					
Discounts Allowed					
Account Receivable – Leong					
Stationery					
Office Equipment					
Account Payable – Hong					
Capital					
Telephone Expenses					
Discounts Received					
Loan From Lenient Company					



1. **Format** of Statement Of Financial Position:  
a. **T / Horizontal** format **T/横式:**

Company X <b>Statement Of Financial Position 财务状况表</b> As At.....		
<b>Non-current Assets 非流动资产</b>	RM <b>XX</b>	RM <b>Owner's Equity</b> 业主权益
<b>Current Assets 流动资产</b>	RM <b>XX</b>	Opening Capital Add: Net Profit / Less: (Net Loss)
	<hr/>	XX (XX)
	<hr/>	Less: Drawings Closing Capital
	<hr/>	XX <b>Non-current Liabilities 非流动负债</b>
	<hr/>	XX <b>Current Liabilities 流动负债</b>
	<hr/>	XX
	<hr/>	<b>Left-hand side</b> <b>Right-hand side</b>

- b. **Vertical / Statement** format **纵/直/陈述式:**

Company X <b>Statement Of Financial Position</b> As At.....		
<b>Non-current Assets</b>	RM <b>XX</b>	RM <b>XX</b>
<b>Current Assets</b>	RM <b>XX</b>	RM <b>XX</b>
<i>Total Assets</i>	<hr/>	<b>XX</b>
<b>Owner's Equity</b>		
Opening Capital		XX
Add: Net Profit / Less: (Net Loss)		XX
Less: Drawings		XX (XX)
<i>Total Equity / Closing Capital</i>	<hr/>	<b>XX</b>
<b>Non-current Liabilities</b>	XX	
<b>Current Liabilities</b>	XX	
<i>Total Liabilities</i>	<hr/>	XX
<i>Total Equity And Liabilities</i>	<hr/>	<b>XX</b>



The above is a summarised presentation  
of the accounting equation:  
**Assets = Equity + Liabilities**

2. Relationship between Statement Of Financial Position and Income Statement:

Company X Income Statement For The Year Ended.....	Company X Statement Of Financial Position As At.....		
	RM	RM	RM
<b>Sales</b>	XX	<b>Non-current Assets</b>	XX
Less: <b>Cost Of Sales</b>	<u>(XX)</u>	<b>Current Assets</b>	XX
<b>Gross Profit</b>	XX	<i>Total Assets</i>	<u>XX</u>
<b>Other Income</b>	<u>XX</u>		
	XX		
Less: <b>Expenses</b>	<u>(XX)</u>	<b>Owner's Equity</b>	
<b>Net Profit / (Net Loss)</b>	<u><u>XX</u></u>	Opening Capital	XX
		Add: <b>Net Profit / Less: (Net Loss)</b>	<u>XX</u>
			XX
		Less: Drawings	<u>(XX)</u>
		<i>Total Equity / Closing Capital</i>	XX
		<b>Non-current Liabilities</b>	XX
		<b>Current Liabilities</b>	<u>XX</u>
		<i>Total Liabilities</i>	<u>XX</u>
		<i>Total Equity And Liabilities</i>	<u><u>XX</u></u>

*Income & Expenses*



matching

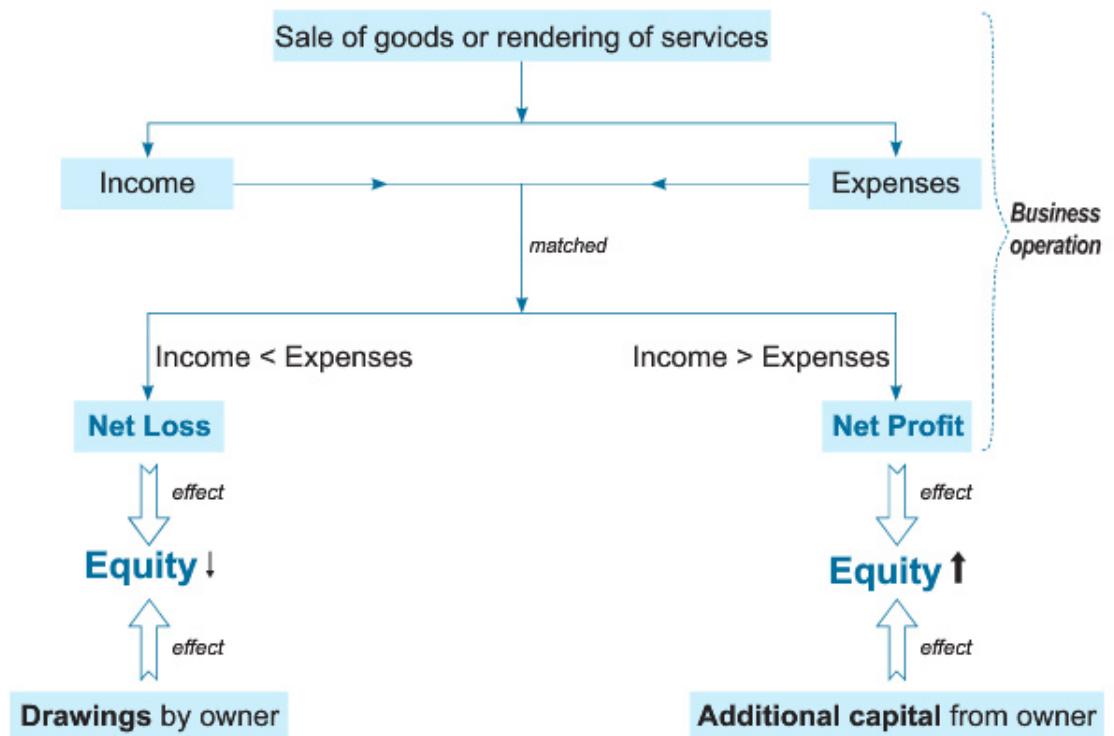
*Assets, Equity & Liabilities*



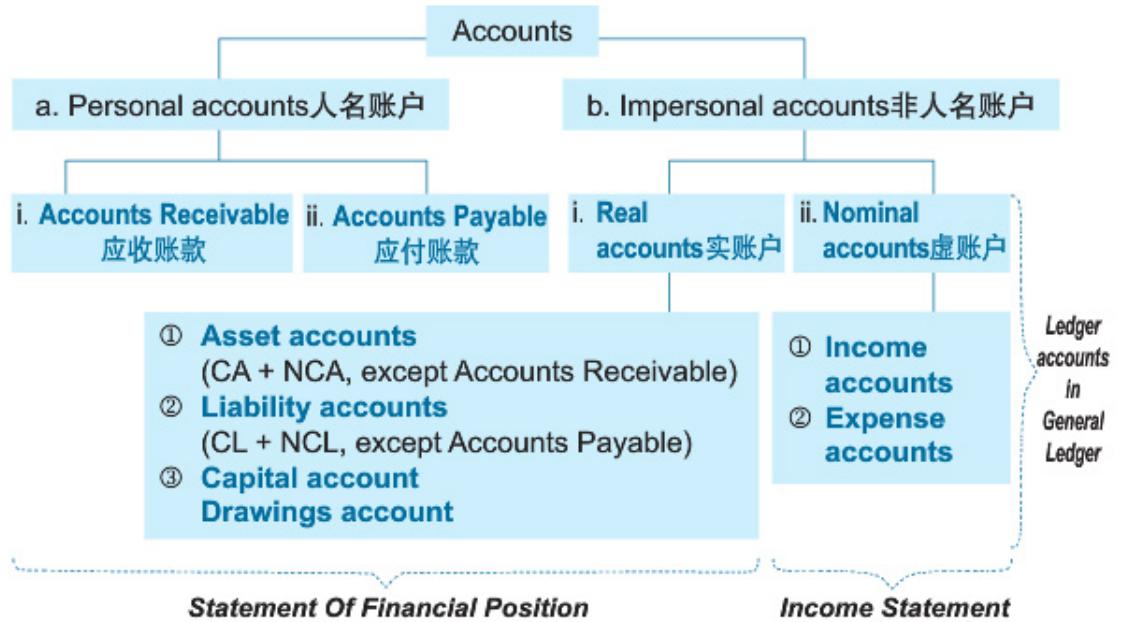
classifying

*5 accounting elements*

3. Effects of business operation, additional capital and drawings on equity:



4. Relationship between ledger accounts 分类账户 and financial statements:



## Chapter 5

# Documents Used In Business Transactions



### Learning Objectives

After studying this chapter, you should be able to:

- ☞ differentiate between **accounting bills** and **non-accounting bills**;
- ☞ use the business documents as a source of accounting records in buyer's and seller's books.



#### **Accounting bills** 会计单据:

- ☞ They are the business documents as **sources for making entries** in the books.  
e.g. Invoice, debit note, credit note, etc.

#### **Non-accounting bills** 非会计单据:

- ☞ They are the business documents but **not as sources for making entries** in the books.  
e.g. Letter of inquiry, quotation, purchase order, etc.



5.1

### Types of Business Documents

The following are the business documents used in Chapter 5 (modified) of 《Business Studies 商业学第一册》:

## 1. Letter Of Inquiry

**YCL COMPUTER COMPANY** (150873-T)  
2, Jalan SS/2, 47100 Petaling Jaya, Selangor D.E.  
Tel: 03-7578321 Fax: 03-7578221  
Email: ycl@myjaring.net

Date: 2 July 2014

Sales Manager  
T. KEY SDN BHD  
No. 5, Jalan Siew,  
56000 Kuala Lumpur.

Dear Sir,

### Re: Inquiry of Computer Items

We would be grateful if you could quote us your best price, **Carr. Pd.** on the following items:

- (1) Kingston 32GB Pen Drive
- (2) Logitech Wireless Mini Mouse
- (3) Seagate External Hard Disk 2TB USB3.0

Please let me know the terms of payment and the delivery date of goods upon confirmation of order.

Thank you.

Yours sincerely,

*Tan Guan Liang*  
.....

Tan Guan Liang  
(Purchasing Manager)



**Carr. Pd.** 运费付讫 = Carriage Paid  
It is an expense to be paid by **seller**.

## 2. Quotation

**T. KEY SDN BHD** (407754-W)  
No. 5, Jalan Siew, 56000 Kuala Lumpur.  
Tel: 03-24768954 Fax: 03-24768977

### QUOTATION

No. : 3675

Date: 4 July 2014

Purchasing Manager  
YCL COMPUTER COMPANY  
2, Jalan SS/2,  
47100 Petaling Jaya,  
Selangor D.E.

Code	Item / Description	Unit Price
K1	Kingston 32GB Pen Drive	RM 60.00
M5	Logitech Wireless Mini Mouse	50.00
D2	Seagate External Hard Disk 2TB USB3.0	290.00

20% Trade Discounts for purchases of more than 50 units

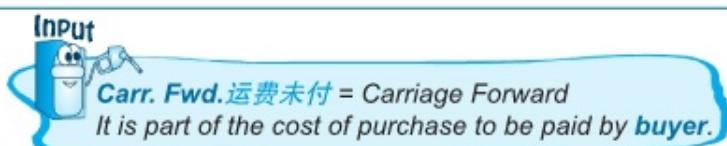
Payment Terms: 5% 7 days; 3% 30 days

Delivery: within 7 days; **Carr. Fwd.**

For acceptance within 14 days

*Albert Lim*

Albert Lim  
(Sales Manager)



### 3. Purchase Order

**YCL COMPUTER COMPANY** (150873-T)  
2, Jalan SS/2, 47100 Petaling Jaya, Selangor D.E.  
Tel: 03-7578321 Fax: 03-7578221  
Email: ycl@myjaring.net

#### PURCHASE ORDER

No. : 234

Date: 7 July 2014

Sales Manager  
T. KEY SDN BHD  
No. 5, Jalan Siew,  
56000 Kuala Lumpur.

**Your Quotation No. : 3675**

Please supply the following:

Code	Item / Description	Quantity	Unit Price
K1	Kingston 32GB Pen Drive	12	RM 60.00
M5	Logitech Wireless Mini Mouse	40	50.00
D2	Seagate External Hard Disk 2TB USB3.0	20	290.00

Trade Discounts: 20%

Payment Terms: 5% 7 days; 3% 30 days

Delivery: within 7 days; Carr. Fwd.

Thank you.

Yours faithfully,

*Tan Guan Liang*

Tan Guan Liang  
(Purchasing Manager)

#### 4. Advice Note

**T. KEY SDN BHD** (407754-W)  
No. 5, Jalan Siew, 56000 Kuala Lumpur.  
Tel: 03-24768954 Fax: 03-24768977

#### ADVICE NOTE

Date: 9 July 2014

Purchasing Manager  
YCL COMPUTER COMPANY  
2, Jalan SS/2,  
47100 Petaling Jaya,  
Selangor D.E.

Dear Sir,

We have dispatched the following items to you by van, Carr. Fwd., as per **your Purchase Order No. 234** dated 7 July 2014:

Code	Item / Description	Quantity
K1	Kingston 32GB Pen Drive	12
M5	Logitech Wireless Mini Mouse	40
D2	Seagate External Hard Disk 2TB USB3.0	20

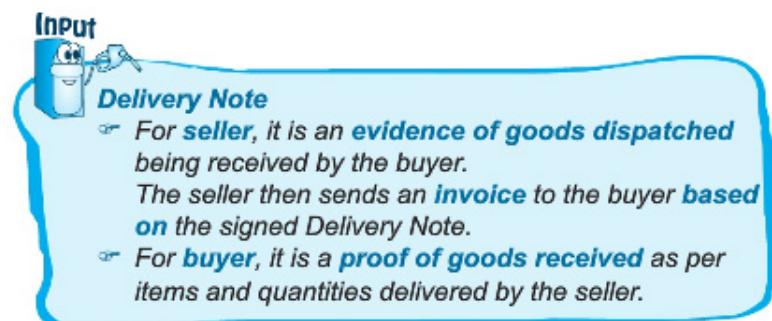
Yours faithfully,

Albert Lim

Albert Lim  
(Sales Manager)

## 5. Delivery Note / Delivery Order

<p><b>T. KEY SDN BHD</b> (407754-W)            No. 5, Jalan Siew, 56000 Kuala Lumpur.            Tel: 03-24768954      Fax: 03-24768977</p>														
<b>DELIVERY NOTE</b>		No. : 5000												
Date: 12 July 2014														
<p>YCL COMPUTER COMPANY            2, Jalan SS/2,            47100 Petaling Jaya,            Selangor D.E.</p>														
 <p>The price of the goods is not shown on the Delivery Note. Why?</p>														
<p><b>Your Purchase Order No. : 234</b></p> <p>Please acknowledge receipt of the following items in good order:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; padding: 5px;">Code</th> <th style="text-align: left; padding: 5px;">Item / Description</th> <th style="text-align: right; padding: 5px;">Quantity</th> </tr> </thead> <tbody> <tr> <td style="text-align: left; padding: 5px;">K1</td> <td style="text-align: left; padding: 5px;">Kingston 32GB Pen Drive</td> <td style="text-align: right; padding: 5px;">12</td> </tr> <tr> <td style="text-align: left; padding: 5px;">M5</td> <td style="text-align: left; padding: 5px;">Logitech Wireless Mini Mouse</td> <td style="text-align: right; padding: 5px;">40</td> </tr> <tr> <td style="text-align: left; padding: 5px;">D2</td> <td style="text-align: left; padding: 5px;">Seagate External Hard Disk 2TB USB3.0</td> <td style="text-align: right; padding: 5px;">20</td> </tr> </tbody> </table>			Code	Item / Description	Quantity	K1	Kingston 32GB Pen Drive	12	M5	Logitech Wireless Mini Mouse	40	D2	Seagate External Hard Disk 2TB USB3.0	20
Code	Item / Description	Quantity												
K1	Kingston 32GB Pen Drive	12												
M5	Logitech Wireless Mini Mouse	40												
D2	Seagate External Hard Disk 2TB USB3.0	20												
<p>Delivered by: <u>Albert Lim</u>            Albert Lim            (Sales Manager)</p>														
<p>Received by: <u>Tan Guan Liang</u>            Tan Guan Liang            (Purchasing Manager)</p>														



## 6. Invoice

**T. KEY SDN BHD** (407754-W)  
No. 5, Jalan Siew, 56000 Kuala Lumpur.  
Tel: 03-24768954 Fax: 03-24768977

### INVOICE

No. : 3211

Date: 14 July 2014

YCL COMPUTER COMPANY  
2, Jalan SS/2,  
47100 Petaling Jaya,  
Selangor D.E.

Payment Terms : 5% 7 days;  
3% 30 days.

**Our Delivery Note No. : 5000**  
**Your Purchase Order No. : 234**

Code	Item / Description	Quantity	Unit Price	Amount
K1	Kingston 32GB Pen Drive	12	RM 60.00	720.00
M5	Logitech Wireless Mini Mouse	40	50.00	2,000.00
D2	Seagate External Hard Disk 2TB USB3.0	21	290.00	6,090.00

Total	RM 8,810.00
Less: 20% <b>Trade Discount</b>	(1,762.00)
Amount Payable	<u>7,048.00</u>

E. & O. E.

Note:

1. Cheque should be crossed "A/C PAYEE ONLY" and made payable to **T. KEY SDN BHD**. Please quote our Invoice No. when payment is made.
2. Please adhere strictly to our credit terms and conditions. Interest of 1% per month will be charged on all overdue accounts.
3. Goods sold are not returnable.

*Albert Lim*

Albert Lim  
(Sales Manager)

7. Debit Note

**T. KEY SDN BHD** (407754-W)

No. 5, Jalan Siew, 56000 Kuala Lumpur.

Tel: 03-24768954 Fax: 03-24768977

**DEBIT NOTE**

No. : 100

Date: 15 July 2014

YCL COMPUTER COMPANY

2, Jalan SS/2,

47100 Petaling Jaya,

Selangor D.E.

<b>Particulars</b>	<b>Amount</b>
Being charges for carriage of goods inadvertently omitted in <b>Invoice No. 3211</b>	RM 50.00

*Albert Lim*

.....

Albert Lim

(Sales Manager)

E. & O. E.

## 8. Credit Note

**T. KEY SDN BHD** (407754-W)  
No. 5, Jalan Siew, 56000 Kuala Lumpur.  
Tel: 03-24768954 Fax: 03-24768977

### CREDIT NOTE

No. : 30

Date: 16 July 2014

YCL COMPUTER COMPANY  
2, Jalan SS/2,  
47100 Petaling Jaya,  
Selangor D.E.

Particulars	Unit Price	Amount
20 units Seagate External Hard Disk 2TB USB3.0 delivered but billed as 21 units for RM 6,090.00 as per <b>Invoice No. 3211</b> .	RM 290.00	290.00
Less: 20% <b>Trade Discounts</b>		(58.00)
		<u>232.00</u>

*Albert Lim* .....

Albert Lim  
(Sales Manager)

E. & O. E.

## 9. Official Receipt

<p style="text-align: center;"><b>T. KEY SDN BHD</b> (407754-W) No. 5, Jalan Siew, 56000 Kuala Lumpur. Tel: 03-24768954      Fax: 03-24768977</p>	
<p style="text-align: center;"><b>OFFICIAL RECEIPT</b></p>	
No. : 0256	
Date: 29/7/2014	
Received from: <b>YCL Computer Company</b>	
The sum of Ringgit Malaysia: <u>Six Thousand Six Hundred and Sixty Only</u>	
Being payment for: <u>Payment of account</u>	
<u>(after deducting Cash Discounts RM 206.00)</u>	
Amount: RM <b>6,660.00</b>	
Cash / Cheque No. Public Bank 765341	
..... Albert Lim (Sales Manager)	

**Note:** The amount of RM **6,660.00** was calculated as follows:

	RM
<b>Invoice No. 3211</b>	7,048.00
Add: <b>Debit Note No.100</b>	50.00
Less: <b>Credit Note No. 30</b>	(232.00)
	<hr/>
	6,866.00
Less: <b>Cash Discounts</b> ( RM 6,866.00 x 3% )	(206.00)
	<hr/> <b>6,660.00</b>

**Input**



**Cash Discounts** 现金折扣

*It is given when **prompt payment** is made by the **buyer**.  
(Refer to: Chapter 7 7.4 Discounts)*

## 10. Statement Of Account

**T. KEY SDN BHD** (407754-W)  
No. 5, Jalan Siew, 56000 Kuala Lumpur.  
Tel: 03-24768954 Fax: 03-24768977

### STATEMENT OF ACCOUNT

Date: 31 July 2014

YCL COMPUTER COMPANY  
2, Jalan SS/2,  
47100 Petaling Jaya,  
Selangor D.E.

Payment Terms : 5% 7 days; 3% 30 days.

Date	Details	Debit	Credit	Balance
2007 July 14	Invoice No. 3211	RM 7,048.00	RM	RM 7,048.00
15	Debit Note No. 100	50.00		7,098.00
16	Credit Note No. 30		232.00	6,866.00
29	Cash Discounts (3%)		206.00	6,660.00
29	Cheque No. Public Bank 765341		6,660.00	-

*Albert Lim*  
.....  
Albert Lim  
(Sales Manager)

E. & O. E.

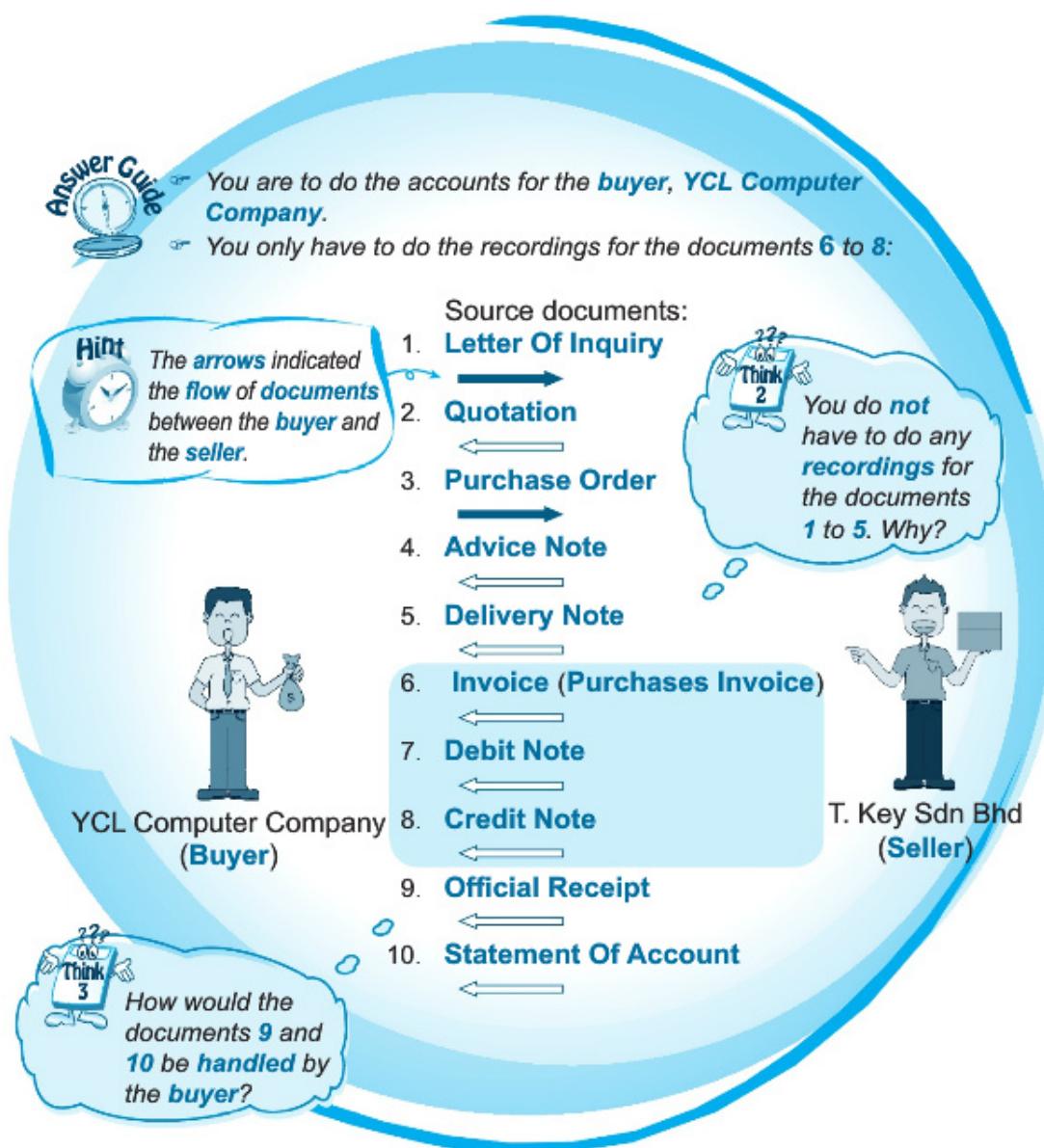
## 5.2 Use of Business Documents



### Practice 1

As per the business documents (1 to 10) issued and received for the July transactions of the year 2014, you are required to enter them in the **General Ledger** of **YCL Computer Company (buyer)** without balance-off the accounts.

**Remark:** Give your answer to the nearest whole number.





## Practice 2

Using the documents below (11 to 14) as the additional information for **Practice 1**, you are required to:

- continue to enter the documents in the **General Ledger** of YCL Computer Company;
- balance off the real and personal accounts only;
- extract a Trial Balance as at 31 July 2014;
- prepare an Income Statement from the Trial Balance for the month ended 31 July 2014;
- prepare a Statement Of Financial Position as at 31 July 2014.

**Note:** Inventory at 31 July 2014 was RM 5,616.

**Remark:** The **Answer Guide** is on **page 5-19**.

### 11. Bank-in Slip / Pay-in Slip:

Public Bank					
Date: 1/7/2014		Tel. No.: 012-9107121			
Bank	Cheque No.	Place	RM	Sen	
Public Bank	489263		45,000	00	
		Total	45,000	00	
Account Name: <b>YCL Computer Company</b> Account No.: 6 – 978974 – 24					

Customer's Copy



**Hint**  
*This is the amount invested by Rose Chua, the owner of YCL Computer Company.*

12. **Cash Bill**

**YCL COMPUTER COMPANY** (150873-T)  
2, Jalan SS/2, 47100 Petaling Jaya, Selangor D.E.  
Tel: 03-7578321 Fax: 03-7578221  
Email: ycl@myjaring.net

**CASH BILL**

No. : 2212

Date: 25 July 2014

To: Chong Ming

<b>Code</b>	<b>Item / Description</b>	<b>Quantity</b>	<b>Unit Price</b>	<b>Amount</b>
K2	Kingston 32GB Pen Drive	5	RM 70.00	RM 350.00

*Rose*

Rose Chua

### 13. Invoice

**YCL COMPUTER COMPANY** (150873-T)  
2, Jalan SS/2, 47100 Petaling Jaya, Selangor D.E.  
Tel: 03-7578321 Fax: 03-7578221  
Email: ycl@myjaring.net

#### INVOICE

No. : 1212

Date: 26 July 2014

CAT CLASSROOM  
707, Jalan Besar,  
63000 Muar,  
Johor.

Payment Terms : 5% 7 days;  
1% 30 days.

Code	Item / Description	Quantity	Unit Price	Amount
K2	Kingston 32GB Pen Drive	5	RM 70.00	RM 350.00
M6	Logitech Wireless Mini Mouse	18	60.00	1,080.00

Total Amount Payable RM  
1,430.00

E. & O. E.

Note:

1. Cheque should be crossed "A/C PAYEE ONLY" and made payable to **YCL COMPUTER COMPANY**. Please quote our Invoice No. when payment is made.
2. Please adhere strictly to our credit terms and conditions. Interest of 1% per month will be charged on all overdue accounts.
3. Goods sold are not returnable.

*Rose* .....  
Rose Chua

#### 14. Payment Vouchers

**YCL COMPUTER COMPANY** (150873-T)  
2, Jalan SS/2, 47100 Petaling Jaya, Selangor D.E.  
Tel: 03-7578321 Fax: 03-7578221

**PAYMENT VOUCHER**

No. : 50

Date: 1/7/2014

Pay to: Poh Yep Enterprise

The sum of Ringgit Malaysia: Four Thousand and Five Hundred Only

Being payment for: A fax machine

Amount: RM 4,500.00

Cash / Cheque No.: Public Bank 765340

Approved by:

Rose

Received by:

Poh Yep Enterprise

**YCL COMPUTER COMPANY** (150873-T)  
2, Jalan SS/2, 47100 Petaling Jaya, Selangor D.E.  
Tel: 03-7578321 Fax: 03-7578221

**PAYMENT VOUCHER**

No. : 51

Date: 29/7/2014

Pay to: T. Key Sdn Bhd

The sum of Ringgit Malaysia: Six Thousand Six Hundred and Sixty Only

Being payment for: Payment of account (after deducting Cash Discounts RM 206.00)

Amount: RM 6,660.00

Cash / Cheque No.: Public Bank 765341

Approved by:

Rose

Received by:

Albert Lim

**YCL COMPUTER COMPANY** (150873-T)  
2, Jalan SS/2, 47100 Petaling Jaya, Selangor D.E.  
Tel: 03-7578321 Fax: 03-7578221

**PAYMENT VOUCHER**

No. : 52

Date: 31/7/2014

Pay to: Tan Guan Liang

The sum of Ringgit Malaysia: Nine Hundred Only

Being payment for: Salary for the month of July 2014

Amount: RM 900.00

~~Cash~~ / Cheque No.: Public Bank 765342

Approved by:

*Rose* .....

Received by:

*Tan Guan Liang* .....

**YCL COMPUTER COMPANY** (150873-T)  
2, Jalan SS/2, 47100 Petaling Jaya, Selangor D.E.  
Tel: 03-7578321 Fax: 03-7578221

**PAYMENT VOUCHER**

No. : 53

Date: 31/7/2014

Pay to: Lee Ah Beng

The sum of Ringgit Malaysia: Seven Hundred Only

Being payment for: Rental for the month of July 2014

Amount: RM 700.00

~~Cash~~ / Cheque No.: Public Bank 765343

Approved by:

*Rose* .....

Received by:

*Lee Ah Beng* .....

**YCL COMPUTER COMPANY** (150873-T)  
2, Jalan SS/2, 47100 Petaling Jaya, Selangor D.E.  
Tel: 03-7578321 Fax: 03-7578221

**PAYMENT VOUCHER**

No. : 54

Date: 31/7/2014

Pay to: Tenaga Nasional Berhad

The sum of Ringgit Malaysia: One Hundred and Fourteen Only

Being payment for: Electricity bill for the month of July 2014

Amount: RM 114.00

Cash / Cheque No.: Public Bank 765344

Approved by:

*Rose*

Received by:

.....



- ☞ You **continue** to do the accounts for the **buyer**,  
**YCL Computer Company**.
- ☞ You only have to do the recordings for the documents  
**11 to 14**:

Source documents:

1. **Letter Of Inquiry**  
→
2. **Quotation**  
←
3. **Purchase Order**  
→
4. **Advice Note**  
←
5. **Delivery Note**  
←
6. **Invoice (Purchases Invoice)**  
←
7. **Debit Note**  
←
8. **Credit Note**  
←
9. **Official Receipt**  
←
10. **Statement Of Account**  
←
11. **Bank-in Slip**
12. **Cash Bill**
13. **Invoice (Sales Invoice)**
14. **Payment Vouchers**

YCL Computer Company  
**(Buyer)**

T. Key Sdn Bhd  
**(Seller)**

1. **Trial Balance** total: RM 47,218.
2. **Gross Profit**: RM 736.
3. **Net Loss**: RM 978.
4. **Statement Of Financial Position** total: RM 44,022.



- ☞ **Purchases Invoice**: It is an **original copy 正本** kept by **YCL Computer**.
- ☞ **Sales Invoice**: It is a **duplicate copy 副本** kept by **YCL Computer**.



## Practice 3

As per the business documents (**1** to **10**) issued and received, you are required to enter them in the **General Ledger** of **T. Key Sdn Bhd (seller)**, and balance off the real and personal accounts only.



- ☞ You are to do the accounts for the **seller, T. Key Sdn Bhd**.
- ☞ You only have to do the recordings for the documents **6** to **9**:



YCL Computer Company  
**(Buyer)**



T. Key Sdn Bhd  
**(Seller)**

Source documents:

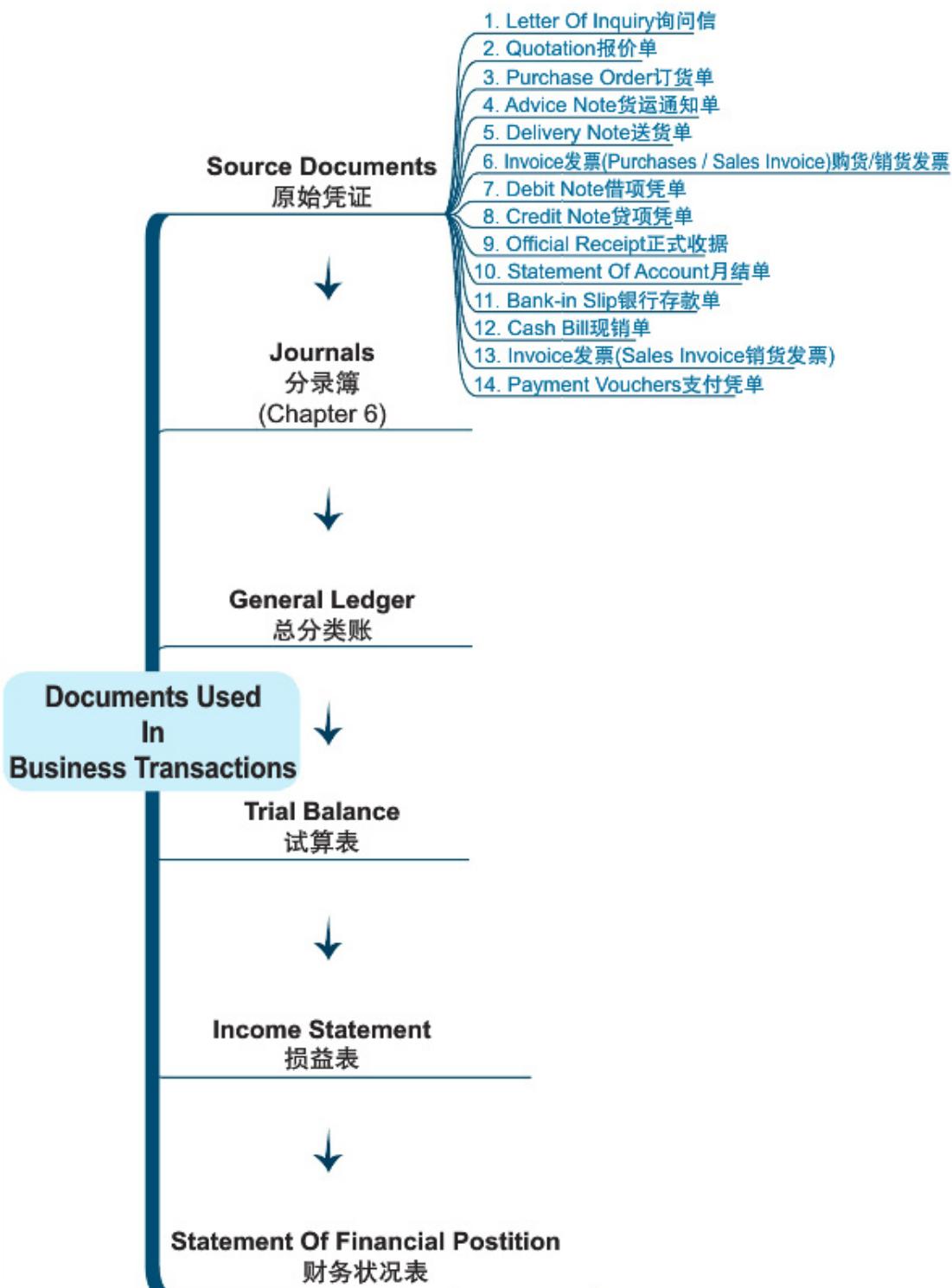
1. **Letter Of Inquiry** →
2. **Quotation** ←
3. **Purchase Order** →
4. **Advice Note** ←
5. **Delivery Note** ←
6. **Invoice (Sales Invoice)** ←
7. **Debit Note** ←
8. **Credit Note** ←
9. **Official Receipt** ←
10. **Statement Of Account** ←

Input

**Sales Invoice:**  
It is a **duplicate** copy kept by **T. Key Sdn Bhd**.



## Review



# Journals



## Learning Objectives

After studying this chapter, you should be able to:

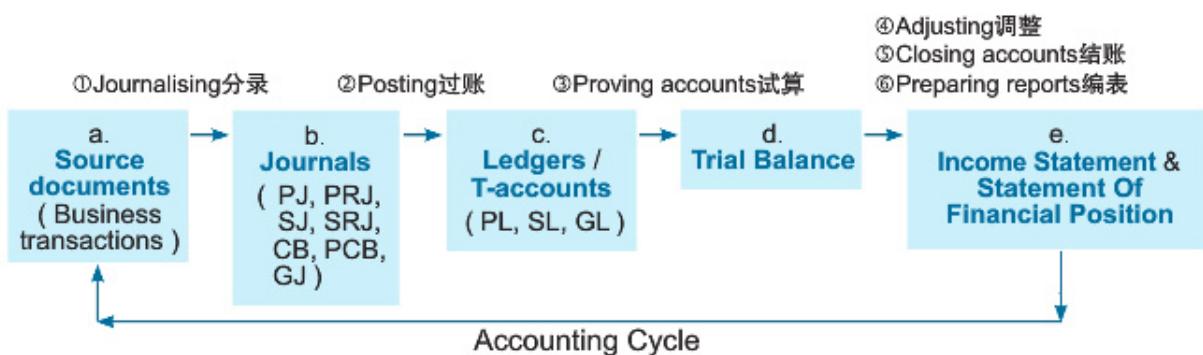
- ☞ understand the steps in accounting cycle;
- ☞ understand the purpose and the use of various types of journals;
- ☞ identify the source documents used in journals;
- ☞ record transactions in journals and ledgers;
- ☞ distinguish among Purchases Ledger, Sales Ledger and General Ledger.



## 6.1 Accounting Cycle

1. For most of the businesses, there are plenty of transactions every day. Thus, it is necessary to sort out the transactions according to their nature based on source documents, and then record them in **journals**. After recording the similar types of transactions in their respective books, they are posted to ledgers, subsequently, Trial Balance and financial statements for an accounting period are then prepared.

The **steps** showing **source documents** being **recorded** and **processed** to **financial statements** for an accounting period of a business can be illustrated as an **accounting cycle 会计循环** as follows:



2. The above **six steps** of an **accounting cycle** are explained as follows:

<b>① Journalising:</b>	a. Sort out the source documents based on the nature of the transactions; b. Record the transactions in the respective journals;
<b>② Posting:</b>	c. Post the total amounts in journals to the respective ledger accounts;
<b>③ Proving accounts:</b>	d. Extract the balances from the ledger accounts to prepare a Trial Balance in order to check the equality of debits and credits;
<b>④ Adjusting, ⑤ Closing accounts &amp; ⑥ Preparing reports:</b>	e. After adjusting accruals, prepayments, etc, the nominal accounts are closed off, and the real and personal accounts are balanced off, the financial statements are then prepared.

## 6.2 Journals

- Information from **source documents** is **first recorded** in journals in chronological order. Thus, **journals** 分录簿 are also known as **books of original entry** or **books of prime entry** 原始记录簿.
- Journals can be classified into **two** main types, namely **special journals** and **General Journal**, as follows:

Special journals	Transactions	Source documents
a. Purchases Journal	<b>Credit purchases</b> of goods	Purchases Invoices (original)
b. Sales Journal	<b>Credit sales</b> of goods	Sales Invoices (duplicate)
c. Purchases Returns Journal / Returns Outwards Journal	i. <b>Returns</b> of goods <b>to credit suppliers</b> ii. <b>Reduction / allowance</b> of invoice price in <b>suppliers' accounts</b> due to overcharging or other reasons	Credit Notes <b>from sellers / suppliers</b> (original)
d. Sales Returns Journal / Returns Inwards Journal	i. <b>Returns</b> of goods <b>from credit customers</b> ii. <b>Reduction / allowance</b> of invoice price in <b>customers' accounts</b> due to overcharging or other reasons	Credit Notes <b>to buyers / customers</b> (duplicate)
e. Cash Book (Chapter 7)	<b>Receipts</b> and <b>payments</b> in cash / cheque / credit card (including <b>cash sales</b> and <b>cash purchases</b> )	Cash Bills Cash Register Slips Official Receipts Cash & Bank Payment Vouchers attached with relevant documents

Day books

f. Petty Cash Book (Chapter 8)	<b>Small cash payments</b>	Petty Cash Vouchers attached with relevant documents
<b>General Journal</b>	<b>Transactions</b> that <b>cannot</b> be <b>recorded in</b> the above <b>special journals:</b> <ul style="list-style-type: none"> <li>a. opening and closing entries</li> <li>b. purchase and sale of non-current assets on credit</li> <li>c. balance day adjustments (Chapter 12)</li> <li>d. correction of errors (Chapter 13)</li> <li>e. others</li> </ul>	Journal Vouchers attached with relevant documents (e.g. Invoice received & issued, Memo, etc.)

### 6.3 General Journal

(When special journals are not in use)

When **special journals** are **not in use**, **General Journal** is used to **record every transactions**.



#### Example 1

Enter the following transactions in the General Journal of **Johari**, a retailer, and post to the respective ledger accounts:

Year 1

- Jan 1 Johari invested RM 5,500 in cash to start business.
- 2 He purchased a motor van for RM 2,350 from Thomas Motors Trading on credit.
- 3 He bought goods for cash RM 1,000.

**Particulars** 摘要: Showing the accounts to be debited & credited. **Folio** 账页: Showing the page no. of ledger accounts.

**Solution:**

In the books of **Johari**:

General Journal				Page 1
Date	Particulars	Folio	Debit	Credit
Year 1 Jan 1	<b>Narration</b> 叙述: The explanation for the entries made. Cash Capital (Being cash invested to start the business)	GL2 GL1	RM 5,500	RM 5,500 <b>Dr Cr</b>
2	Motor Vehicle Other Payable – Thomas Motors Trading (Being purchase of a motor van on credit)	GL3 GL4	2,350	2,350
3	Purchases Cash (Being purchase of goods for cash)	GL5 GL2	1,000	1,000

**General Ledger**  
Capital

► Page 1

Year 1 Jan 1 Cash	Folio GJ1	RM 5,500
----------------------	-----------	----------

Cash

Page 2

Year 1 Jan 1 Capital	Folio GJ1	RM 5,500	Year 1 Jan 3 Purchases	Folio GJ1	RM 1,000
-------------------------	-----------	----------	---------------------------	-----------	----------

Motor Vehicle

Page 3

Year 1 Jan 2 Other Payable – Thomas Motors Trading	Folio GJ1	RM 2,350
--	-----------	----------

Other Payable – Thomas Motors Trading

Page 4

Year 1 Jan 2 Motor Vehicle	Folio GJ1	RM 2,350
-------------------------------	-----------	----------

Purchases

Page 5

Year 1 Jan 3 Cash	Folio GJ1	RM 1,000
----------------------	-----------	----------



**John** was the owner of a grocery store. The following transactions were for the month of October Year 1:

Year 1

- Oct 1 Invested RM 3,500 in cash to start the business.
- 1 Banked in RM 2,000 cash.
- 2 Paid RM 900 by cheque for office rental.
- 2 Purchased office supplies 用品 RM 60 and office equipment RM 2,100 from Linfield Bhd on credit.
- 3 Paid insurance premium for cash RM 375.
- 8 Purchased goods from May and paid for cash RM 550.
- 13 Sold goods of RM 350 to Wee on credit.
- 15 Purchased additional office supplies and paid for cash RM 25.
- 16 Wee returned goods of RM 50.
- 23 Received cash RM 300 from Wee.
- 25 Paid cash RM 250 by instalment for the amount owing to Linfield Bhd.
- 29 John issued cheque of RM 45 to pay the electricity bill of his private residence.
- 30 Purchased goods of RM 300 from Elizabeth on credit.
- 31 Damaged goods of RM 30 returned to Elizabeth.
- 31 Paid salaries to the office staff by cash RM 450.

You are required to record the above transactions in the General Journal, then post to the relevant ledger accounts and balance off the Cash and Bank accounts.



1. **Cash:** RM 150.  
2. **Bank:** RM 1,055.

## 6.4 Special Journals

If a business deals with large volume of credit sales or credit purchases, using only the General Journal for recording is insufficient and cumbersome. Thus, **special journals** are used to record **transactions** of **similar nature**.

### 1. Purchases Journal



#### Example 2

Enter the following transactions in the Purchases Journal of **Mike** and post to the respective ledger accounts:

Year 2

Jan 3 Bought goods from William on credit for RM 100, less 10% **trade discount**.

Invoice  
No.  
187

18 Purchased goods from Billy on credit for RM 250, less 10% trade discount.

678

27 Received invoice for goods bought from William for RM 600, less 15% trade discount.

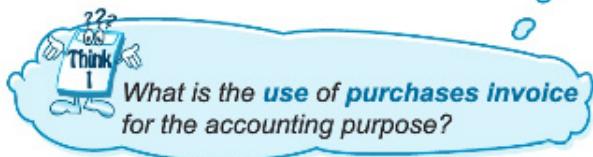
202

Information  
from the  
purchases  
invoices

Input

Trade discount 商业折扣

(Refer to: Chapter 7 7.4 Discounts)



### Solution:

In the books of **Mike**:

Purchases Journal						Page 1
Date	Invoice No.	Particulars	Folio	Details	Amount	
Year 2 Jan 3	187	William Less: 10% Trade Discount	PL1	RM 100 (10)	90	Cr
18	678	Billy Less: 10% Trade Discount		250 (25)	225	Cr
27	202	William Less: 15% Trade Discount		600 (90)	510	Cr
31		Purchases account		GL1	825	Dr

#### Input

**Purchases Ledger** = Accounts Payable Ledger  
It records all the **suppliers' personal accounts** (i.e. **trade creditors' accounts**).

Purchases Ledger			Page 1
William			
	Year 2		
	Jan 3	Purchases	Folio RM
	27	Purchases	PJ1 90
			PJ1 510
Billy			Page 2
	Year 2		
	Jan 18	Purchases	Folio RM
			PJ1 225
General Ledger			Page 1
Purchases			
Year 2	Folio	RM	
Jan 31	Total for the month	PJ1	825



- What types of **Journals** should be used to record the following transactions?
- Purchase of goods for cash
  - Purchase of non-current asset on credit

## 2. Sales Journal



### Example 3

Enter the following transactions in the Sales Journal of **Mike** and post to the respective ledger accounts:

Year 2

Feb 6 Sold goods to Peter on credit for RM 320, less 10% trade discount.

15 Sold goods to Peter on credit for RM 134, without trade discount.

21 Sent invoice to Mark for goods sold for RM 560, less 15% trade discount.

Invoice No.	
264	Information from the sales invoices
265	
266	

### Solution:

In the books of **Mike**:

**Sales Journal**

Page 1

Date	Invoice No.	Particulars	Folio	Details	Amount
Year 2 Feb 6	264	Peter Less: 10% Trade Discount	SL1	RM 320 (32)	RM 288
15	265	Peter	SL1		134
21	266	Mark Less: 15% Trade Discount	SL2	560 (84)	476
28		Sales account	GL2		898

**Input**

**Sales Ledger** = Accounts Receivable Ledger  
It records all the **customers' personal accounts** (i.e. **trade debtors' accounts**).

**Sales Ledger**

Peter

Page 1

Year 2	Folio	RM	
Feb 6 Sales	SJ1	288	◀
15 Sales	SJ1	134	◀

Mark

Page 2

Year 2	Folio	RM	
Feb 21 Sales	SJ1	476	◀

**General Ledger**

Sales

Page 2

Year 2	Folio	RM	
Feb 28 Total for the month	SJ1	898	◀

**Think 3**  
What types of **journals** should be used to record the following transactions?

- Sale of goods for cash
- Sale of non-current asset on credit



## Practice 2

The following were the transactions of **John** for the month of October Year 2:

Year 2

- |       |  |
|-------|--|
| Oct 2 | Purchased 60 units of goods from Anran Company at RM 35 each, less 25% trade discount. |
| 3     | Sold 10 units of goods to Ho Hup at RM 60 each, less 8% trade discount.                |
| 6     | Purchased 10 units of goods from Leeds Bhd at RM 10 each.                              |
| 10    | Sold 2 units of goods to Lim at RM 75 each, less 6% trade discount.                    |
| 19    | Purchased 20 units of goods from Chen at RM 12 per unit, less 10% trade discount.      |
| 20    | Sold 3 units of goods to Ho Hup at RM 15 per unit, no trade discount was given.        |
| 29    | Sold 4 units of goods to Wong at RM 20 each, less 5% trade discount.                   |
| 30    | Purchased 50 units of goods from Leeds Bhd at RM 9 each, less 6% trade discount.       |

You are required to:

- enter the transactions in the Purchases Journal and Sales Journal;
- post the items to the personal accounts in the Purchases Ledger and Sales Ledger;
- post the journal totals to the nominal accounts in the General Ledger at the end of the month.



- Purchases Journal** total: RM 2,314.
- Sales Journal** total: RM 814.



Now you are familiar with the **Purchases Journal** and **Sales Journal**, what are the advantages of using the special journals instead of **General Journal**?

### 3. Purchases Returns Journal / Returns Outwards Journal



#### Example 4

(Refer to **Example 2**)

Input

**Credit note** 贷项凭单

It is issued by a **seller** stating that the customer's account will be **credited** with a certain amount to reduce the amount owed.

Enter the following transactions in the Purchases Returns Journal of **Mike** and post to the respective ledger accounts:

Year 2

- |        |  |
|--------|--|
| Jan 20 | Returned goods to Billy RM 20, less 10% trade discount.                            |
| 30     | Received credit note for goods returned to William RM 60, less 15% trade discount. |

Credit Note

No.

41

12

Information from  
the **credit notes**  
**from** **Billy & William** (**sellers**)

**Solution:**

In the books of **Mike**:

Purchases Returns Journal						Page 1
Date	Credit Note No.	Particulars		Folio	Details	Amount
Year 2 Jan 20	41	Billy Less: 10% Trade Discount	PL2	RM 20 (2)	RM 18	Dr
30	12	William Less: 15% Trade Discount		60 (9)	51	Dr
31		Purchases Returns account		GL3	69	Cr

Purchases Ledger						Page 1
William						Page 1
Year 2 Jan 30	Purchases Returns	Folio PRJ1	RM 51	Year 2 Jan 3	Purchases	Folio PJ1 90

Year 2 Jan 30	Purchases Returns	Folio PRJ1	RM 51	Year 2 Jan 27	Purchases	Folio PJ1 510
------------------	-------------------	------------	-------	------------------	-----------	---------------

Purchases Ledger						Page 2
Billy						Page 2
Year 2 Jan 20	Purchases Returns	Folio PRJ1	RM 18	Year 2 Jan 18	Purchases	Folio PJ1 225

General Ledger						Page 3
Purchases Returns						Page 3
Year 2 Jan 31	Total for the month	Folio PRJ1	RM 69			

#### 4. Sales Returns Journal / Returns Inwards Journal



#### Example 5

(Refer to Example 3)

Enter the following transactions in the Sales Returns Journal of **Mike** and post to the respective ledger accounts:

Year 2

- Feb 16 Goods returned by Peter RM 16  
23 Sent credit note for goods returned by Mark RM 40,  
less 15% trade discount.

Credit Note

No.

187

188

Information from  
the **credit notes**  
to Peter & Mark  
(**buyers**)

#### Solution:

In the books of **Mike**:

Sales Returns Journal						Page 1
Date	Credit Note No.	Particulars	Folio	Details	Amount	
Year 2 Feb 16	187	Peter	SL1	RM 16	RM 16	Cr
23	188	Mark Less: 15% Trade Discount	SL2	40 (6)	34	Cr
28		Sales Returns account	GL4		50	Dr

Sales Ledger						Page 1	
Peter							
Year 2 Feb 6	Sales	Folio SJ1	RM 288	Year 2 Feb 16	Sales Returns	Folio SRJ1	RM 16
15	Sales	SJ1	134				

General Ledger						Page 2	
Sales Returns							
Year 2 Feb 21	Sales	Folio SJ1	RM 476	Year 2 Feb 23	Sales Returns	Folio SRJ1	RM 34

General Ledger						Page 4
Sales Returns						
Year 2 Feb 28	Total for the month	Folio SRJ1	RM 50			



## Practice 3

In the books of **John** (refer to **Practice 2**):

Year 2

- Oct 10 Goods returned by John to: Anran Company 8 units of goods listed at RM 35 each;  
Leeds Bhd 5 units of goods at RM 10 each.
- 30 Goods returned to John by: Ho Hup 3 units of goods at RM 15 each;  
Wong 2 units of goods listed at RM 20 each.

You are required to continue the recording in the books of John:

- enter the transactions in the Purchases Returns Journal and Sales Returns Journal;
- post the items to the personal accounts in the Purchases Ledger and Sales Ledger;
- post the journal totals to the nominal accounts in the General Ledger at the end of the month.



- ☞ In purchases & sales **returns**, the **trade discounts given** have to be **taken into account**.
- 1. **Purchases Returns Journal** total: RM 260.
- 2. **Sales Returns Journal** total: RM 83.
- 3. **Anran Company**: RM 1,365; **Leeds Bhd**: RM 473; **Chen**: RM 216.
- 4. **Ho Hup**: RM 552; **Lim**: RM 141; **Wong**: RM 38.

## 6.5 General Journal

(When special journals are in use)

When **special journals** are **in use**, then **General Journal** is used to record those **transactions** that **cannot be recorded** in **special journals** as follows:

a. **Opening and closing entries** 开业与结账记录

i. **Opening entries**

They are used to record:

- ① **opening balances** of assets, liabilities and capital for a **new set of books** in the **beginning** of an **accounting period**;
- ② **initial capital introduced** by owner for a **newly established business** (i.e. initial contribution of cash and other assets).

ii. **Closing entries**

At the end of each accounting period, the following entries are made:

- |   |   |
|---|---|
| ① <b>Opening inventory</b> is closed and transferred to <b>Trading</b> account.   | <i>To determine gross &amp; net profit / loss</i> |
| ② <b>Closing inventory</b> is counted, valued and recorded.   |   |
| ③ <b>Income and expense accounts</b> (i.e. nominal accounts) are closed and transferred to <b>Trading</b> account or <b>Profit And Loss</b> account:<br>Dr Income<br>Cr Trading / Profit And Loss<br>(Being closing of all income accounts)<br><br>Dr Profit And Loss<br>Cr Expenses<br>(Being closing of all expense accounts) | <i>To determine closing capital</i>               |
| ④ <b>Net profit / loss</b> is transferred to <b>Capital</b> account:<br>Dr Profit And Loss<br>Cr Capital<br>(Being net profit transferred to Capital Account)<br><b>or</b><br>Dr Capital<br>Cr Profit And Loss<br>(Being net loss transferred to Capital account)   |   |
| ⑤ <b>Drawings</b> account is closed and transferred to <b>Capital</b> account.  |   |

b. Purchase and sale of non-current assets on credit

Dr Non-current Assets

Cr Other Payable

(Being purchase of non-current assets on credit)

Dr Other Receivable

Cr Non-current Assets

(Being sale of non-current assets on credit)



### Example 6

(Closing and opening entries)

**Yap** had his own accounting firm. The following was the Trial Balance of the firm as at 31 December Year 6, showing the balances from the ledger accounts:

	Debit RM	Credit RM
Professional Fees		44,200
Salaries	18,000	
Rental Expenses	3,000	
Printing And Stationery	800	
Water And Electricity	2,400	
Capital		8,000
Furniture And Fixtures	12,000	
Office Equipment	9,000	
Bank	5,000	
Account Payable – Abu		2,000
Account Receivable – Bala	4,000	
	<hr/> 54,200	<hr/> 54,200

You are required to:

- make closing entries for Year 6 and post to the ledger accounts;
- prepare an Income Statement for the year ended 31 December Year 6;
- prepare a Statement Of Financial Position as at 31 December Year 6;
- make opening entries for Year 7 and post to the ledger accounts.

#### Input

Service firm makes **profit** from **providing services** but not from sale of goods. Thus, it does **not** need to calculate **Cost Of Sales** and **Gross Profit**.

**Solution:**

In the books of Yap:

(a) **Closing entries and posting**

General Journal				Page 1
Date	Particulars	Folio	Debit	Credit
Year 6 Dec 31	Professional Fees Profit And Loss (Being closing of revenue account)	GL 1 GL10	RM 44,200 24,200	RM 44,200
31	Profit And Loss Salaries Rental Expenses Printing And Stationery Water And Electricity (Being closing of all expense accounts)	GL10 GL 2 GL 3 GL 4 GL 5	18,000 3,000 800 2,400	
31	Profit And Loss Capital (Being net profit transferred to Capital account)	GL10 GL 6	20,000 20,000	
			88,400	88,400

**Accounts Payable Ledger**

Abu			Page 1
	Year 6	Folio	RM
	Dec 31 Balance b/d		2,000

**Accounts Receivable Ledger**

Bala			Page 1
Year 6	Folio	RM	
Dec 31 Balance b/d		4,000	

**General Ledger**

Professional Fees			Page 1
Year 6	Folio	RM	
Dec 31 Profit And Loss	GJ1	44,200	

**Salaries**

Salaries			Page 2
Year 6	Folio	RM	
Dec 31 Balance b/d		18,000	

Rental Expenses			Page 3	
Year 6 Dec 31 Balance b/d	Folio	RM <u>3,000</u>	Year 6 Dec 31 Profit And Loss	Folio GJ1 RM <u>3,000</u>
Printing And Stationery			Page 4	
Year 6 Dec 31 Balance b/d	Folio	RM <u>800</u>	Year 6 Dec 31 Profit And Loss	Folio GJ1 RM <u>800</u>
Water And Electricity			Page 5	
Year 6 Dec 31 Balance b/d	Folio	RM <u>2,400</u>	Year 6 Dec 31 Profit And Loss	Folio GJ1 RM <u>2,400</u>
Capital			Page 6	
Year 6 Dec 31 Balance c/d	Folio	RM <u>28,000</u>	Year 6 Dec 31 Balance b/d 31 Profit And Loss – Net Profit	Folio GJ1 RM <u>8,000</u> <u>20,000</u> <u>28,000</u>
		<u>28,000</u>	Year 7 Jan 1 Balance b/d	28,000
Furniture And Fixtures			Page 7	
Year 6 Dec 31 Balance b/d	Folio	RM <u>12,000</u>		
Office Equipment			Page 8	
Year 6 Dec 31 Balance b/d	Folio	RM <u>9,000</u>		
Bank			Page 9	
Year 6 Dec 31 Balance b/d	Folio	RM <u>5,000</u>		
Profit And Loss			Page 10	
Year 6 Dec 31 Salaries	Folio GJ1	RM 18,000	Year 6 Dec 31 Professional Fees	Folio GJ1 RM 44,200
31 Rental Expenses	GJ1	3,000		
31 Printing And Stationery	GJ1	800		
31 Water And Electricity	GJ1	2,400		
31 Capital – Net Profit	GJ1	20,000		
		<u>44,200</u>		<u>44,200</u>

(b)

Yap  
**Income Statement**  
For The Year Ended 31 December Year 6

	RM		RM
Salaries	18,000	Professional Fees	44,200
Rental Expenses	3,000		
Printing And Stationery	800		
Water And Electricity	2,400		
Net Profit	20,000		
	<u>44,200</u>		<u>44,200</u>

(c)

Yap  
**Statement Of Financial Position**  
As At 31 December Year 6

	RM	RM		RM
<b>Non-current Assets</b>			<b>Owner's Equity</b>	
Furniture And Fixtures	12,000		Opening Capital	8,000
Office Equipment	9,000	21,000	Add: Net Profit	20,000
			Closing Capital	<u>28,000</u>
<b>Current Assets</b>			<b>Current Liabilities</b>	
Account Receivable	4,000		Account Payable	2,000
Bank	5,000	9,000		<u>30,000</u>
		<u>30,000</u>		

(d) **Opening entries and posting**

General Journal			Page 1		
Date	Particulars		Folio	Debit	Credit
Year 7					
Jan 1	Furniture And Fixtures		GL 1	12,000	RM
	Office Equipment		GL 2	9,000	
	Account Receivable – Bala		ARL1	4,000	
	Bank		GL 3	5,000	
	Account Payable – Abu		APL1		2,000
	Capital		GL 4		28,000
	(Being assets, liabilities and capital as at this date)			30,000	30,000

Accounts Payable Ledger				Page 1
Abu		Year 7 Jan 1 Balance b/d	Folio GJ1	RM 2,000
Year 7 Jan 1 Balance b/d	Folio GJ1	RM 4,000		
Accounts Receivable Ledger				Page 1
Bala				
Year 7 Jan 1 Balance b/d	Folio GJ1	RM 12,000		
General Ledger				Page 1
Furniture And Fixtures				
Year 7 Jan 1 Balance b/d	Folio GJ1	RM 9,000		
Office Equipment				Page 2
Year 7 Jan 1 Balance b/d	Folio GJ1	RM 5,000		
Bank				Page 3
Year 7 Jan 1 Balance b/d	Folio GJ1	RM 28,000		
Capital				Page 4
Year 7 Jan 1 Balance b/d	Folio GJ1	RM 25,800		



Lee's financial position on 1 January Year 4 was as follows:

	RM
Plant And Machinery	20,000
Fixtures And Fittings	5,000
Inventory	3,000
Account Receivable – Beh	4,500
Loan To Employees	800
Account Payable – Ahmad	5,500
Bank Overdraft	2,000



Lee's **opening capital** is the amount of his **assets** exceeds his **liabilities**.

You are required to prepare the opening Journal entries to open the books of Lee as on 1 January Year 4, and post to the relevant ledger accounts.



1. **General Journal** total: RM 33,300.
2. **Opening Capital**: RM 25,800.



## Practice 5

You are required to record the following transactions in the General Journal of **Yeoh**:

Year 5

- Jan 1 After being in business for some years without keeping proper records, Yeoh decided to keep his books in double-entry system. His assets and liabilities as at this date were as follows:  
 Assets: Delivery Vans RM 50,000; Fixtures And Fittings RM 500.  
 Inventory RM 1,200; Bank RM 2,400.  
 Accounts Receivable: Dompok RM 750; Zahid RM 1,500.  
 Liabilities: Account Payable: Khoo RM 3,000.
- 8 A filing cabinet was bought from Da Tong Company on credit for RM 250.
- 12 An old delivery van was sold to Tan Motor Company on credit for RM 8,000.
- 18 Zahid had declared bankruptcy, Yeoh took over Zahid's personal computer in full settlement of his debt.
- 20 The filing cabinet bought on 8 January was found damaged in transit. It was returned to the supplier.



**Opening Capital = Assets – Liabilities**

1. **General Journal** total (opening entries): RM 56,350.



## Practice 6



What types of **journals** would John use in the following circumstances?

- a. When a **customer** was **undercharged by John** for the goods sold on credit.  
 b. When **John** was **undercharged by a supplier** for the goods bought on credit.

If **special journals** were **in use**, you are required to indicate the appropriate journals which **John** would use to record the following transactions (same information as in **Practice 1**):

Year 1	Transactions	Journals
e.g. Oct 1	Invested RM 3,500 in cash to start the business.	Cash Book
	1 Banked in RM 2,000 cash.	
	2 Paid RM 900 by cheque for office rental.	
	2 Purchased office supplies RM 60 and office equipment RM 2,100 from Linfield Bhd on credit.	
	3 Paid insurance premium for cash RM 375.	
	8 Purchased goods from May and paid for cash RM 550.	
	13 Sold goods of RM 350 to Wee on credit.	
	15 Purchased additional office supplies and paid for cash RM 25.	
	16 Wee returned goods of RM 50.	
	23 Received cash RM 300 from Wee.	
	25 Paid cash RM 250 by instalment for the amount owing to Linfield Bhd.	
	29 John issued cheque of RM 45 to pay the electricity bill of his private residence.	
	30 Purchased goods of RM 300 from Elizabeth on credit.	
	31 Damaged goods of RM 30 returned to Elizabeth.	
	31 Paid salaries to the office staff by cash RM 450.	



1. The **recording** of the **4** types of **day books** is summarised as follows:

#### Purchases Journal

Date	Invoice No.	Particulars	Folio	Details	Amount
		Abu	PL1		RM XX
		.....			
		Purchases	GL1		XX

Page 1

Cr

#### Purchases Returns Journal

Date	Credit Note No.	Particulars	Folio	Details	Amount
		Abu	PL1		RM X
		.....			
		Purchases Returns	GL2		X

Page 1

Dr

#### Sales Journal

Date	Invoice No.	Particulars	Folio	Details	Amount
		Bala	SL1		RM XX
		.....			
		Sales	GL3		XX

Page 1

Dr

#### Sales Returns Journal

Date	Credit Note No.	Particulars	Folio	Details	Amount
		Bala	SL1		RM X
		.....			
		Sales Returns	GL4		X

Page 1

Cr

#### Purchases Ledger

Abu

Page 1

Purchases Returns	Folio PRJ1	RM X	Purchases	Folio PJ1	RM XX
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#### Sales Ledger

Bala

Page 1

Sales	Folio SJ1	RM XX	Sales Returns	Folio SRJ1	RM X
-------	-----------	-------	---------------	------------	------

#### General Ledger

Purchases

Page 1

Dr	Total for the month	Folio PJ1	RM XX
----	---------------------	-----------	-------

#### Purchases Returns

Page 2

Cr	Total for the month	Folio PRJ1	RM X
----	---------------------	------------	------

Sales

Page 3

Cr	Total for the month	Folio SJ1	RM XX
----	---------------------	-----------	-------

#### Sales Returns

Page 4

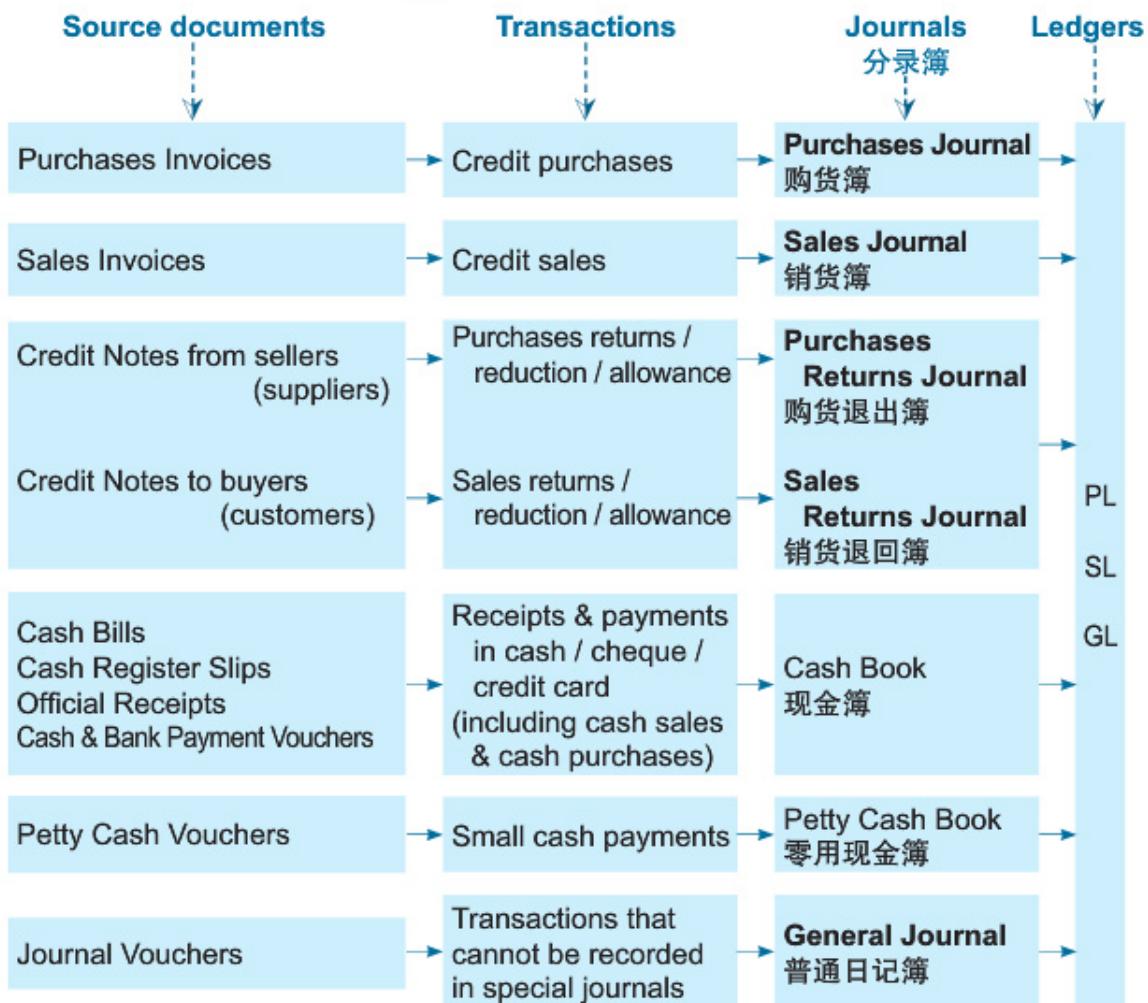
Dr	Total for the month	Folio SRJ1	RM X
----	---------------------	------------	------



2. The **flow chart** of recording **day books** is illustrated as follows:



3. The **flow chart** of recording **journals** is illustrated as follows:





## Learning Objectives

After studying this chapter, you should be able to:

- ☛ explain the purpose of using Cash Book;
- ☛ understand the occurrence of a contra entry;
- ☛ understand the difference between trade discount and cash discount;
- ☛ differentiate between discounts allowed and discounts received;
- ☛ use a two-column or a three-column Cash Book to record cash transactions;
- ☛ post entries from Cash Book to ledger accounts.



7.1

### Purpose of Writing Up Cash Book

1. Cash Book is a **book of original entry**. It is also a **ledger account** with debit and credit sides. All cash or cheques **received** are **debited** whereas all cash **paid** or cheques **issued** are **credited**.
2. Cash Book combines **Cash** account and **Bank** account into one book. Thus, it is used to record the **receipts** and **payments** of money by **cash** or **cheque**.
3. The advantages of the Cash Book are as follows:
  - a. It **reduces** the number of **entries** **记录** in the General Ledger;
  - b. It enables the **division of labour** **分工** as one person can be put in charge of the Cash Book;
  - c. It makes it easier to **cross-reference** **相互参照** the Cash and Bank accounts.

7.2

## **Two-column Cash Book**

1. The layout of a two-column Cash Book is shown as follows:

2. The particular columns state the name of the corresponding accounts in the Ledgers where the double entry will be made.
  3. At the end of a period, the Cash and Bank columns are balanced separately, and the balances are carried down to the appropriate columns for the next period.

7.3

## Contra Entry

1. A Cash Book is a combination of Cash account and Bank account. Thus, it is possible to have a **debit entry** and a **credit entry** for the **two accounts** at the same time within the Cash Book. When this happens, it is known as a **contra entry 对消记录**.

e.g.

    - a. When cash is withdrawn from the **bank** for **office** use:  
Dr      Cash  
Cr      Bank
    - b. When cash is transferred from the **office** to the **bank**:  
Dr      Bank  
Cr      Cash

2. Since the double entry for the contra entry is made within the Cash Book, **no further posting is necessary**.

3. Contra entry is indicated by '**C**' (contra) or '**✓**' in the folio columns for both the records appearing in the same book.



## Example 1

Record the following transactions in a Cash Book:

Year 1

November 1	Balances brought down from the previous month:	RM
	Cash	290
	Bank	1,720
3	Paid insurance by cheque	268
6	Cash sales	254
9	Received cheque from Chong	430
13	Purchased stationery for cash	72
17	Banked in part of the office cash	280
21	Cash sales banked immediately	230
25	Sent cheque to Lim	174
27	Electricity charges paid for cash	78
30	Withdrew cash from the bank for office use	160



**Solution:**

Cash Book										Page 1
Date	Particulars	Folio	Cash	Bank	Date	Particulars	Folio	Cash	Bank	
Year 1			RM	RM	Year 1			RM	RM	
Nov 1	Balance b/d		290	1,720	Nov 3	Insurance			268	
6	Sales		254		13	Stationery		72		
9	Chong			430	17	Bank		280		
17	Cash	C		280	25	Lim			174	
21	Sales			230	27	Electricity		78		
30	Bank	C	160		30	Cash			160	
			704	2,660		Balance c/d		274	2,058	
								704	2,660	
Dec 1	Balance b/d									

Dr

Cr



**Hint** **Contra entries:**

Nov 17 Banked in part of the office cash: Dr **Bank**

Cr **Cash**

30 Withdrew cash from the bank for office use: Dr **Cash**

Cr **Bank**



## Practice 1



Which of the following transactions involved a **contra entry**?

You are required to prepare a two-column Cash Book from the following information:  
Year 1

- |          |  |
|----------|--|
| August 1 | Started business with RM 5,000 cash at bank and RM 1,000 cash on hand. |
| 2        | Paid rental by cheque RM 300.  |
| 5        | Paid stationery for cash RM 50.  |
| 7        | Cash purchases RM 420.   |
| 8        | Cash sales RM 150.   |
| 13       | Bought office furniture for cash RM 500.                               |
| 17       | Withdrew cash RM 100 for personal use.                                 |
| 21       | Received a refund by cheque RM 88 for goods returned to a supplier.    |
| 25       | Drew cash RM 250 from the bank for business use.                       |
| 30       | Paid salaries by cheque RM 1,200.                                      |
| 31       | Cash sales of RM 750 paid directly into the bank.                      |



**Hint**  
The **goods** were formerly bought for cash.



1. Balance as at 1 Sept: **Cash** RM 330;  
**Bank** RM 4,088.

### 7.4

## Discounts

1. A discount is a reduction of the price of goods to be paid. A distinction must be made between trade discount and cash discount:

a. **Trade discount** 商业折扣

It is a **reduction** of the **list price** 定价 of goods sold by a business. It is normally given in the following circumstances:

- i. when the customer is a regular customer;
- ii. when the customer buys goods in bulk;
- iii. when the sales volume of the product is low; or
- iv. to avoid the expense of reprinting price list / catalogue to reflect price changes.

It is deducted from the list price and **shown** in the **invoice**. Only the amount after trade discount is recorded in the Journals and Ledgers.

b. **Cash discount** 现金折扣

It is an **allowance** given to **encourage prompt payment** of the amount owed. It is a **reduction** from the **amount owed** if the debt is settled within a specified period.

e.g. 5% 7 days;  
3% 30 days.

2. A business may have two types of **cash discounts** in its books. They are:

a. **Discounts allowed**

It is a deduction **given by a business** to its **customers** when the customers pay their accounts promptly.

i.e. The business **receives less** than what is **owed** 被欠. It is treated as a **deduction** from **sales** or as a **cost** of the business.



b. **Discounts received**

It is a deduction **received by a business** from its **suppliers** when the business pays its account promptly.

i.e. The business **pays less** than what it **owes** 欠. It is treated as a **deduction** from **purchases** or as an **other income** of the business.



## 7.5 Three-column Cash Book

1. The layout of a three-column Cash Book is shown as follows:

**Cash Book**

Date	Particulars	Folio	Discounts Allowed	Cash	Bank	Date	Particulars	Folio	Discounts Received	Cash	Bank	Page 1
			RM	RM	RM				RM	RM	RM	
										XX	XX	
	Balance b/d			XX	XX		Balance c/d					

**Dr**  
(Receipts side)

**Cr**  
(Payments side)

**Hints:**

- Discounts Allowed:** It is shown as a deduction from Sales.
- Discounts Received:** It is shown as a deduction from Purchases.

2. Since the **cash discounts** are **made only after a receipt or a payment**, an **extra column** is provided on each side of a Cash Book for recording the discounts.
3. The discount column on the **receipts side** is the **discounts allowed**, which is shown in Trading account section of an Income Statement as a **deduction** from **Sales**, while on the **payments side** is the **discounts received**, which is shown in Trading account section as a **deduction** from **Purchases**. Such a Cash Book is called a **three-column Cash Book**.
4. The **discount columns** are **not account columns**. They are used to **record** the **discounts allowed** and **received** against the receipts and payments of cash and cheques. Thus, the **discount columns** are **not balanced off** like the cash and bank columns at the end of a period.
5. At the end of a period, the **total** of the discounts allowed column will be posted to the **debit** side of the **Discounts Allowed** account, and the **total** of the discounts received column will be posted to the **credit** side of the **Discounts Received** account in **General Ledger**.
6. In General Ledger, the particular of the **Discounts Allowed** account or **Discounts Received** account is written as "Total for the month" instead of the name of each individual debtor and creditor. This effectively reduces a great number of entries in the discount accounts.



The following are the transactions of Chong in the month of April Year 2:

Year 2

- |         |  |
|---------|--|
| April 1 | Balances from the previous month:<br>Cash in hand RM 585; Cash at bank RM 792.<br>Purchases Ledger: Kong RM 720.<br>Sales Ledger: Pang RM 200; Teh RM 140. |
| 5       | Bought furniture from Ahmad by cheque RM 463.  |
| 15      | Paid Kong by cheque RM 690 in full settlement of RM 720.   |
| 20      | Deposited cash RM 250 into the bank.   |
| 23      | Paid rental by cheque RM 210.  |
| 25      | Received cheque RM 175 from Pang, after deducting RM 25 as cash discount.  |
| 27      | Received interest in cash RM 135.  |
| 29      | Chong, the owner of the business, took cash RM 150 for his personal use.   |
| 30      | Received cash RM 118 from Teh, after deducting RM 22 as cash discount.   |

You are required to enter the above transactions in a three-column Cash Book, and show all the postings to the Ledgers at the end of the month.



**Hint** All entries are **posted** to the appropriate **Ledgers** to complete the double entry, **except** for the **contra entries** and the **Cash & Bank balances**.

**Solution:**

Cash Book										Page 1	
Date	Particulars	Folio	Discounts Allowed	Cash	Bank	Date	Particulars	Folio	Discounts Received	Cash	Bank
Year 2 Apr 1	Balance b/d			RM 585	RM 792	Year 2 Apr 5	Furniture	GL5		RM 463	RM 690
20	Cash	C		25	250	15	Kong	PL1	30	250	
25	Pang	SL1	25	135	175	20	Bank	C			210
27	Interest Income	GL1	22	118	146	23	Rental	GL10		150	
30	Teh	SL5				29	Drawings	GL15		438	
30	Balance c/d			47	838	30	Balance c/d		30	838	1,363
May 1	Balance b/d			GL 20	438	May 1	Balance b/d	GL 25			146

*Dr*

Each **receipt** is posted individually to the **credit** of the relevant **ledger account**.

*Cr*

Each **payment** is posted individually to the **debit** of the relevant **ledger account**.



Why are the **discount columns not balanced off** like the cash and bank columns?



**Hint** The **bank balance** is a **credit balance**. It indicates a **bank overdraft**.

General Ledger				Page 1	
Interest Income					
		Year 2 Apr 27	Cash	Folio CB1	RM 135
Furniture					
Year 2 Apr 5	Bank	Folio CB1	RM 463		Page 5
Rental					
Year 2 Apr 23	Bank	Folio CB1	RM 210		Page 10
Drawings					
Year 2 Apr 29	Cash	Folio CB1	RM 150		Page 15
Discounts Allowed					
Year 2 Apr 30	Total for the month	Folio CB1	RM 47		Page 20

Discounts Received				Page 25	
		Year 2 Apr 30	Total for the month	Folio CB1	RM 30

Purchases Ledger						Page 1
			Kong			
Year 2	Folio	RM	Year 2		Folio	RM
Apr 15 Bank	CB1	690	Apr 1 Balance b/d			720
15 Discounts Received	CB1	30				
				720		720
Sales Ledger						Page 1
			Pang			
Year 2	Folio	RM	Year 2		Folio	RM
Apr 1 Balance b/d		200	Apr 25 Bank		CB1	175
			25 Discounts Allowed	CB1		25
		200				200
Teh						Page 5
Year 2	Folio	RM	Year 2		Folio	RM
Apr 1 Balance b/d		140	Apr 30 Cash		CB1	118
			30 Discounts Allowed	CB1		22
		140				140



## Practice 2

Record the following transactions in a three-column Cash Book together with the posting of personal accounts and the posting of nominal accounts to General Ledger at the end of the month:

Year 2

- July 1 Balance b/d : Cash RM 2,500; Bank RM 8,000.  
 Purchases Ledger: John RM 3,000; Universal Bhd RM 1,350.  
 Sales Ledger: Koon RM 8,000; Peter RM 1,500.
- 3 Received cheque from Koon in full settlement of his debt of RM 8,000, less 5% cash discount.
- 8 Cash sales RM 3,500.
- 10 Paid John by cheque for goods purchased in the previous month amounting to RM 3,000.
- 16 Received cheque from Peter for the amount owed after deducting 2% cash discount.
- 19 The cheque received from Peter was returned by the bank marked "Refer to drawer 询问发票人".
- 23 Paid Universal Bhd by cheque for the debt of RM 1,350 being allowed 6% cash discount.
- 28 Paid salaries for cash RM 1,000.
- 30 Transferred cash RM 2,000 from office to bank.



**Hint**  
 The amount of the cheque was  
 after deducting the **discount**.



**Under what **circumstances****  
**will the bank return the cheque**  
**marked "Refer to drawer"?**



**What is the main difference between the **trade discount** and **cash discounts** in accounting treatment** for the above transactions?



- ☞ **Discounts allowed** which had been recorded on **16 July** should be withdrawn/cancelled on **19 July** by:
- a **negative entry** in the discounts allowed column in **Cash Book**; or
  - an adjusting entries in **General Journal**: Dr **Peter** RM 30  
 Cr **Discounts Allowed** RM 30
1. Balance as at 1 Aug: **Cash** RM 3,000;  
**Bank** RM 13,331.



### Practice 3



How to work out the **cash discounts** for the transactions on **9 & 19 of September?**

Bala maintained a three-column Cash Book to record his business transactions. On 1 September Year 3, Bala had cash in hand of RM 243, and a bank overdraft of RM 769.

During September Year 3, he made the following transactions:

Year 3

- September 1 Paid rental by cheque RM 550.
- 3 A debtor, Omar, paid Bala by cheque RM 803.
- 8 Bala took cash RM 100 for private use.
- 9 Received cheque RM 760 from Mary after deducting 5% cash discount.
- 10 Paid Sunny Bhd by cash RM 108.
- 15 Paid cash RM 75 for advertising.
- 15 Sold goods on credit to Khoo for RM 450.
- 16 Received cash RM 200 for commissions earned.
- 17 Withdraw cash RM 250 from bank for office use.
- 19 Khoo settled his account by cheque RM 432 after deducting 4% cash discount.
- 21 Bought a motor van on credit from Champion Bhd for RM 1,500.
- 23 Paid wages to workers by cheque RM 850.
- 25 Issued cheque RM 315 to Norman.
- 29 Received cheque RM 1,000 from Worldwide Bhd.

You are required to:

- (a) prepare a three-column Cash Book for Bala for the month, and balance off the Cash Book;
- (b) post the discounts account to the General Ledger at the end of the month.



*The credit sales and credit purchases of goods and assets will never appear in Cash Book.*

1. Balance as at 1 Oct: **Cash** RM 410;  
**Bank** RM 261.



What **types** of Journals are suitable for recording the **credit sales** and **credit purchases** of goods and assets?



From the transactions above, point out the **transactions** which should **not** be recorded in Bala's **Cash Book**?



## Review



**Hint** It is a **book of original entry** 原始记录簿 & a **ledger account** 分类账户 (**Cash account + Bank account**).

### 1. Layout of Cash Book:

#### a. Two-column Cash Book 两栏式现金簿:

Cash Book										Page 1	
Date	Particulars	Folio	Cash	Bank	Date	Particulars	Folio	Cash	Bank		
	Cash	C	RM	RM X		Bank	C	RM X	RM		
	Bank	C	X			Cash	C		X		
	Balance b/d					Balance c/d		XX	XX		
			XX	XX							

**Dr**  
(Receipts side)

**Cr**  
(Payments side)

#### b. Three-column Cash Book 三栏式现金簿:

Cash Book										Page 1	
Date	Particulars	Folio	Discounts Allowed	Cash	Bank	Date	Particulars	Folio	Discounts Received	Cash	Bank
	Cash	C	RM	RM	RM X		Bank	C	RM	RM X	RM
	Bank	C		X			Cash	C			X
	Balance b/d		③				Balance c/d		④	XX	XX
				XX	XX						

**General Ledger / Purchases Ledger / Sales Ledger**

XX

RM

RM

Discounts Allowed

Total for the month

RM

Discounts Received

Total for the month

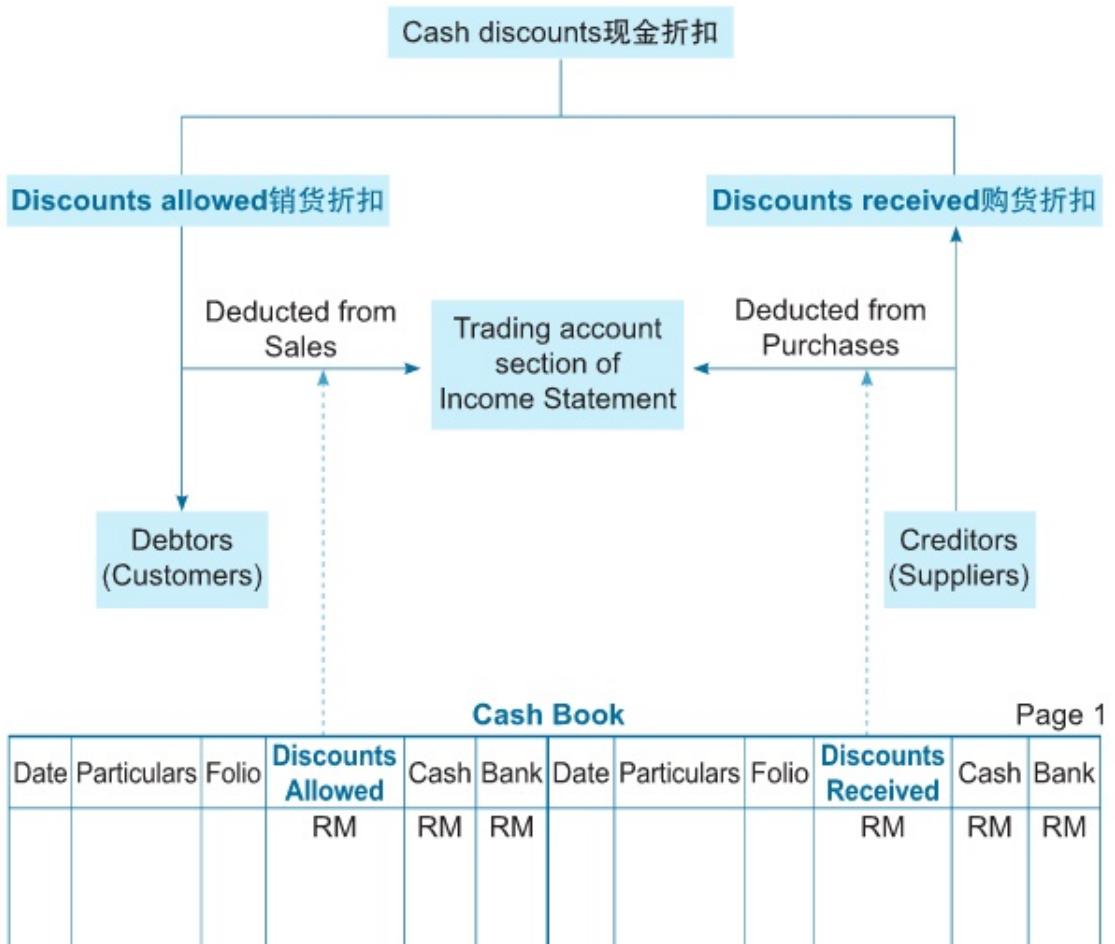
RM



#### Postings:

- ☞ All **receipts entries** are posted to the **credit sides** of ledger accounts: ①;  
All **payments entries** are posted to the **debit sides** of ledger accounts: ②;
- ☞ **Total of discounts allowed column** is posted to the **debit side** of **Discounts Allowed** account in GL: ③;
- ☞ **Total of discounts received column** is posted to the **credit side** of **Discounts Received** account in GL: ④.
- ☞ Only **contra entries** and **Cash & Bank balances** are **not posted**.

2. Difference between **discounts allowed** and **discounts received**:





## Learning Objectives

After studying this chapter, you should be able to:

- ☞ explain the purpose of using Petty Cash Book;
- ☞ explain and manage the imprest system;
- ☞ use an analytical Petty Cash Book to record small cash transactions;
- ☞ post entries from Petty Cash Book to ledger accounts and **Bank Cash Book**.



### Bank Cash Book

It has only **bank** and **discounts columns**.

All payments in cash are recorded in Petty Cash Book.



8.1

## Purpose of Writing Up Petty Cash Book

1. Like the Cash Book, the Petty Cash Book is both a **book of original entry** and a **ledger account**.
2. Petty Cash Book is the subdivision of the Cash Book in order to meet the **frequent small cash payments**.
3. The advantages of the **Petty Cash Book** (also known as **analytical Petty Cash Book** 分析性零用现金簿) are as follows:
  - a. It reduces the number of postings for small expenses in Cash Book. Only the **periodical totals** for the **different types** of **recurring petty expenses** 重复性零星费用 that need to be posted to the General Ledger;
  - b. If **cheques** are issued for the **numerous small payments**, it would be **troublesome** and **not practical**;
  - c. The task of handling small cash transactions can be delegated to a **junior staff**, while the **senior staff** can concentrate on the larger cash transactions.

## 8.2 Imprest System

1. The small cash payments such as postage stamps, stationery, etc. made from petty cash must be supported by a **payment voucher** with **source document** 原始凭证 attached.

A sample of the **petty cash payment voucher** 零用金支付凭单 is illustrated below:

### FENG LONG STATIONERY

#### PETTY CASH PAYMENT VOUCHER

No.: 16  
Date: 30/6/Year 1  
Folio: PCB/28  
  
**Petty Cash Book**

	RM
<b>Pay to :</b> Lee Shao Ping	24 00
<b>Being :</b> Postage stamps	
<b>Total</b>	<b>24 00</b>

Prepared by:

*Wong Wei Jie*

Received by:

*Lee Shao Ping*

2. A sufficient **fixed amount** known as **petty cash float** 零用金浮款 / **imprest amount** 定额备用金 is advanced to the **petty cashier** 零用金出纳员 to cover all the small cash payments for a given period (e.g. a week, two weeks or a month).
3. The **float** is the **maximum amount** of cash held in hand by petty cashier for payment of petty expenses. The amount of the float can be **adjusted** according to the needs of a business.
4. In the beginning of the **following period** or at the end of the period, the **petty cashier** has to get the exact **reimbursement amount** (i.e. the **total petty cash payments** 零用金支付总额) from the **chief cashier** 高级出纳员 (who controls the Cash Book) for the period concerned in order to **reimburse** / replenish / restore / top up 拨补/补充/补足 the **petty cash balance** / imprest balance to the original **cash float**. This system is referred to as the **imprest system** 定额制度.

## 8.3 Writing Up of Petty Cash Book

### 1. Method 1: Reimbursement was made in the beginning of the following period



#### Example 1

Prepare a Petty Cash Book on the imprest system to record the following transactions.

Provide analysis columns of payments:

(a)Postages; (b)Carriages; (c)Cleaning Expenses; (d)Wages; (e)Ledger Accounts.

Year 1

- Jan 1 The petty cashier received a cheque of RM 120 as the imprest amount to start a petty cash float.  
 12 Paid for carriages RM 27.  
 13 Paid for stamps RM 9.  
 24 Paid for office cleaning RM 18.  
 25 Paid for wages RM 20.  
 27 Settlement of Lee's outstanding balance of RM10 in the Purchases Ledger.

Feb 1 Received cash for reimbursement.

**Solution:**

**Expenses analysis columns:**  
 They are for the **different types** of **recurring petty expenses**.

**Ledger accounts column:**  
 ➤ It is for the **non-recurring items** for which no separate column is provided.  
 ➤ Sometimes it is written as "Others / Sundries".

Receipts	Folio	Date	Particulars	Voucher No.	Payments	Postages	Carriages	Cleaning Expenses	Wages	Ledger Accounts	Ledger Folio
RM 120 ↑ <b>Float</b>	<b>CB1</b>	Year 1 Jan 1	Bank		RM	RM	RM	RM	RM	RM	
		12	Carriages	1	27		27				
		13	Stamps	2	9	9					
		24	Office								
			Cleaning	3	18			18			
			Wages	4	20				20		
		27	Lee	5	10					10	
			<b>Total petty cash payments -</b>		<b>84</b>	9	27	18	20	10	
		31	Balance c/d			36					
							<b>GL1</b>	<b>GL2</b>	<b>GL3</b>	<b>GL4</b>	
120											<b>PL1</b>
36						120					
<b>84</b> ↑ <b>CB1</b>		Feb 1	Balance b/d Bank - Reimbursement								

**Reimbursement amount**

It was **credited** to **Cash Book**.

The **total of each expenses column** was **posted** to the **debit** of the relevant **expenses account** in **General Ledger**.

Each payment under this column was **posted individually** to the **debit** of the relevant **ledger account**.

**Cash Book** (Bank column only)

Page 1

Date	Particulars	Folio	Bank
Year 1			RM
Jan 1	Petty Cash	PCB1	120
Feb 1	Petty Cash	PCB1	84



Reimbursement was made **in the beginning of the following month.**

**Purchases Ledger**

Lee

Page 1

Year 1 Jan 27 Petty Cash	Folio PCB1	RM 10	Year 1 Jan 1 Balance b/d	Folio	RM 10
-----------------------------	---------------	----------	-----------------------------	-------	----------

**General Ledger**

Postages

Page 1

Year 1 Jan 31 Petty Cash	Folio PCB1	RM 9
-----------------------------	---------------	---------

Carriages

Page 2

Year 1 Jan 31 Petty Cash	Folio PCB1	RM 27
-----------------------------	---------------	----------

Cleaning Expenses

Page 3

Year 1 Jan 31 Petty Cash	Folio PCB1	RM 18
-----------------------------	---------------	----------

Wages

Page 4

Year 1 Jan 31 Petty Cash	Folio PCB1	RM 20
-----------------------------	---------------	----------



On 1 July Year 1, Boutique Trading started its Petty Cash Book on the imprest system with a cash float of RM 100. The amount spent was to be reimbursed on 1 August Year 1.

Year 1		RM
July 2	Stamps	3.00
6	Parcel postages	6.80
8	Motor oil for delivery van	10.00
15	Two 10-column cash books	20.00
20	Cleaning wages	24.00
28	Key duplicating charges	10.00



It was a **non-recurring expense**.

You are required to:

- (a) open a Petty Cash Book with analysis columns for Postages, Travelling Expenses, Printing And Stationery, Cleaning Expenses and Ledger Accounts from the details given above;
- (b) show the imprest reimbursement entry, and make the double entries for the petty cash payments.



1. **Reimbursement amount:** RM 73.80.
2. **Postages** RM 9.80; **Travelling Expenses** RM 10.00; **Printing And Stationery** RM 20.00; **Cleaning Expenses** RM 24.00; **Ledger Accounts** RM 10.00.



## Practice 2

Swan Grocery Store operated its Petty Cash Book on the imprest system. It was maintained at a figure of RM 50, with the balance being restored to its full amount on the first day of the following month by a cheque drawn on the bank account of the store.

On 31 March Year 2 the petty cash box held RM 10.50 in cash.

The following payments were made from the petty cash float during April Year 2:

Year 2

April	Date	Description	Amount
1		Petty cash restored to the imprest amount	?
3		Paid wages for packing goods	20.00
8		Paid for courier services	4.20
12		Bought writing materials	11.70
15		Paid wages for cleaning services	15.00
19		Bought envelopes and cards	1.50
23		Postage stamps	3.50
25		Paid Ali for the amount owed to him	13.00
27		Purchased cleaning materials	6.80
29		Repairs for showcase	9.00

RM

?  
20.00  
4.20  
11.70  
15.00  
1.50  
3.50  
13.00  
6.80  
9.00



**Hint** Be aware of the **total expenses** incurred till 15 April Year 2!



**Think** How could Swan Grocery Store prevent the shortage of **petty cash in hand**?

**Note:** The analysis columns required:

Postages, Wages, Cleaning Expenses, Stationery and Ledger Accounts.

You are required to:

- (a) draw up a Petty Cash Book for the month of April Year 2, and show all the reimbursements of the imprest balance;
- (b) show how the double entries were made in the books.



1. **Reimbursement amounts:** April 1 RM 39.50;  
15 RM 35.90;  
May 1 RM 48.80.
2. **Postages** RM 7.70; **Wages** RM 20.00; **Cleaning Expenses** RM 21.80;  
**Stationery** RM 13.20; **Ledger Accounts** RM 22.00.

**2. Method 2: Reimbursement was made at the end of the period**



**Example 2**

(Same information as in **Example 1**)

Prepare a Petty Cash Book on the imprest system to record the following transactions.

Provide analysis columns of payments:

- (a)Postages; (b)Carriages; (c)Cleaning Expenses; (d)Wages; (e)Ledger Accounts.

Year 1

Jan 1 The petty cashier received a cheque of RM 120 as the imprest amount to start a petty cash float.

12 Paid for carriages RM 27.

13 Paid for stamps RM 9.

24 Paid for office cleaning RM 18.

25 Paid for wages RM 20.

27 Settlement of Lee's outstanding balance in the Purchases Ledger RM 10.

31 Received cash for reimbursement.



How do you make entry if Lee's account was in the Sales Ledger?



How do you make entry for an occasional item such as road tax of RM 55?

**Solution:**

**Petty Cash Book**

Page 1

Receipts	Folio	Date	Particulars	Voucher No.	Payments	Postages	Carriages	Cleaning Expenses	Wages	Ledger Accounts	Ledger Folio
RM 120	CB1	Year 1 Jan 1	Bank		RM	RM	RM	RM	RM	RM	
		12	Carriages	1	27		27				
		13	Stamps	2	9	9					
		24	Office								
			Cleaning	3	18			18			
			Wages	4	20				20		
		27	Lee	5	10					10	
					84	9	27	18	20	10	
84	CB1	31	Bank - Reimbursement								
		31	Balance c/d		120						
204					204						
120		Feb 1	Balance b/d								

PL1



Suppose the financial year ended 31 January Year 1:

- What was the amount of petty cash for Example 1 & 2?
- Where would the petty cash be shown in the financial statements?

**Cash Book** (Bank column only)

Page 1

	Date	Particulars	Folio	Bank
<b>Hint</b>  Reimbursement was made at the end of the month.	Year 1			RM
	Jan 1	Petty Cash	PCB1	120
	<b>31</b>	Petty Cash	PCB1	84

**Purchases Ledger**

Lee

Page 1

Year 1 Jan 27 Petty Cash	Folio PCB1	RM 10	Year 1 Jan 1 Balance b/d	Folio	RM
					10

**General Ledger**

Postages

Page 1

Year 1 Jan 31 Petty Cash	Folio PCB1	RM 9

Carriages

Page 2

Year 1 Jan 31 Petty Cash	Folio PCB1	RM 27

Cleaning Expenses

Page 3

Year 1 Jan 31 Petty Cash	Folio PCB1	RM 18

Wages

Page 4

Year 1 Jan 31 Petty Cash	Folio PCB1	RM 20



Can you see the **similarity** and the **difference** between **Method 1 & 2** (i.e. **Example 1 & 2**)?



## Practice 3

Rice Company kept its Petty Cash Book on the imprest system with an imprest amount of RM 150. The Petty Cash Book was balanced and the petty cash balance was topped up at the end of each week.

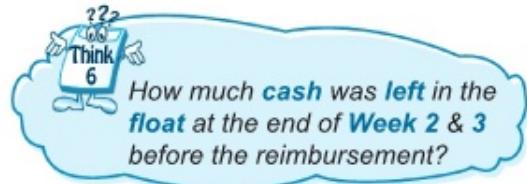
On 6 June Year 3 (Saturday), the petty cash balance was RM 25.80 at the end of **Week 1** for the month of June.

The petty cash payments made from the imprest for the next two weeks were as follows:

Week 2			Voucher No.	RM
June 8	Monday	Posting parcels	7	5.00
9	Tuesday	Motor oil and petrol	8	22.80
10	Wednesday	Charges for registered letter	9	2.50
11	Thursday	Foods and drinks	10	11.50
12	Friday	Advance to staff, Ali	11	20.00
13	Saturday	Refreshment for guests	12	11.30
13	Saturday	Wages to cleaner	13	25.00
Week 3			Voucher No.	RM
June 15	Monday	Soft drinks	14	4.50
16	Tuesday	Detergent, brushes and gloves	15	5.20
16	Tuesday	Ballpoint pens, erasers and marker pens	16	8.40
17	Wednesday	Servicing of motor van	17	56.00
18	Thursday	Stamps	18	4.50
19	Friday	Wages to cleaner	19	25.00
20	Saturday	Toll and parking fees	20	21.30

You are required to write up a Petty Cash Book with the following analysis columns for **Week 2** and **3** of June Year 3, showing the reimbursement of the petty cash payments at the end of each week:

- (a) Refreshment;
- (b) Cleaning Expenses;
- (c) Postages And Stationery;
- (d) Motor Vehicle Expenses;
- (e) Others.



1. **Reimbursement amounts:** June 13 RM 98.10;  
20 RM 124.90.

2.	Refreshment	Cleaning Expenses	Postages And Stationery	Motor Vehicle Expenses	Others
Week 2	RM 22.80	RM 25.00	RM 7.50	RM 22.80	RM 20.00
Week 3	4.50	30.20	12.90	77.30	-



## Practice 4

Nizar kept a Petty Cash Book on the imprest system with an original float of RM 100.00. He closed the book on the last day of each month, and made the imprest balance up to the float by a cheque on the same day.

The petty cash payments were expanding, thus, Nizar decided to increase the float to RM 150.00 from December Year 4 onwards.

The information for the two months was given as follows:

Year 4

October: Total petty cash payments for the month was RM 80.30.

November

	Voucher No.	RM
4 Note papers and paper clips	1	7.40
5 Refund to Kevin (a customer) for amount overpaid	2	15.40
7 LRT fares	3	10.10
9 Postage stamps	4	2.50
12 Settlement of Yasmin's account	5	12.50
16 A-4 papers	6	4.80
17 Payment made to Tony (a supplier)	7	15.00
18 Cleaning services	8	6.00
21 Donation to a primary school	9	5.00
24 Taxi fares	10	10.70
28 Postage stamps	11	6.60
30 Window cleaning fluid	12	3.20

You are required to prepare a Petty Cash Book for November Year 4 with appropriate analysis columns.



1. **Reimbursement amount:** RM 149.20.

Think 8  
What was the **total petty cash payments** for the month of November Year 4?

Think 9  
The **total petty cash payments** did not equal the **reimbursement amount**. Under what circumstance would these two figures be the **same**?



Think 10  
As Nizar had maintained a **Petty Cash Book**, do you think it is advisable to keep a **Cash Book with cash columns**?

Which **ledgers** were to be debited for the transactions on 5 & 17 of Nov?



## Review



- It is often known as **analytical Petty Cash Book**.
- It is a **book of original entry** & a **ledger account**.

### Layout of Petty Cash Book:

- Method 1: Reimbursement was made in the beginning of the following period**

**Petty Cash Book 零用现金簿** Page 1

Receipts	Folio	Date	Particulars	Voucher No.	Payments					Ledger Accounts	Ledger Folio
Cr RM 120	CB1	Year 1 Jan 1	Bank	1	RM X	RM X	RM X	RM X	RM X	RM	PL1/ SL/GL Dr
		... .....		2							Dr
		... .....		3	X						
		... .....		4			X				
		27		5	X			X		X	
					84	9	27	18	20	10	
			31 Balance c/d		36	GL1	GL2	GL3	GL4		
Cr 120	CB1	Feb 1	Balance b/d		120						
Cr 36		1	Balance b/d								
Cr 84			Bank - Reimbursement								

**Hint** To start the float, a cheque was drawn by chief cashier and cashed by petty cashier.

**Hint** Expenses analysis columns are for the recurring expenses 重复性费用.

**Hint** This column is for the non-recurring items 非重复性项目.

**Hint** Individual posting

**Hint** Periodical / monthly posting in total

**Cash Book (Bank column only)**

Page 1

	Date	Particulars	Folio	Bank
	Year 1			RM
	Jan 1	Petty Cash	PCB1	120
	Feb 1	Petty Cash	PCB1	84

**Purchases Ledger / Sales Ledger**

XX

Page 1

Year 1	Folio	RM	
Jan 27 Petty Cash	PCB1	X	

**General Ledger**

XX

Page 1/2/3/4

Year 1	Folio	RM	
Jan 31 Petty Cash	PCB1	X	

**Checking:**

- Total of payments column = Total of each analysis column i.e. RM 84 = RM (9 + 27 + 18 + 20 + 10)
- Petty cash balance + Reimbursement amount = Float i.e. RM 36 + RM 84 = RM 120

2. Method 2: Reimbursement was made at the end of the period

**Analysis columns of payments**

付款项目的分析栏

**Petty Cash Book**

Page 1

Receipts	Folio	Date	Particulars	Voucher No.	Payments					Ledger Accounts	Ledger Folio		
Cr RM 120	CB1	Year 1 Jan 1	Bank	1 2 3 4 5	RM	RM	RM	RM	RM	PL 1/ SL/GL	Dr		
					X	X	X	X	X				
					X								
		27			84	9	27	18	20	10			
						GL1	GL2	GL3	GL4				
						120							
						204							
Cr 84	CB1	31	Bank - Reimbursement								Dr		
		31	Balance c/d										
Cr 204													
Cr 120		Feb 1	Balance b/d										

**Cash Book (Bank column only)**

Page 1

	Date	Particulars	Folio	Bank
	Year 1			RM
	Jan 1	Petty Cash	PCB1	120
	31	Petty Cash	PCB1	84

**Purchases Ledger / Sales Ledger**

XX

Page 1

Year 1  
Jan 27 Petty Cash      Folio PCB1      RM X

**General Ledger**

XX

Page 1/2/3/4

Year 1  
Jan 31 Petty Cash      Folio PCB1      RM X



The differences between Method 1 & 2 are shown in the above shaded areas.

# Bad Debts And Allowance For Doubtful Debts



## Learning Objectives

After you have studied this chapter, you should be able to:

- ☛ explain how bad debts incur and why they are written off;
- ☛ explain how bad debts are recovered;
- ☛ explain why allowance for doubtful debts is made;
- ☛ calculate allowance for doubtful debts;
- ☛ differentiate between bad debts and allowance for doubtful debts;
- ☛ make entries for bad debts, bad debts recovered and allowance for doubtful debts;
- ☛ show bad debts, bad debts recovered, increase/decrease in allowance for doubtful debts, accounts receivable and allowance for doubtful debts in Ledgers and financial statements.



9.1

Bad Debts

1. Nowadays it is common for a business to **sell goods on credit term**. When this happens, the debtors' accounts are recorded in the books. Thus, the business runs the risk of uncollectible debts. Some of the **customers may fail to pay their debts partly or fully** because they may be either unable to pay, dead, bankrupt, untraceable or any other reasons.
2. The amount of debts which is **definitely uncollectible** 肯定不能收回 by a business is known as **bad debts**. When the debts have turned "bad", they will **not have any value**. Thus, they have to be **written off / cancelled out** from the **debtors' accounts** and charged as a **loss / an expense** to the business.

## 9.2 Accounting Entries for Bad Debts

The double entries to record the **bad debts** written off are as follows:

Dr Bad Debts  
Cr Accounts Receivable  
(Being debts written off as uncollectible)

Dr Profit And Loss  
Cr Bad Debts  
(Being bad debts closed and transferred to Profit And Loss account)



### Example 1

On 1 January Year 1, goods of RM 200 were sold to Wee. A cheque of RM 150 was received on 5 March Year 1.

Wee was unable to settle the remaining balance at the end of the accounting year ended 31 December Year 1.

You are required to prepare the following accounts for Year 1:

- (a) Wee;
- (b) Bad Debts;
- (c) Profit And Loss.

#### Solution:

(a)

		Sales Ledger	
		Wee	
Year 1		RM	
Jan 1 Sales		200	150
		<hr/>	<hr/>
		200	50
		<hr/>	<hr/>
			200



**Hint** The **definitely uncollectible debt** was written off from Wee's account.

(b)

		General Ledger	
		Bad Debts	
Year 1		RM	
Dec 31 Wee		50	50
		<hr/>	<hr/>

(c)

		Profit And Loss	
Year 1		RM	
Dec 31 Bad Debts		50	50
		<hr/>	<hr/>



**Hint** It was a **loss** to the business, it would **reduce the profit** in Year 1.



## Practice 1

The following were the transactions of a sole trader, Soong. He sold goods on credit to his customers during the year ended 31 December Year 1:

Year 1	RM
April 30 Tan Company	153
August 21 William	634

Tan Company paid RM 100 for the amount due on 5 September Year 1.

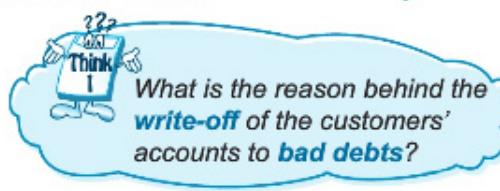
At the end of the accounting year, Soong found that the two customers were unable to settle their debts. Thus, he decided to write off the debts they owed as bad debts.

You are required to prepare the following accounts for Year 1:

- (a) Tan Company;
- (b) William;
- (c) Bad Debts;
- (d) Profit And Loss.



1. **Bad Debts:** RM 687.



### 9.5 Bad Debts Recovered

1. It is possible that the **debt** of a debtor which has **previously** been **written off** as bad is subsequently **recovered** partly or fully. The uncollected debt recovered unexpectedly is known as **bad debt recovered** and is treated as a **gain** of a business.

2. The double entries to record the **bad debts recovered** are as follows:  
a. When a bad debt is **recovered within the same accounting year** as the debt written off:  
Dr Account Receivable  
Cr Bad Debts  
(Being **reinstate** / restore the debt previously written off)

Dr Cash / Bank  
Cr Account Receivable  
(Being amount received from a debtor previously written off as bad)



#### Reinstate the debt

A debtor's account is **credited** when his debt is **written off**, & **debited** when the debt is **recovered** in order to give a **full picture**.

- b. When a bad debt is **recovered after the year of write-off**:

Dr Account Receivable  
 Cr Bad Debts Recovered  
 (Being **reinstate** / restore **the debt** previously written off)

Dr Cash / Bank  
 Cr Account Receivable  
 (Being amount received from a debtor previously written off as bad)

Dr Bad Debts Recovered  
 Cr Profit And Loss  
 (Being bad debts recovered closed and transferred to Profit And Loss account)



### Example 2

(a. **Bad debts recovered within the same accounting year**)

On 1 August Year 2, Ah Meng paid RM 150 for a debt which had already been written off as bad on 6 June Year 2.

You are required to prepare all the relevant accounts in Sales Ledger and General Ledger for the year ended 31 December Year 2.

**Solution:**



①, ② & ③ are the **posting procedures**.

Sales Ledger		
Ah Meng		
Year 2	RM	Year 2
Jan 1 Balance b/d	150	Jun 6 Bad Debts
	<hr/>	
Aug 1 Bad Debts	150	Aug 1 Cash
	<hr/>	

General Ledger		
Cash		
Year 2	RM	Year 2
Aug 1 Ah Meng	150	Aug 1 Ah Meng
	<hr/>	

General Ledger		
Bad Debts		
Year 2	RM	Year 2
Jun 6 Ah Meng	150	Aug 1 Ah Meng
	<hr/>	



### Example 3

(b. Bad debts recovered after the year of write-off)

A debt RM 200 of Lee Trading Company had been written off as bad in Year 2, and it was subsequently recovered at the end of Year 3.

You are required to prepare all the relevant accounts in Sales Ledger and General Ledger for the year ended 31 December Year 2 and Year 3.

**Solution:**



① & ② are the **posting procedures for Year 2**.  
③, ④ & ⑤ are the **posting procedures for Year 3**.

Sales Ledger Lee Trading Company		
Year 2		Year 2
Jan 1 Balance b/d	RM 200	Dec 31 Bad Debts
	<u>200</u>	
Year 3		Year 3
Dec 31 Bad Debts Recovered	200	Dec 31 Cash
	<u>200</u>	
General Ledger		
		Cash
Year 3		RM 200
Dec 31 Lee Trading Company	200	
	<u>200</u>	
		Bad Debts
Year 2		Year 2
Dec 31 Lee Trading Company	RM 200	Dec 31 Profit And Loss
	<u>200</u>	
		Bad Debts Recovered
Year 3		Year 3
Dec 31 Profit And Loss	RM 200	Dec 31 Lee Trading Company
	<u>200</u>	
		Profit And Loss
Year 2		RM
Dec 31 Bad Debts	200	
	<u>200</u>	
		Year 3
		Dec 31 Bad Debts Recovered
		200



It was a **gain** of the business, and was treated as **Other Income**.

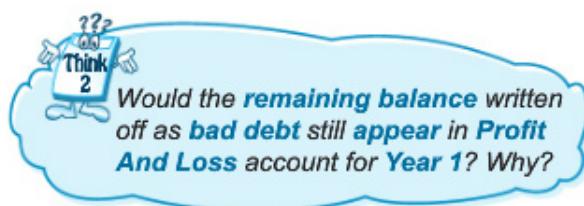


## Practice 2

(Same information as in **Practice 1**)

The following were the transactions of a sole trader, Soong. He sold goods on credit to his customers during the year ended 31 December Year 1:

Year 1	RM
April 30 Tan Company	153
August 21 William	634



Tan Company paid RM 100 for the amount due on 5 September Year 1 and the **remaining balance** was written off immediately, but it was recovered on 15 December Year 1.

The account of William was written off as bad debts at the end of Year 1, but he unexpectedly settled his debt on 1 July Year 2.

You are required to prepare the following accounts for Year 1 and Year 2:

- (a) Tan Company;
- (b) William;
- (c) Bad Debts;
- (d) Bad Debts Recovered;
- (e) Profit And Loss.



- ☞ The bad debts of **Tan Company** was **recovered within the same accounting year**.
  - ☞ The bad debts of **William** was **recovered after the year of write-off**.
1. Year 1 **Bad Debts**: RM 634.
  2. Year 2 **Bad Debts Recovered**: RM 634.



**Hint** It is an **estimated amount** which cannot be calculated accurately.

9.4

## Allowance For Doubtful Debts

- As the **credit sales** are made during the **current year**, some of the debtors may not pay up their accounts in the following year. Thus, the **debts** which **may turn bad** (i.e. the **doubtful debts** 呆账 or the **likely bad debts**) in the **following year** should be regarded as a **loss** to a **business** in the **current year**. At the **end** of the **current year**, an estimate is then made to the accounts receivable that are likely to become uncollectible. Thus, an **allowance for doubtful debts** is **created**.
- An **allowance for doubtful debts** is created as an **end-of-period adjustment**, **anticipating** 预测 the **possible losses**, due to the **doubtful debts**. It should **not** be **credited** to **Accounts Receivable** account, but shown as a **deduction** from **Accounts Receivable** in Statement Of Financial Position to reflect the **true value** of **debtors** ( i.e. amount collectible from the debtors) of a business.
- A business usually estimates an amount of doubtful debts at the end of each accounting year based on its **past experience** and **knowledge about** its **customers**. The following **methods** are usually used to **calculate** an **allowance for doubtful debts**:

### a. Accounts receivable aging analysis 应收账款账龄分析

e.g.

Accounts receivable aging analysis schedule			
Period of debts owing	Accounts receivable	Percentage estimated to be bad	Allowance for doubtful debts
Less than 30 days	RM 10,000	% 1	RM 100
31 ~ 60 days	6,000	3	180
61 ~ 90 days	4,000	5	200
91 ~ 360 days	1,500	10	150
Over 360 days	800	20	160
	<u>22,300</u>		<u>790</u>



**Hint** Showing **how long** the **debts** have been **outstanding / owing**.



**Hint** The **longer** a **debt** is **owing**, the more **likely** it will **become a bad debt**. Thus, the **% estimated to be bad** is **higher**.

- b. A **percentage** on overall **outstanding balance** of **accounts receivable** at the end of reporting period
  - e.g. The Trial Balance as at 31 December Year 1 showing the accounts receivable amounted to RM 10,000.  
The policy of the business was to make an allowance for doubtful debts of 4% on total accounts receivable yearly.  

$$\begin{aligned}\therefore \text{Allowance for doubtful debts} &= \text{Accounts Receivable} \times 4\% \\ &= \text{RM } 10,000 \times 4\% \\ &= \text{RM } 400\end{aligned}$$
  
- c. A **percentage** of the **credit sales** for the accounting year
  - e.g. The Trial Balance as at 31 December Year 1 showing the sales (credit sales) amounted to RM 35,000.  
The policy of the business was to make an allowance for doubtful debts of 2% on total credit sales yearly.  

$$\begin{aligned}\therefore \text{Allowance for doubtful debts} &= \text{Sales} \times 2\% \\ &= \text{RM } 35,000 \times 2\% \\ &= \text{RM } 700\end{aligned}$$
  
- d. **Scrutinise** 彻底检查 **each debtor** and estimate which one is regarded as doubtful
  - e.g. To provide an allowance against a debt from Ahmad of RM 200 which is regarded as doubtful in future.

## 9.5 Accounting Entries for Allowance For Doubtful Debts

The double entries to record an **allowance for doubtful debts** at the end of reporting period are as follows:

1. When an allowance is **first made**:  
 Dr Profit And Loss  
 Cr Allowance For Doubtful Debts  
 (Being allowance for doubtful debts created)
  
2. In the **subsequent years**, compare the **new allowance** required with the **existing allowance** (i.e. the allowance brought down from the previous year) to find out the **increase** or **decrease** in allowance for the accounting year:  
 Dr Profit And Loss - Increase In Allowance For Doubtful Debts  
 Cr Allowance For Doubtful Debts  
 (Being increase in allowance for doubtful debts)  
**or**  
 Dr Allowance For Doubtful Debts  
 Cr Profit And Loss - Decrease In Allowance For Doubtful Debts  
 (Being decrease in allowance for doubtful debts)



### Example 4



**Hint** The allowance for doubtful debts was **first made in Year 1**.

Hua Hong Company showed the following figures from its Trial Balances as at 31 December:

- Year 1 Accounts Receivable RM 10,000;
- Year 2 Accounts Receivable RM 15,000;
- Year 3 Accounts Receivable RM 12,000.

The management of the company decided to charge 5% of the total accounts receivable as an allowance for doubtful debts each year.

You are required to prepare Allowance For Doubtful Debts account, Profit And Loss account and financial statements (extract) for Year 1, Year 2 and Year 3.

**Solution:**



**Hint** It is **adjusted at the end of each accounting year**.

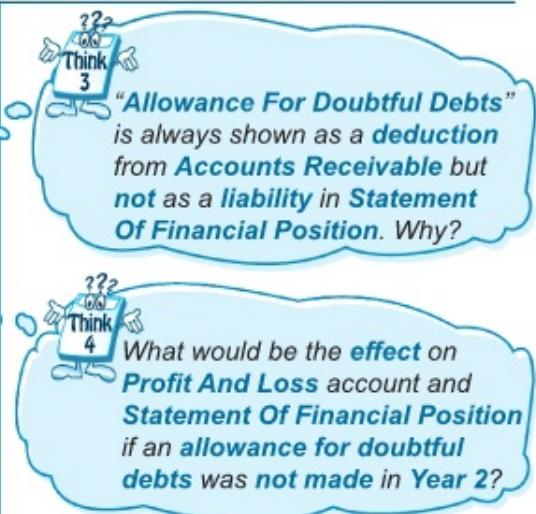
General Ledger		
Allowance For Doubtful Debts		
Year 1	RM	Year 1
Dec 31 Balance c/d	500	Dec 31 Profit And Loss (W1) 500
Year 2		
Dec 31 Balance c/d	750	Year 2 Jan 1 Balance b/d 500
		Dec 31 Profit And Loss 250
Year 3		750
Dec 31 Profit And Loss 150	600	Year 3 Jan 1 Balance b/d 750
31 Balance c/d	750	(W2) 750
		750
Hint The <b>Balance b/d each year</b> was shown as a <b>deduction from Accounts Receivable in Statement Of Financial Position</b> .		

Profit And Loss		
Year 1	RM	Year 1
Dec 31 Allowance For Doubtful Debts 500		
Year 2		
Dec 31 Increase In Allowance For Doubtful Debts 250		
Year 3		
Dec 31 Decrease In Allowance For Doubtful Debts 150		
Hint They were charged as an estimated additional possible <b>losses</b> .		
Hint It was treated as <b>Other Income</b> .		

Financial statements are prepared as follows:

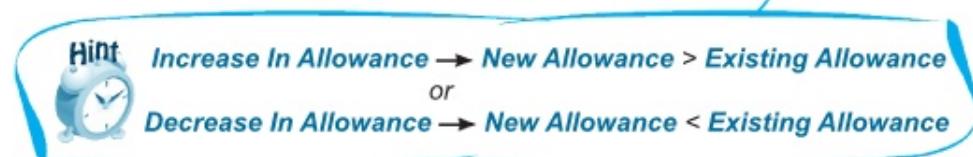
Income Statement (Extract)		
For The Year Ended 31 December		
Year 1	Allowance For Doubtful Debts	RM 500
Year 2	Increase In Allowance For Doubtful Debts	250
		Year 3 Decrease In Allowance For Doubtful Debts 150

Statement Of Financial Position (Extract)		
As At 31 December		
Year 1	<b>Current Assets</b>	RM
	Accounts Receivable	10,000
	Less: Allowance For Doubtful Debts	(500)
		<u>9,500</u>
Year 2	<b>Current Assets</b>	
	Accounts Receivable	15,000
	Less: Allowance For Doubtful Debts	(750)
		<u>14,250</u>
Year 3	<b>Current Assets</b>	
	Accounts Receivable	12,000
	Less: Allowance For Doubtful Debts	(600)
		<u>11,400</u>



### Workings:

- (1) Year 1 : Allowance For Doubtful Debts = RM 10,000 x 5% = RM 500 *Increase by RM 250 in Year 2*
- (2) Year 2 : Allowance For Doubtful Debts = RM 15,000 x 5% = RM 750 *Decrease by RM 150 in Year 3*
- (3) Year 3 : Allowance For Doubtful Debts = RM 12,000 x 5% = RM 600





## Practice 5

Yeoh was a sole trader of a grocery store, his Trial Balances showed the following information:

As at 31 December	Bad Debts	Trade Receivables
	RM	RM
Year 1	-	4,000
Year 2	60	2,000
Year 3	150	7,000

Was the **Trade Receivables** RM 2,000 the figure **after** or **before** deducting the **bad debts**? Why?

The allowances for doubtful debts for the three years were to be made at the year end as follows:

RM  
200  
100  
350

You are required to prepare the Journal entries, Bad Debts account, Allowance For Doubtful Debts account, Profit And Loss account and financial statements (extract) for Year 1, Year 2 and Year 3.

Think 6  
Differentiate between **bad debts** and **allowance for doubtful debts**.



- ☞ **Decrease in allowance** by RM 100 in Year 2.
  - ☞ **Increase in allowance** by RM 250 in Year 3.
  - ☞ **Alternative method** of recording is provided.
1. Year 1 **Net value of Trade Receivables**: RM 3,800.
  2. Year 2 **Net value of Trade Receivables**: RM 1,900.
  3. Year 3 **Net value of Trade Receivables**: RM 6,650.



1. Accounting entries for **bad debts 坏账**, **bad debts recovered 坏账收回** and **allowance for doubtful debts 呆账准备**:



**Hint \* & \*\***  
The debtors whose accounts have been closed, their debts have to be **reinstated** in (4a) / (4i), and then the **amounts received** are recorded in (4b) / (4ii).

General Ledger			
Accounts Receivable			
Year 1 Dec 31 Sales (1)	RM XX	Year 1 Dec 31 Cash (2)	RM XX
31 Bad Debts (4a) *	XX	31 Bad Debts (3)	XX
31 Bad Debts Recovered (4i) *	XX	31 Cash (4b) **	XX
	XX	31 Cash (4ii) **	XX
Bad Debts		Recovered within the same period	
Year 1 Dec 31 Accounts Receivable (3)	RM XX	Year 1 Dec 31 Accounts Receivable (4a)	RM XX
	XX	31 Profit And Loss (4c)	XX
Bad Debts Recovered		Recovered after the year of write-off	
Year 1 Dec 31 Profit And Loss (4iii)	RM XX	Year 1 Dec 31 Accounts Receivable (4)	RM XX

Allowance For Doubtful Debts			
Year 1 Dec 31 Balance c/d	RM 500	Year 1 Dec 31 Profit And Loss (5)	RM 500
Year 2 Dec 31 Balance c/d	750	Year 2 Jan 1 Balance b/d Dec 31 Profit And Loss (6)	500 250 750
	750		
Year 3 Dec 31 Profit And Loss (7) 31 Balance c/d	150 600 750	Year 3 Jan 1 Balance b/d Year 4 Jan 1 Balance b/d	750 750 600
		1st year allowance Increase in allowance	
Profit And Loss		Decrease in allowance	
Year 1 Dec 31 Bad Debts (4c) 31 Allowance For Doubtful Debts (5)	RM XX 500	Year 1 Dec 31 Bad Debts Recovered (4iii)	RM XX
Year 2 Dec 31 Increase In Allowance For Doubtful Debts (6)	250	Year 3 Dec 31 Decrease In Allowance For Doubtful Debts (7)	150
<i>Increase / (Decrease) In Allowance = New allowance – Existing allowance</i>			

Financial statements are prepared as follows:

**Income Statement (Extract)**  
For The Year Ended 31 December

	RM		RM
Year 1 Bad Debts	XX	Year 1 Bad Debts Recovered	XX
Allowance For Doubtful Debts	500		
Year 2 Increase In Allowance For Doubtful Debts	250		
		Year 3 Decrease In Allowance For Doubtful Debts	150

**Statement Of Financial Position (Extract)**  
As At 31 December

	RM		
Year 1 <b>Current Assets</b>			
Accounts Receivable	XX		Amount after <b>bad debts</b> but before <b>allowance for doubtful debts</b>
Less: Allowance For Doubtful Debts	(500)		
	XX		
Year 2 <b>Current Assets</b>			
Accounts Receivable	XX		Balance b/d each year in <b>Allowance For Doubtful Debts</b> account
Less: Allowance For Doubtful Debts	(750)		
	XX		
Year 3 <b>Current Assets</b>			
Accounts Receivable	XX		<b>Net value of accounts receivable</b>
Less: Allowance For Doubtful Debts	(600)		which are likely to be collected in future.
	XX		

**Hint**

- ☞ It should be made for the **accounts receivable excluding bad debts** because **no allowance is required** for the **bad debts** which have been written off.
- ☞ It is a **contra-asset account**.

**Notes:**

Posting procedures	Transactions
(1)	Credit sales
(2)	Amount received from debtors
(3)	Bad debts <b>written off</b> 划销
(4a)	<b>Reinstate</b> 恢复 the debts
(4b)	Bad debts recovered <b>within the same period</b>
(4c)	Close and transfer bad debts to Profit And Loss account
(4i)	Reinstate the debts
(4ii)	Bad debts recovered <b>after the year of write-off</b>
(4iii)	Close and transfer bad debts recovered to Profit And Loss account
(5)	Allowance for doubtful debts for the <b>1<sup>st</sup> year</b> is <b>debited</b> to Profit And Loss account
(6)	<b>Increase</b> in allowance for doubtful debts is <b>debited</b> to Profit And Loss account
(7)	<b>Decrease</b> in allowance for doubtful debts is <b>credited</b> to Profit And Loss account

2. Comparison between **bad debts** and **allowance for doubtful debts**:

		<b>Bad debts</b>	<b>Allowance for doubtful debts</b>
a.	Certainty确定性:	A <b>loss</b> that can be determined with <b>certainty</b>	An <b>estimated possible loss</b>
b.	Account type:	An <b>expense account</b> with <b>debit</b> balance	A <b>contra-asset account</b> with <b>credit</b> balance (i.e. A <b>credit balance account</b> to be <b>deducted</b> from <b>Accounts Receivable</b> in Statement Of Financial Position)
c.	Journal entries:	i. <b>When a bad debt occurs:</b> Dr Bad Debts Cr Account Receivable	<b>At the end of reporting period:</b> i. <b>1<sup>st</sup> year allowance / When an increase in allowance:</b> Dr Profit And Loss Cr Allowance For Doubtful Debts <b>or</b> ii. <b>When a decrease in allowance:</b> Dr Allowance For Doubtful Debts Cr Profit And Loss
d.	In Trial Balance:	Treated as <b>debts written off</b> as uncollectible <b>during the accounting year</b>	Treated as a <b>balance brought down</b> from the <b>previous accounting year</b>



## Learning Objectives

After studying this chapter, you should be able to:

- ☛ understand the purposes and functions of control accounts;
- ☛ draw up the Accounts Receivable Ledger Control account and Accounts Payable Ledger Control account;
- ☛ identify the sources of information for the preparation of the control accounts;
- ☛ understand and deal with contra entry in the control accounts;
- ☛ understand how the minority balances arise;
- ☛ show the balances of control accounts in Statement Of Financial Position.

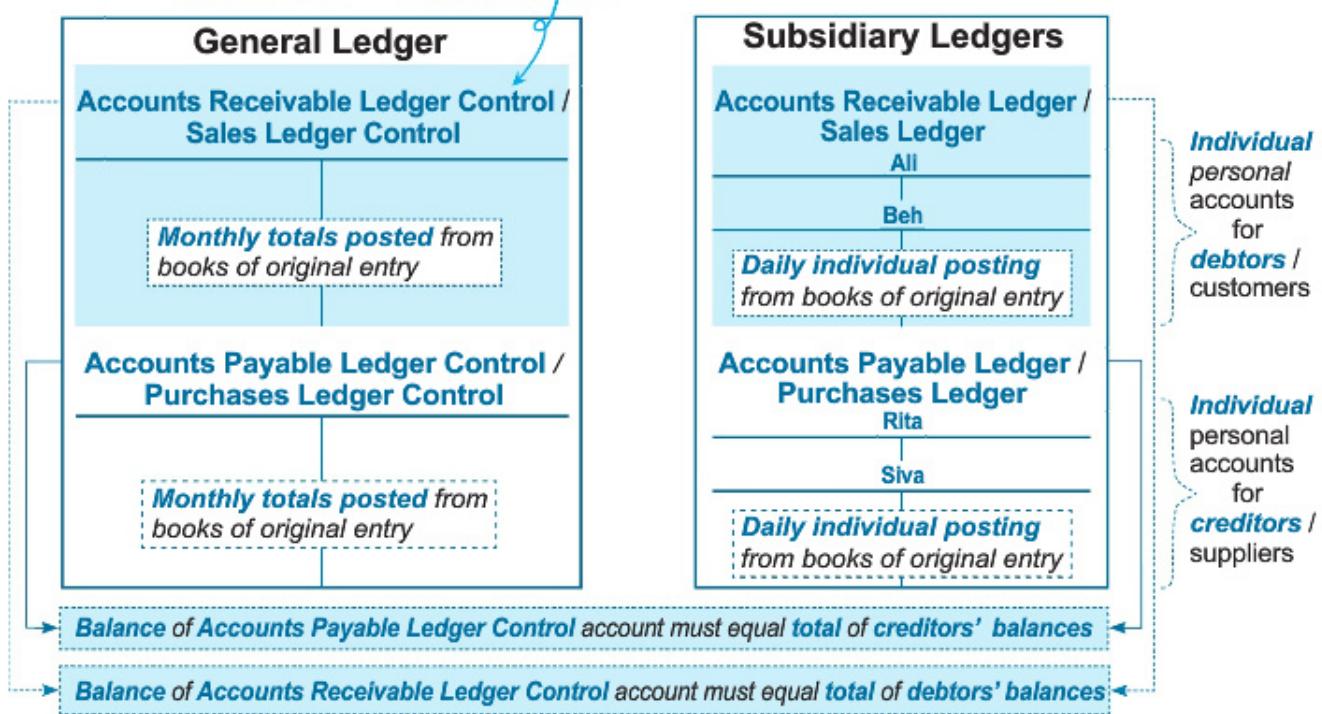


### 10.1 Purpose of Writing Up Control Accounts

1. A **control account** in **General Ledger** is a **summary** of the **individual debtors' or creditors' accounts** in a **subsidiary ledger**. The entries in a control account are made from the **totals of transactions of similar nature**. Thus, a control account is also known as a **summary account** or a **total account**.
2. A control account, therefore, has the following functions:
  - a. It provides a **summarised balance** that can be used for a **Trial Balance** at a given date. This means that **individual debtors' or creditors' balances** do **not** have to be **listed** when a Trial Balance is prepared.
  - b. It allows **error to be localised** 限制在局部 / **detected** 查出错误. At any time, the **total of individual debtors' or creditors' balances** must **agree / tally with** 一致 the **balance of control account**. If it does not, the error could be in either the subsidiary ledger or the control account, or in both records.
3. The following diagram shows the **Accounts Receivable Ledger Control** account and **Accounts Payable Ledger Control** account with their corresponding individual accounts in the **Accounts Receivable Ledger** and **Accounts Payable Ledger**:



**Hint** A **Control** account is a **summary** of the **individual accounts** in **Accounts Receivable Ledger** or **Accounts Payable Ledger**.



## 10.2 Accounts Receivable Ledger Control Account

1. Accounts Receivable Ledger Control account or Sales Ledger Control account records the **total effects of transactions** at given intervals for **all individual debtors' accounts** kept in a subsidiary ledger. The **closing balance** of **Accounts Receivable Ledger Control** account must **equal** the **total** of the **closing balances** of **all the individual debtors' accounts** at a given date.
2. The following are the transactions with their respective accounting books related to the effect and entry of the Accounts Receivable Ledger Control account:

Totals of transactions of similar nature for a period	Books of original entry	Accounts Receivable Ledger Control account	
		Effect	Entry
a. Sales of goods on credit	Sales Journal	↑	Dr
b. Returns of goods from debtors / customers	Sales Returns Journal	↓	Cr
c. Carriage charged to debtors	General Journal	↑	Dr
d. Discounts allowed	Cash Book	↓	Cr
e. Discounts withdrawn / cancelled	Cash Book / General Journal	↑	Dr
f. Receipts from debtors	Cash Book	↓	Cr
g. Interest on overdue accounts	General Journal	↑	Dr
h. Dishonoured cheques	Cash Book / General Journal	↑	Dr
i. Bad debts written off	General Journal	↓	Cr
j. Reinstate the debts previously written off	General Journal	↑	Dr
k. Bad debts recovered and cash received	Cash Book / General Journal	↓	Cr



**Hint** An **increase in accounts receivable** (an **asset**) is recorded on the **debit** side and vice versa.



## Example 1

The following details are available from the books of **Jeffrey** for the month of March

Year 1:

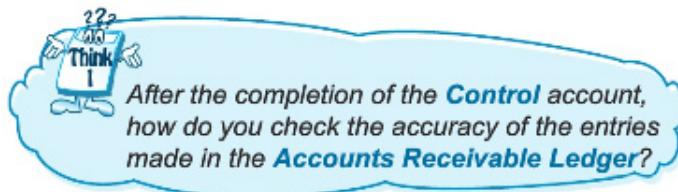
Year 1

March 1	Accounts Receivable Ledger Control account balance	RM
31	Transactions for the month:	
	Sales Journal	15,800
	Returns Inwards Journal	220
	Discounts allowed to customers	300
	Cheques received from customers	12,680
	Carriage charged to customers	450

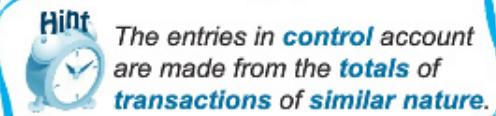
Using the above information, you are required to prepare Accounts Receivable Ledger Control account for the month of March Year 1.

**Solution:**

In the books of **Jeffrey**:



General Ledger			
Accounts Receivable Ledger Control			
Year 1		Year 1	RM
Mar 1 Balance b/d	2,000	Mar 31 Returns Inwards	220
31 Sales	15,800	31 Discounts Allowed	300
31 Carriage Income	450	31 Bank	12,680
	<hr/> 18,250	31 Balance c/d	5,050
Apr 1 Balance b/d	5,050		<hr/> 18,250





The following details are available from the books of **Stephanie** for the month of August

Year 1:

Year 1		RM
August 1	Accounts Receivable Ledger Control account balance	12,000
31	Cash sales	6,000
	Credit sales	39,000
	Discounts allowed	1,600
	Total receipts from debtors (bad debts recovered excluded)	31,200
	Bad debts written off	950
	Discounts allowed withdrawn	50
	Increase in allowance for doubtful debts	100
	Sales returns and allowances	2,100
	Debtors' cheques returned unpaid by bank	780
	Carriage charged to customers	200
	<b>Bad debts recovered</b>	350

You are required to:

- prepare Accounts Receivable Ledger Control account for the month of August Year 1;
- name and explain the above items that would not be recorded in the Accounts Receivable Ledger Control account.



**Bad debts recovered**  
(Refer to: Chapter 9  
9.3 Bad Debts Recovered)



1. **Accounts Receivable Ledger Control: RM 16,180.**

### 10.3 Accounts Payable Ledger Control Account

1. Accounts Payable Ledger Control account or Purchases Ledger Control account records the **total effects of transactions** at given intervals for **all** individual **creditors' accounts** kept in a subsidiary ledger. The **closing balance** of **Accounts Payable Ledger Control** account must **equal** the **total** of the **closing balances** of all the individual **creditors' accounts** at a given date.
2. The following are the transactions with their respective accounting books related to the effect and entry of the Accounts Payable Ledger Control account:

Totals of transactions of similar nature for a period	Books of original entry	Accounts Payable Ledger Control account	
		Effect	Entry
a. Purchases of goods on credit	Purchases Journal	↑	<b>Cr</b>
b. Returns of goods to creditors / suppliers	Purchases Returns Journal	↓	Dr
c. Carriage inwards	General Journal	↑	<b>Cr</b>
d. Discounts received	Cash Book	↓	Dr
e. Payments to creditors	Cash Book	↓	Dr
f. Interest on overdue accounts	General Journal	↑	<b>Cr</b>

**Hint**  
An **increase in accounts payable** (a **liability**)  
is recorded on the **credit** side and vice versa.



#### Example 2

The following details are available from the books of **James** for the month of March Year 2:

Year 2	RM
March 1	Accounts Payable Ledger Control account balance
31	Transactions for the month:
	Purchases Journal
	Returns Outwards Journal
	Discounts received from suppliers
	Cheques paid to suppliers
	Interest charged by suppliers

Using the above information, you are required to prepare Accounts Payable Ledger Control account for the month of March Year 2.

**Solution:**In the books of **James**:

After the completion of the **Control account**,  
how do you check the accuracy of the entries  
made in the **Accounts Payable Ledger**?

**General Ledger**

## Accounts Payable Ledger Control

Year 2	RM	Year 2	RM
Mar 31 Returns Outwards	500	Mar 1 Balance b/d	1,230
31 Discounts Received	200	31 Purchases	12,500
31 Bank	9,800	31 Interest Expenses	70
31 Balance c/d	3,300		
	<hr/>		<hr/>
	13,800		13,800
	<hr/>		<hr/>
		Apr 1 Balance b/d	3,300

**Practice 2**

State the books of original entry for each of the following items, and **tick** (✓) the appropriate column where the item should be recorded:

Item	Totals of transactions of similar nature	Books of original entry	Accounts Receivable Ledger Control account	Accounts Payable Ledger Control account
e.g. (a)	Credit purchases	Purchases Journal		✓
(b)	Credit sales			
(c)	Purchases returns			
(d)	Sales returns			
(e)	Discounts allowed			
(f)	Discounts received			
(g)	Receipts from debtors			
(h)	Payments to suppliers			
(i)	Bad debts written off			
(j)	Customers' cheques dishonoured			
(k)	Discounts allowed withdrawn			
(l)	Interest charged to debtors' overdue accounts			



### Practice 3

The following details are available from **Lucy's** books for the three months ended 30 April Year 3:

Year 3		RM
February 1	Accounts Receivable Ledger Control account balance	15,000
	Accounts Payable Ledger Control account balance	9,000
April 30		
	Total sales (including cash sales RM 3,000)	43,000
	Total purchases (including cash purchases RM 2,000)	27,000
	Returns inwards (i)	3,200
	Returns outwards	2,400
	Payments to creditors (ii)	21,500
	Receipts from debtors	36,000
	Customers' cheques dishonoured (iii)	1,000
	Discounts received (iv)	780
	Discounts allowed (out of which RM 20 was withdrawn)	1,050
	Interest charged to customers for late payment	200
	Cash refunded to a customer for overpayment	450
	Bad debts written off (v)	900

You are required to:

- prepare Accounts Receivable Ledger Control account and Accounts Payable Ledger Control account for the three months ended 30 April Year 3;
- name the source of information for items (i) to (v).



- Accounts Receivable Ledger Control:** RM 15,520.
- Accounts Payable Ledger Control:** RM 9,320.

## 10.4 Contra Entry between Subsidiary Ledgers

- When a **customer** / buyer is also a **supplier** / seller, the net amount **due from** or **due to** the customer has to be determined at a given date. This is done by a **contra** or a **transfer** of the **smaller balance** in one of the subsidiary ledgers (Sales Ledger or Purchases Ledger) to the other with the **larger amount**.
- Similarly, **contra entry** 对消记录 should be **made** in the two **control accounts** with the total of all the smaller balances.



### Example 3

??  
Think  
3  
*In the books of Johnson Bhd, before the contra entry was made, was James Company a debtor / creditor or both?*

During June Year 3, Johnson Bhd sold goods on credit to James Company for RM 2,000, and James Company also sold goods on credit to Johnson Bhd for RM 3,500.

On 30 June Year 3, in the books of Johnson Bhd showed the following balances in the control accounts:

	RM
Sales Ledger Control	55,800
Purchases Ledger Control	42,500

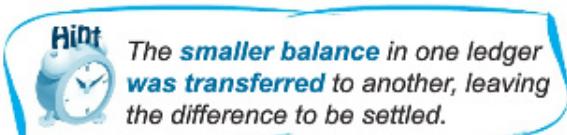
On 30 June Year 3, the two companies agreed that a contra entry would be used to reduce the amount owing by Johnson Bhd to James Company.

You are required to prepare the following accounts in the books of **Johnson Bhd**:

- personal account of James Company in Sales Ledger;
- personal account of James Company in Purchases Ledger;
- Sales Ledger Control;
- Purchases Ledger Control.

### Solution:

In the books of **Johnson Bhd**:



(a)

#### Sales Ledger

James Company

Year 3	RM	Year 3	RM
Jun 30 Sales	<b>2,000</b>	Jun 30 James Company – Contra	2,000

(b)

#### Purchases Ledger

James Company

Year 3	RM	Year 3	RM
Jun 30 James Company – Contra	2,000	Jun 30 Purchases	<b>3,500</b>
30 Balance c/d	1,500		

 After the contra entry was made at the end of 30 June Year 3, was **James Company** a debtor or a creditor?



This is the **amount to be settled** after the contra entry.

(c)

#### General Ledger

Sales Ledger Control

Year 3	RM	Year 3	RM
Jun 30 Balance b/d	55,800	Jun 30 Purchases Ledger Control	
		– Contra	2,000

30 Balance c/d	53,800	30 Balance c/d	53,800

Jul 1 Balance b/d	53,800	Jul 1 Balance b/d	53,800



 Hint The **inter-indebtedness** of the same business (which is both a customer & a supplier) is set off.

(d)

#### Purchases Ledger Control

Year 3	RM	Year 3	RM
Jun 30 Sales Ledger Control		Jun 30 Balance b/d	42,500
– Contra	2,000		

30 Balance c/d	40,500	30 Balance c/d	40,500

42,500	42,500	42,500	40,500

Jul 1 Balance b/d	40,500



## Practice 4

Sunshine Company extracted the following information from its Cash Book for the preparation of the control accounts for its Sales and Purchases Ledgers:

Cash Book

Date	Receipts	Discounts Allowed	Bank	Date	Payments	Discounts Received	Bank
Year 4 Dec 31	Sales Debtors	RM 300	RM 4,500 * 17,900	Year 4 Dec 31	Purchases Creditors	RM 200	RM 4,800 12,500

\* Note: Receipts from debtors including bad debts recovered of RM 100.  
Bad debts recovered should be adjusted in the Control account.

The totals from the various books of original entry for the year ended 31 December Year 4 were as follows:

	RM
Returns Inwards Journal	550
Returns Outwards Journal	360
Sales Journal	21,000
Purchases Journal	18,500
General Journal – Legal expenses charged to debtors	300
– Bad debts written off	650
– Interest charged to customers	80
– Carriage charged by suppliers	200

The balances transferred from Sales Ledger to offset the balances in Purchases Ledger totalled RM 1,800.

The balances of the respective ledgers on 1 January Year 4 were as follows:

Sales Ledger            RM 3,500  
Purchases Ledger    RM 4,800

You are required to prepare Sales Ledger Control account and Purchases Ledger Control account in the books of **Sunshine Company** for the year ended 31 December Year 4.



1. **Sales Ledger Control:** RM 3,780.
2. **Purchases Ledger Control:** RM 8,640.



## Practice 5

Sales Ledger Control account and Purchases Ledger Control account were maintained as integral parts of the accounting records of CK Company.

The following information was relevant to the business of the company for the year ended 31 October Year 5:

- (i) Balances on 1 November Year 4:

Sales Ledger	RM 9,808
Purchases Ledger	7,750

- (ii) Sales totalled RM 120,200 while sales returns amounted to RM 5,680.

- (iii) RM 109,500 was received from debtors in settlement of accounts totalling RM 112,700.

In addition, RM 1,500 was received from a debt which had been written off as irrecoverable in the year ended 31 October Year 4.

(Note: Bad debts recovered should be adjusted in the Control account.)

- (iv) A debt of RM 450 due from Mr Wee was transferred to the Purchases Ledger and set off against a debt of RM 1,350 due to Mr Wee.

- (v) An amount of RM 708 owed by Max Trading Company was written off as bad in October Year 5.

- (vi) Purchases amounted to RM 80,800 at list price and purchases returns totalled RM 5,200 at list price.

All purchases and purchases returns were subject to a trade discount of 25%.

- (vii) RM 52,500 was paid to suppliers in full settlement of the debts of RM 54,050.

- (viii) Interests charged by suppliers for late payment amounting to RM 300.

You are required to prepare the following accounts for the year ended 31 October Year 5 in the books of **CK Company**:

- (a) Sales Ledger Control;  
(b) Purchases Ledger Control.



☞ Accounting period: **1/11/Year 4 ~ 31/10/Year 5**.

1. **Sales Ledger Control:** RM 10,470.

2. **Purchases Ledger Control:** RM 10,250.

## 10.5 Minority Balances 少数余额

- It is possible that at the end of an accounting period a **debtor's account** in the Sales Ledger may have a **credit balance**, whereas a **creditors' account** in the Purchases Ledger may have a **debit balance**. These balances are called **minority balances**.
- Minority balances may due to the following reasons:

	<b>Debtor / customer account with credit balance</b>	<b>Creditor / supplier account with debit balance</b>
a.	Customer overpays his account.	Business overpays its supplier.
b.	Goods or empty containers returned by customer after he has settled his account.	Goods or empty containers returned by business after it has settled its account.
c.	Allowance is given to customer for faulty goods delivered, or customer is found overcharged after he has settled his account.	Allowance is given by supplier for faulty goods received by business, or business is found overcharged after it has settled its account.
d.	Customer pays in advance for the goods to be delivered later.	Business pays in advance to its supplier for the goods to be delivered later.

- The **credit balances** of the **debtors' accounts** should **not** be **set off** / netted off **抵消** against the **debit balances** in the Sales Ledger to avoid the undervaluation of the debtors in Statement Of Financial Position.  
Similarly, the **debit balances** of the **creditors' accounts** should **not** be **set off** against the **credit balances** in the Purchases Ledger to avoid the undervaluation of the creditors in Statement Of Financial Position.



The following information relating to the month of December Year 4 was extracted from the Ledgers of **Wu Lala**:

On 1 December Year 4:	RM
Sales Ledger - Debit balances	8,500
- Credit balances	190
Purchases Ledger - Debit balances	205
- Credit balances	5,478
Allowance for doubtful debts	425

*Minority balances*

For the month ended 31 December Year 4:	RM
Credit sales	54,200
Credit purchases	42,300

Discounts received	600
Discounts allowed	850
Payments to suppliers	34,103
Receipts from customers	48,475
Returns inwards	1,080
Returns outwards	720
Bad debts written off	1,200
Customers' cheques dishonoured	2,000
Discounts allowed withdrawn	80
Carriage charged by suppliers	200
Legal expenses charged to customers' accounts	150
Debit balances in Sales Ledger transferred to Purchases Ledger per contra	500
Refunds by suppliers because of overpayment	330
 On 31 December Year 4:	 RM
Sales Ledger - Credit balances	265
Purchases Ledger - Debit balances	130
Allowance for doubtful debts	358

You are required to:

- (a) prepare the following accounts for the month of December Year 4:
  - (i) Sales Ledger Control account;
  - (ii) Purchases Ledger Control account.
- (b) prepare Statement Of Financial Position (Extract) as at 31 December Year 4, showing how the debtors and creditors figures would be shown under Current Assets and Current Liabilities.

### Solution:

In the books of Wu Lala:

(a)		General Ledger			
(i)		Sales Ledger Control			
Year 4		RM	Year 4		RM
Dec 1 Balance b/d	8,500		Dec 1 Balance b/d	190	
31 Sales	54,200		31 Discounts Allowed	850	
31 Bank			31 Bank	48,475	
– Dishonoured Cheques	2,000		31 Returns Inwards	1,080	
31 Discounts Allowed			31 Bad Debts	1,200	
– Withdrawn	80		31 Purchase Ledger Control		
31 Legal Expenses	150		– Contra	500	
31 Balance c/d	265		31 Balance c/d	12,900	
		<u><u>65,195</u></u>			<u><u>65,195</u></u>
Year 5			Year 5		
Jan 1 Balance b/d	12,900		Jan 1 Balance b/d	265	
 Hint Amount owing by debtors			 Hint Amount owing to debtors		

(ii)	Purchases Ledger Control		
	Year 4	Year 4	RM
Dec 1 Balance b/d	205	Dec 1 Balance b/d	5,478
31 Discounts Received	600	31 Purchases	42,300
31 Bank	34,103	31 Carriage Inwards	200
31 Returns Outwards	720	31 Bank – Refunds	330
31 Sales Ledger Control – Contra	500	31 Balance c/d	130
31 Balance c/d	12,310		
	<hr/> <b>48,438</b>		<hr/> <b>48,438</b>
Year 5		Year 5	
Jan 1 Balance b/d	130	Jan 1 Balance b/d	12,310

(b) Wu Lala  
Statement Of Financial Position (Extract)  
As At 31 December Year 4

---

	RM	RM
<b>Current Assets</b>		
Accounts Receivable	(W1) 13,030	
Less: Allowance For Doubtful Debts	(358)	12,672
<b>Current Liabilities</b>		
Accounts Payable	(W2)	12,575
<b>Workings:</b>		
(1) Accounts Receivable:		
Sales Ledger Control account – Debit balance	RM 12,900	
Purchases Ledger Control account – <b>Debit balance</b>	+ 130	RM <b>13,030</b>
(2) Accounts Payable:		
Purchases Ledger Control account – Credit balance	RM 12,310	
Sales Ledger Control account – <b>Credit balance</b>	+ 265	RM <b>12,575</b>

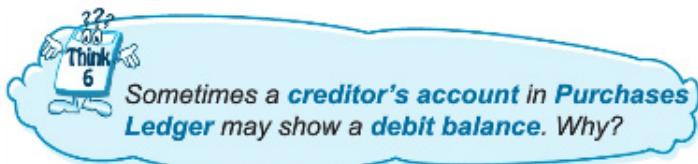


**Hint** *☞ The minority balances in the control accounts should not be set off.  
☞ It shows the true financial position.*

**Think 5** If the minority balances in the control accounts were set off, what would be the effect on the Statement Of Financial Position?



## Practice 6



The following information was taken from the books of **Tom**:

Year 6

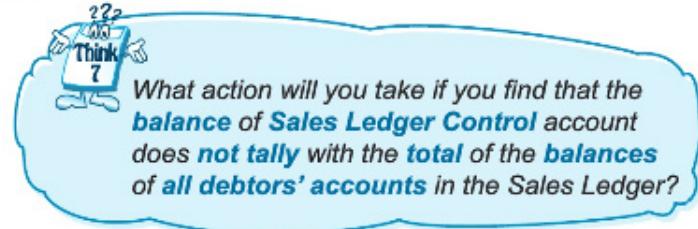
	RM
January 1 Debit balances in Sales Ledger	2,700
Credit balances in Sales Ledger	98
Debit balances in Purchases Ledger	105
Credit balances in Purchases Ledger	3,500
Allowance for doubtful debts	225
31 Interest charged by suppliers	80
Discounts received	210
Returns of goods sold on credit	345
Returns of goods bought on credit	212
Discounts allowed (out of which RM 40 was withdrawn)	335
Interest charged to customers for overdue accounts	135
Bad debts written off	525
Bad debts prior to 1 January Year 6 now recovered and had been recorded in personal account	300
Cheques received from debtors (including a cheque of RM 600 that was later returned unpaid)	9,900
Cheques issued to suppliers	12,703
Credit sales	16,383
Credit purchases	15,200
Cash refunded by suppliers for overpayment	200
Transfer from Purchases Ledger to Sales Ledger	1,000
Increase in allowance for doubtful debts	130
Credit balances in Sales Ledger	245
Debit balances in Purchases Ledger	180

You are required to prepare:

- Sales Ledger Control account and Purchases Ledger Control account for January Year 6;
- Statement Of Financial Position (Extract) as at 31 January Year 6.



- Sales Ledger Control:** RM 7,900.
- Purchases Ledger Control:** RM 4,930.





The **control accounts** in the **General Ledger** are treated as part of the **double entry**, whereas the **Subsidiary Ledgers** are merely the **supporting records** for the **control accounts** providing detailed information of **individual debtors** and **creditors** as shown below:

### General Ledger 总分类账

1. Accounts Receivable Ledger Control 应收账款分类账统制 / Sales Ledger Control 销货分类账统制			
	RM		
Balance b/d	x	Sales Returns	x
Sales	x	Discounts Allowed	x
Carriage Income	x	Bank	x
Interest Income	x	Bank - Bad Debts Recovered	x
Bank - Dishonoured cheque	x	Bad Debts	x
Discounts Allowed - Withdrawn	x	Accounts Payable Ledger Control	
Bad Debts Recovered / Bad Debts	x	- Contra	x
	<hr/>	Balance c/d	X
	<hr/>		<hr/>
Balance b/d	X		<hr/>

### Subsidiary Ledger 明细分类账

1. Accounts Receivable Ledger 应收账款分类账 / Sales Ledger 销货分类账			
	Ali		
Balance b/d	RM x	Balance c/d	RM <hr/> x <sub>1</sub> <hr/>
	<hr/> <hr/>		<hr/> <hr/>
Balance b/d	x <sub>1</sub>		
	Beh		
Balance b/d	RM x	Balance c/d	RM <hr/> x <sub>2</sub> <hr/>
	<hr/> <hr/>		<hr/> <hr/>
Balance b/d	x <sub>2</sub>		
	Nora		
Balance b/d	RM x	Balance c/d	RM <hr/> x <sub>n</sub> <hr/>
	<hr/> <hr/>		<hr/> <hr/>
Balance b/d	x <sub>n</sub>		
	↓	x <sub>1</sub> + x <sub>2</sub> + ..... + x <sub>n</sub> = X	←
	Total of debtors' balances		
	↓		
	Balance of Accounts Receivable Ledger Control account		

Individual personal accounts for debtors / customers

## General Ledger

### 2. Accounts Payable Ledger Control 应付账款分类账统制 / Purchases Ledger Control 购货分类账统制

	RM		RM
Purchases Returns	x	Balance b/d	x
Discounts Received	x	Purchases	x
Bank	x	Carriage Inwards	x
Accounts Receivable Ledger Control	x	Interest Expenses	x
- Contra	x		
Balance c/d	<b>X</b>		
	<hr/>		<hr/>
	x		x
		Balance b/d	<b>X</b>

## Subsidiary Ledger

### 2. Accounts Payable Ledger 应付账款分类账 / Purchases Ledger 购货分类账 Rita

	RM		RM
Balance c/d	<b>X<sub>1</sub></b>	Balance b/d	x
	<hr/> <hr/>		<hr/> <hr/>
	x <sub>1</sub>	Balance b/d	<b>X<sub>1</sub></b>
	RM		RM
Balance c/d	<b>X<sub>2</sub></b>	Balance b/d	x
	<hr/> <hr/>		<hr/> <hr/>
	x <sub>2</sub>	Balance b/d	<b>X<sub>2</sub></b>
⋮	⋮		
Ng	RM		RM
Balance c/d	<b>X<sub>n</sub></b>	Balance b/d	x
	<hr/> <hr/>		<hr/> <hr/>
	x <sub>n</sub>	Balance b/d	<b>X<sub>n</sub></b>

Individual personal accounts for creditors / suppliers

$$x_1 + x_2 + \dots + x_n = X$$

Total of creditors' balances

Balance of Accounts Payable Ledger Control account



When preparing control accounts, only trade debtors' and trade creditors' transactions are included.

Non-trade debtors' and non-trade creditors' transactions should be excluded.

# Non-current Assets And Depreciation



## Learning Objectives

After studying this chapter, you should be able to:

- ☛ understand the types and cost of non-current assets;
- ☛ explain why it is necessary to provide depreciation;
- ☛ understand the factors and methods of calculating depreciation;
- ☛ calculate depreciation using the straight line and reducing balance methods for a whole year and a fractional period;
- ☛ calculate the gain/loss on disposal and trade-in;
- ☛ make entries for non-current assets and depreciation in 3 different accounting methods when they are bought, disposed and traded in;
- ☛ show non-current assets, depreciation and accumulated depreciation in Ledger and financial statements.



### 11.1 Types of Non-current Assets

1. **Non-current assets** are those assets of material value which are bought for **long-term** (i.e. more than 12 months) **use** in the business, and they are **not** bought **for resale**.
2. The **types** of non-current assets are:
  - a. **Tangible** non-current asset: It is an asset which has physical existence.  
e.g. Land and building, machine, motor vehicle, etc.
  - b. **Intangible** non-current asset: It is an asset which has no physical existence.  
e.g. Trademark 商标, patent 专利权, franchise 特许权, copyright 版权, etc.

## 11.2 Cost of Non-current Assets

Cost of non-current assets includes the following:

1. **Cost price** / purchase price (including import duties if any) of the non-current assets bought;
2. **All the expenses** incurred in bringing the assets to their **present condition** and **location** where they are **ready for use**.  
e.g. Delivery and handling expenses, installation costs, etc.

## 11.3 Causes of Depreciation / Depletion / Amortisation

**Depreciation** relates to a **fall** or **loss in value** of a non-current asset over a period of time. Depreciation arises in various ways, depending on the nature of the non-current asset itself as follows:

1. **Physical deterioration**
  - a. When a non-current asset (e.g. machinery) is being used, it results in wear and tear;
  - b. A non-current asset (e.g. motor vehicle) will be deteriorated due to exposure to wind, rain, sun and other elements of nature.
2. **Obsolescence**
  - a. A non-current asset (e.g. computer) may become obsolete due to the advanced technology, improved products of new model and lower cost being available;
  - b. A non-current asset (e.g. machinery) may be inadequate and inefficient due to the growth and changes in the size of a business.
3. **Passage of time**
  - a. A tangible non-current asset (e.g. motor vehicle) will become outdated and lose value over time, even though it is not being used or not used very often;
  - b. The life of intangible asset (e.g. trademark, copyright) will be shortened with the lapse of time.  
“Amortisation” instead of “depreciation” is used.
4. **Depletion**  
A non-current asset (e.g. mine, quarry, oil well or forest) will be depleted due to the extraction of raw materials from the natural resources.  
“Depletion” instead of “depreciation” is used.

## 11.4 Factors Affecting Calculation of Depreciation

There are **four** factors that affect the calculation of depreciation:

1. **Cost**: It is the **cost price** of the non-current asset bought and **all the costs of acquisition and preparation for use**;
2. **Useful life**: It is the **estimated number of years** over which a non-current asset is expected **to be used** in the business;
3. **Scrap / residual / salvage value**: It is the estimated **disposal value** 变卖价值 of a non-current asset at the **end** of its **useful life**;
4. **Method** of calculating depreciation.

## 11.5 Methods of Calculating Depreciation

There are many different methods of calculating depreciation. The method used depends on what type of non-current asset and how it is being used. The two common methods which are usually used for calculating depreciation are:

1. **Straight line / equal or fixed instalment method**: A **fixed amount** of depreciation is charged annually.

$$\text{Depreciation} = \frac{\text{Cost}}{\text{Useful Life}} ; \frac{\text{Cost} - \text{Scrap Value}}{\text{Useful Life}}$$

Or    Or

$$\text{Cost} \times \% \text{ of Depreciation} ; (\text{Cost} - \text{Scrap Value}) \times \% \text{ of Depreciation}$$

2. **Reducing / diminishing / declining balance method**: A **percentage** of the **written down / reduced value** of non-current asset is charged annually.

$$\text{Depreciation} = \text{Opening Carrying Amount} \times \% \text{ of Depreciation}$$

**Input**



### Reducing balance method

- ☞ **Non-current assets** such as machinery and motor vehicles which **require repairs and maintenance** usually adopt this method.
- ☞ When the **repair cost is rising**, the **depreciation cost is declining**. Thus, the **total charge against the net profit would be more constant**.

**Input**



$$\% \text{ of Depreciation } (r) = 1 - \sqrt[n]{\frac{S}{C}}$$

C = Cost

S = Scrap value

n = Number of years of useful life



### Example 1

Ali bought a machine at a cost of RM 32,000 on 1 January Year 1. He estimated the scrap value of the machine would be RM 2,000 after 4 years.

You are required to calculate the annual depreciation for **4 years** using:

- straight line method;**
- reducing balance method** at 50% per annum.



☞ **Carrying Amount = Cost – Accumulated Depreciation**  
 ☞ It is also known as **net book value** 账面净值 / written down value.

**Solution:**

End of (1)	Cost (1)	Annual Depreciation (2)		Accumulated Depreciation (3)		Carrying Amount (1) – (3)	
		Straight Line (a)	Reducing Balance (b)	Straight Line	Reducing Balance	Straight Line	Reducing Balance
Year 1	RM 32,000	RM 7,500 <i>(Working)</i>	RM 16,000 <i>(32,000 x 50%)</i>	RM 7,500	RM 16,000	RM 24,500	RM 16,000
Year 2	32,000	7,500	8,000 <i>(16,000 x 50%)</i>	15,000	24,000	17,000	8,000
Year 3	32,000	7,500	4,000 <i>(8,000 x 50%)</i>	22,500	28,000	9,500	4,000
Year 4	32,000	7,500	2,000 <i>(4,000 x 50%)</i>	30,000	30,000	2,000	2,000

**Hint** It is a **fixed amount** for each year.

**Hint** It is a **reducing amount** with a **higher charge in earlier years and a lower charge in later years.**

**Hint** At the end of **Year 4**:  
**Scrap Value = Cost – Accumulated Depreciation**  
 RM 2,000 = RM 32,000 – RM 30,000

**Working:**

$$\begin{aligned} \text{Depreciation} &= \frac{\text{Cost} - \text{Scrap Value}}{\text{Useful Life}} \\ &= \frac{\text{RM } (32,000 - 2,000)}{4} \\ &= \text{RM } 7,500 \end{aligned}$$

**Think** What is the **depreciation rate** for the **straight line method**?



## Practice 1

Ali bought a motor vehicle at a cost of RM 50,000 on 1 January Year 1. He estimated the scrap value of the vehicle would be RM 16,384 after 5 years.

You are required to calculate the annual depreciation for **5 years** using:

- straight line method**;
- reducing balance method** at 20% per annum.

 Think 2  
How do you know your calculation of the annual depreciation for the 2 methods is correct?



- At the end of Year 5: **Accumulated depreciation**: RM 33,616;  
**Carrying amount** : RM 16,384.

## 11.6 Accounting Entries for Depreciation

- Depreciation** is the systematic allocation of the cost of a non-current asset over its useful life. That part of the **cost** of the non-current asset **allocated** to a **particular accounting period** is an estimated expense and **charged** to the **Profit And Loss** account at the end of the accounting year.
- 3 accounting methods** used to record the periodic charge for depreciation are as follows:

Method 1: <b>Accumulated Depreciation account is not opened</b>	Method 2: <b>Accumulated Depreciation account is opened</b>	Method 3: <b>Depreciation account is not opened</b>
Dr Depreciation Cr Non-current Asset (Being depreciation charged for non-current asset) Dr Profit And Loss Cr Depreciation (Being close and transfer of depreciation to Profit And Loss account)	Dr Depreciation Cr Accumulated Depreciation (Being depreciation charged for non-current asset) Dr Profit And Loss Cr Depreciation (Being close and transfer of depreciation to Profit And Loss account)	Dr Profit And Loss Cr Accumulated Depreciation (Being depreciation charged for non-current asset)



The **debit** and **credit** entries of the **Depreciation account** in **Method 2** are **cancelled**, and thus gives rise to **Method 3**.



## Example 2

(Same information as in **Example 1**)

Ali bought a machine at a cost of RM 32,000 on 1 January Year 1. He estimated the scrap value of the machine would be RM 2,000 after 4 years.

With the help of the **Solution** from **Example 1** as shown below, you are required to record the annual depreciation in the **3 methods** for **4 years** using **straight line method**:

End of Year	Cost (1)	Annual Depreciation (2)		Accumulated Depreciation (3)		Carrying Amount (1) – (3)	
		Straight Line	Reducing Balance	Straight Line	Reducing Balance	Straight Line	Reducing Balance
Year 1	RM 32,000	RM 7,500	RM 16,000 (32,000 x 50%)	RM 7,500	RM 16,000	RM 24,500	RM 16,000
Year 2	32,000	7,500	8,000 (16,000 x 50%)	15,000	24,000	17,000	8,000
Year 3	32,000	7,500	4,000 ( 8,000 x 50%)	22,500	28,000	9,500	4,000
Year 4	32,000	7,500	2,000 ( 4,000 x 50%)	30,000	30,000	2,000	2,000

**Solution:**  
**Straight line method:**



The **annual depreciation** was deducted from its **cost**, thus the **Machinery** account reflected its **carrying amount**.

**Method 1: Accumulated Depreciation account is not opened**

Machinery		
Year 1	RM	
Jan 1 Bank	<b>Cost</b> ----> 32,000	
	<u>32,000</u>	
Year 2	RM	
Jan 1 Balance b/d	24,500	
	<b>Carrying amount</b>	
	<u>24,500</u>	
Year 3	RM	
Jan 1 Balance b/d	17,000	
	<u>17,000</u>	
Year 4	RM	
Jan 1 Balance b/d	9,500	
	<u>9,500</u>	
Year 5	RM	
Jan 1 Balance b/d	2,000	



The **annual depreciation** was **charged** directly to the **Machinery** account.

Depreciation		
Year 1	RM	
Dec 31 Machinery	7,500	
	<u>7,500</u>	
Year 2	RM	
Dec 31 Machinery	7,500	
	<u>7,500</u>	
Year 3	RM	
Dec 31 Machinery	7,500	
	<u>7,500</u>	
Year 4	RM	
Dec 31 Machinery	7,500	
	<u>7,500</u>	
Year 1	RM	
Dec 31 Profit And Loss	7,500	
	<u>7,500</u>	
Year 2	RM	
Dec 31 Profit And Loss	7,500	
	<u>7,500</u>	
Year 3	RM	
Dec 31 Profit And Loss	7,500	
	<u>7,500</u>	
Year 4	RM	
Dec 31 Profit And Loss	7,500	
	<u>7,500</u>	

## Method 2: Accumulated Depreciation account is opened

Machinery		
Year 1 Jan 1 Bank	RM <u>32,000</u>	Year 1 Dec 31 Balance c/d
Year 2 Jan 1 Balance b/d	<b>Cost</b> ---> <u>32,000</u>	Year 2 Dec 31 Balance c/d
Year 3 Jan 1 Balance b/d	<u>32,000</u>	Year 3 Dec 31 Balance c/d
Year 4 Jan 1 Balance b/d	<u>32,000</u>	Year 4 Dec 31 Balance c/d
Year 5 Jan 1 Balance b/d	<u>32,000</u>	

Depreciation		
Year 1 Dec 31 Accumulated Depreciation	RM <u>7,500</u>	Year 1 Dec 31 Profit And Loss
Year 2 Dec 31 Accumulated Depreciation	<u>7,500</u>	Year 2 Dec 31 Profit And Loss
Year 3 Dec 31 Accumulated Depreciation	<u>7,500</u>	Year 3 Dec 31 Profit And Loss
Year 4 Dec 31 Accumulated Depreciation	<u>7,500</u>	Year 4 Dec 31 Profit And Loss



**Hint**  
It is the account where the depreciation accumulated to date is kept.

Accumulated Depreciation		
Year 1 Dec 31 Balance c/d	RM <u>7,500</u>	Year 1 Dec 31 Depreciation
Year 2 Dec 31 Balance c/d	<u>15,000</u>	Year 2 Jan 1 Balance b/d
	<u>15,000</u>	Dec 31 Depreciation
Year 3 Dec 31 Balance c/d	<u>22,500</u>	Year 3 Jan 1 Balance b/d
	<u>22,500</u>	Dec 31 Depreciation
Year 4 Dec 31 Balance c/d	<u>30,000</u>	Year 4 Jan 1 Balance b/d
	<u>30,000</u>	Dec 31 Depreciation
Year 5 Jan 1 Balance b/d		

**Method 3: Depreciation account is not opened**



The annual depreciation was charged directly to the Profit And Loss account.

Machinery

Year 1	RM	Year 1	RM
Jan 1 Bank	32,000	Dec 31 Balance c/d	32,000
Year 2		Year 2	
Jan 1 Balance b/d Cost	32,000	Dec 31 Balance c/d	32,000
Year 3		Year 3	
Jan 1 Balance b/d	32,000	Dec 31 Balance c/d	32,000
Year 4		Year 4	
Jan 1 Balance b/d	32,000	Dec 31 Balance c/d	32,000
Year 5		Jan 1 Balance b/d	32,000

Accumulated Depreciation

Year 1	RM	Year 1	RM
Dec 31 Balance c/d	7,500	Dec 31 Profit And Loss	7,500
Year 2		Year 2	
Dec 31 Balance c/d	15,000	Jan 1 Balance b/d	7,500
	15,000	Dec 31 Profit And Loss	7,500
Year 3		Year 3	
Dec 31 Balance c/d	22,500	Jan 1 Balance b/d	15,000
	22,500	Dec 31 Profit And Loss	7,500
Year 4		Year 4	
Dec 31 Balance c/d	30,000	Jan 1 Balance b/d	22,500
	30,000	Dec 31 Profit And Loss	7,500
Year 5		Year 5	
Jan 1 Balance b/d	30,000	Jan 1 Balance b/d	30,000

Profit And Loss

	Method		
	1	2	3
Year 1			
Dec 31 Depreciation	7,500	7,500	7,500
31 Accumulated Depreciation			
Year 2			
Dec 31 Depreciation	7,500	7,500	7,500
31 Accumulated Depreciation			
Year 3			
Dec 31 Depreciation	7,500	7,500	7,500
31 Accumulated Depreciation			
Year 4			
Dec 31 Depreciation	7,500	7,500	7,500
31 Accumulated Depreciation			



The annual depreciation for the 4 years were the same in the 3 methods.



In Method 3, sometimes the "Depreciation" (which is not the name of the account it is being posted from) rather than "Accumulated Depreciation" is used.

The following are the financial statements for the **3 methods**:

**Income Statement (Extract)**  
For The Year Ended 31 December

		Method		
		1	2	3
	RM	RM	RM	RM
Year 1	Depreciation	7,500	7,500	7,500
	Accumulated Depreciation			
Year 2	Depreciation	7,500	7,500	7,500
	Accumulated Depreciation			
Year 3	Depreciation	7,500	7,500	7,500
	Accumulated Depreciation			
Year 4	Depreciation	7,500	7,500	7,500
	Accumulated Depreciation			

**Statement Of Financial Position (Extract)**  
As At 31 December

		Method		
		1	2	3
	RM	RM	RM	RM
Year 1	<b>Non-current Assets</b>			
	Machinery	24,500	32,000	32,000
	Less: Accumulated Depreciation	(7,500)	(7,500)	(7,500)
Year 2	<b>Non-current Assets</b>			
	Machinery	17,000	32,000	32,000
	Less: Accumulated Depreciation	(15,000)	(15,000)	(15,000)
Year 3	<b>Non-current Assets</b>			
	Machinery	9,500	32,000	32,000
	Less: Accumulated Depreciation	(22,500)	(22,500)	(22,500)
Year 4	<b>Non-current Assets</b>			
	Machinery	2,000	32,000	32,000
	Less: Accumulated Depreciation	(30,000)	(30,000)	(30,000)
			2,000	2,000

**Hint** *Accumulated Depreciation account*  
 ➔ It is shown as a **deduction** from the **cost** of non-current asset.  
 ➔ It is a **contra-asset account**.

**Hint** *The carrying amounts in respective years are the same for the 3 methods.*

**Think 4** What would be the effect on the Statement Of Financial Position if no depreciation was charged?

**Think 3** Which method of recording depreciation would you prefer? Briefly explain.

**Hint** The difference between the 3 methods:

**Method 1:** The **non-current asset** account is kept at **carrying amount**.

**Method 2 & 3:** The **non-current asset** account is kept at **original cost**, together with the **Accumulated Depreciation** account with all the **depreciation charged to date**.



(Same information as in **Example 1**)

Ali bought a machinery at a cost of RM 32,000 on 1 January Year 1. He estimated the scrap value of the machine would be RM 2,000 after 4 years.

With the help of the **Solution** from **Example 1** as shown below, you are required to record the annual depreciation in the **3 methods** for **4 years** using **reducing balance method**:

End of	Cost (1)	Annual Depreciation (2)		Accumulated Depreciation (3)		Carrying Amount (1) – (3)	
		Straight Line	Reducing Balance	Straight Line	Reducing Balance	Straight Line	Reducing Balance
Year 1	RM 32,000	RM 7,500	RM 16,000 (32,000 x 50%)	RM 7,500	RM 16,000	RM 24,500	RM 16,000
Year 2	32,000	7,500	8,000 (16,000 x 50%)	15,000	24,000	17,000	8,000
Year 3	32,000	7,500	4,000 ( 8,000 x 50%)	22,500	28,000	9,500	4,000
Year 4	32,000	7,500	2,000 ( 4,000 x 50%)	30,000	30,000	2,000	2,000



- The **annual depreciation** and the **carrying amounts** were the **same in respective years**, regardless of which method was used.



## Practice 5

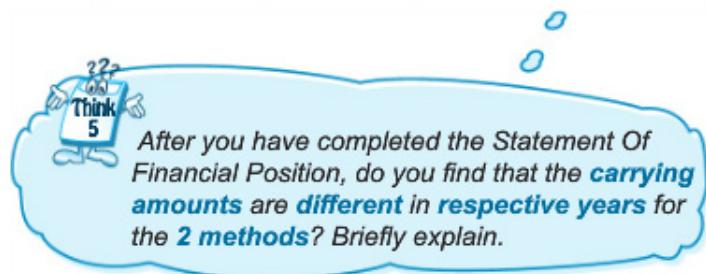
(Same information as in **Practice 1**)

Ali bought a motor vehicle at a cost of RM 50,000 on 1 January Year 1. He estimated the scrap value of the vehicle would be RM 16,384 after 5 years.

With the help of the **Solution** from **Practice 1** as shown below, you are required to prepare the following accounts and financial statements for **2 years** using (a) **straight line method** and (b) **reducing balance method**:

- (i) Motor Vehicle;
- (ii) Accumulated Depreciation;
- (iii) Profit And Loss;
- (iv) Income Statement (Extract);
- (v) Statement Of Financial Position (Extract).

End of Year	Cost (1)	Annual Depreciation (2)		Accumulated Depreciation (3)		Carrying Amount (1) – (3)	
		Straight Line	Reducing Balance	Straight Line	Reducing Balance	Straight Line	Reducing Balance
Year 1	RM 50,000	RM 6,723.20	RM 10,000 (50,000 x 20%)	RM 6,723.20	RM 10,000	RM <b>43,276.80</b>	RM <b>40,000</b>
Year 2	50,000	6,723.20	8,000 (40,000 x 20%)	13,446.40	18,000	<b>36,553.60</b>	<b>32,000</b>



- The **annual depreciation** was **charged** directly to the **Profit And Loss** account.
- **Depreciation** account was **not opened**.

## 11.7 Disposal and Trade-in of Non-current Asset

### 1. Disposal of non-current asset

a. Upon the disposal or sale of a non-current asset, a **Disposal** account is **created** to deal with all the transactions involving the disposal. The **related amounts** of the **non-current asset sold** and its **accumulated depreciation** are **transferred** to the **Disposal** account.

#### b. Accounting entries:

i. Transfer the **cost** of non-current asset sold to the Disposal account:

Dr Disposal  
Cr Non-current Asset

ii. Transfer the **accumulated** / aggregate **depreciation** of non-current asset sold to the Disposal account:

Dr Accumulated Depreciation  
Cr Disposal

iii. Receive the **disposal proceeds**:

Dr Bank / Cash  
Cr Disposal

iv. Balance the Disposal account to find out the **gain** or **loss on disposal**, and transfer the difference to the Profit And Loss account:

Dr Disposal  
Cr Profit And Loss - Gain On Disposal

or

Dr Profit And Loss - Loss On Disposal  
Cr Disposal



**Gain On Disposal** → **Disposal Proceeds > Carrying Amount**  
**Loss On Disposal** → **Disposal Proceeds < Carrying Amount**



### Example 3

(Same information as in **Example 1**)

Ali bought a machine at a cost of RM 32,000 on 1 January Year 1. He estimated the scrap value of the machine would be RM 2,000 after 4 years.

On 31 December Year 2, the machine was sold for RM 12,000.

You are required to prepare the following accounts and financial statements for **2 years** using **straight line method**:

- |                               |  |
|-------------------------------|--|
| (a) Machinery;                | (e) Profit And Loss;                           |
| (b) Depreciation;             | (f) Income Statement (Extract);                |
| (c) Accumulated Depreciation; | (g) Statement Of Financial Position (Extract). |
| (d) Disposal Of Machinery;    |  |

**Solution:**  
**Straight line method:**

(a)		Machinery		
Year 1		RM	Year 1	
Jan 1 Bank	32,000		Dec 31 Balance c/d	32,000
<hr/>		<hr/>		
Year 2		Year 2		
Jan 1 Balance b/d	32,000	Dec 31 Disposal Of Machinery	32,000	
<hr/>		<hr/>		
(b)		Depreciation		
Year 1		RM	Year 1	
Dec 31 Accumulated Depreciation	7,500		Dec 31 Profit And Loss	7,500
<hr/>		<hr/>		
Year 2		Year 2		
Dec 31 Accumulated Depreciation	7,500	Dec 31 Profit And Loss	7,500	
<hr/>		<hr/>		
(c)		Accumulated Depreciation		
Year 1		RM	Year 1	
Dec 31 Balance c/d	7,500		Dec 31 Depreciation	7,500
<hr/>		<hr/>		
Year 2		Year 2		
Dec 31 Disposal Of Machinery	15,000	Jan 1 Balance b/d	7,500	
<hr/>		<hr/>		
	15,000	Dec 31 Depreciation	7,500	
<hr/>		<hr/>		
(d)		Disposal Of Machinery		
Year 2	<i>Cost</i>	RM	Year 2	
Dec 31 Machinery	32,000		Dec 31 Accumulated Depreciation	15,000
<hr/>		<hr/>		
	32,000	31 Bank	12,000	
<hr/>		<hr/>		
		31 Profit And Loss	- <i>Loss On Disposal</i> 5,000	
<hr/>		<hr/>		
	32,000	<hr/>		
<i>Depreciation accumulated up to the date of disposal</i>		<i>Disposal proceeds</i>		
(e)		Profit And Loss		
Year 1		RM		
Dec 31 Depreciation	7,500			
<hr/>		<hr/>		
Year 2		7,500		
Dec 31 Depreciation	7,500			
31 Loss On Disposal	5,000			
<hr/>		<hr/>		
<b>Hint</b>  <i>Disposal Proceeds – Carrying Amount</i> $= RM 12,000 - RM (32,000 - 15,000)$ $= RM 12,000 - RM 17,000$ $= RM 5,000$		<hr/>		

(f)

**Income Statement** (Extract)  
For The Year Ended 31 December

	RM
Year 1 Depreciation	7,500
Year 2 Depreciation	7,500
Loss On Disposal	5,000



If no depreciation is charged in the year of disposal, there will be no effect on the Net Profit.

(g)

**Statement Of Financial Position** (Extract)  
As At 31 December

	RM
Year 1 Non-current Assets	
Machinery	32,000
Less: Accumulated Depreciation	(7,500)
	<u>24,500</u>



Why is there no information on Statement Of Financial Position for Year 2?



**Practice 4**

(Same information as in Example 1)

Ali bought a machine at a cost of RM 32,000 on 1 January Year 1. He estimated the scrap value of the machine would be RM 2,000 after 4 years.

On 31 December Year 2, the machine was sold for RM 12,000.

You are required to prepare the following accounts and financial statements for **2 years** using **reducing balance method** at 50% per annum:

- (a) Machinery;
- (b) Depreciation;
- (c) Accumulated Depreciation;
- (d) Disposal Of Machinery;
- (e) Profit And Loss;
- (f) Income Statement (Extract);
- (g) Statement Of Financial Position (Extract).



1. **Gain On Disposal:** RM 4,000.

Ali bought a motor vehicle at a cost of RM 50,000 on 1 January Year 1. He estimated the scrap value of the vehicle would be RM 16,384 after 5 years.

On 31 December Year 2, the motor vehicle was sold for RM 20,000.

You are required to prepare the following accounts for **2 years** using (a) **straight line method** and (b) **reducing balance method** at 20% per annum:

- (i) Motor Vehicle;
- (ii) Accumulated Depreciation;
- (iii) Disposal Of Motor Vehicle.



1. **Loss On Disposal:** (a) Straight line method: RM 16,553.60;  
 (b) Reducing balance method: RM 12,000.



What was the **effect on disposal** for the **2 different methods of calculating depreciation?**

**2. Trade-in of non-current asset**

- a. When a new non-current asset is bought from and the old / used non-current asset is sold to the same dealer, it is known as a **trade-in transaction** (i.e. **exchange an old non-current asset for a new asset**). The old non-current asset will then be given a **trade-in value** 易新价值 / **trade-in allowance** 抵换折价 by the dealer as **part payment** of the **new asset bought**.

b. Accounting entries:

- i. Transfer the **cost** of non-current asset sold to the Disposal account:

Dr Disposal  
 Cr Non-current Asset

- ii. Transfer the **accumulated depreciation** of non-current asset sold to the Disposal account:

Dr Accumulated Depreciation  
 Cr Disposal

- iii. The old non-current asset is used in exchange for a new asset, an **amount is payable or receivable**:

Dr New Non-current Asset  
 Cr Disposal  
 Cr Bank / Cash / Other Payable  
 or  
 Dr New Non-current Asset  
 Dr Bank / Cash / Other Receivable  
 Cr Disposal



**Amount Payable** → **Cost Of New Non-current Asset > Trade-in Value**  
**Amount Receivable** → **Cost Of New Non-current Asset < Trade-in Value**

iv. Balance the Disposal account to find out the **gain or loss on disposal**, and transfer the difference to the Profit And Loss account:

Dr      Disposal  
Cr      Profit And Loss - Gain On Disposal  
**or**  
Dr      Profit And Loss - Loss On Disposal  
Cr      Disposal



**Gain On Disposal** → **Trade-in Value > Carrying Amount**  
**Loss On Disposal** → **Trade-in Value < Carrying Amount**



#### Example 4

(Same information as in **Example 1**)

Ali bought a machine at a cost of RM 32,000 on 1 January Year 1. He estimated the scrap value of the machine would be RM 2,000 after 4 years.

On 31 December Year 3, the machine was sold to Jati Company in exchange for a new machine. The **trade-in value** of the old machine was RM 5,000 and the purchase price of the new machine was RM 40,000.



**Hint** When the old machine was traded in,  
the **trade-in value** was used as the  
**disposal proceeds**.

You are required to prepare the following accounts and financial statements for **3 years** using **reducing balance method** at 50% per annum:

- (a) Machinery;
- (b) Accumulated For Depreciation;
- (c) Disposal Of Machinery;
- (d) Profit And Loss;
- (e) Income Statement (Extract);
- (f) Statement Of Financial Position (Extract).

**Solution:**  
**Reducing balance method:**

(a)	Machinery	
Year 1	RM	Year 1
Jan 1 Bank	<u>32,000</u>	Dec 31 Balance c/d
Year 2		<u>32,000</u>
Jan 1 Balance b/d	<u>32,000</u>	Year 2
Year 3		Jan 1 Balance c/d
Jan 1 Balance b/d	32,000	<u>32,000</u>
Dec 31 Disposal Of Machinery		Year 3
- Trade-in Value	5,000	Dec 31 Disposal Of Machinery
31 Jati Company	<u>35,000</u>	31 Balance c/d
<i>Cost of new machinery</i>	<u>72,000</u>	<u>40,000</u>
Year 4		<u>72,000</u>
Jan 1 Balance b/d	40,000	

**Hint** *Amount Payable* = Cost Of New Machinery – Trade-in Value  
= RM 40,000 – RM 5,000  
= RM 35,000

(b)	Accumulated Depreciation	
Year 1	RM	Year 1
Dec 31 Balance c/d	<u>16,000</u>	Dec 31 Profit And Loss
Year 2		<u>16,000</u>
Dec 31 Balance c/d	<u>24,000</u>	Year 2
	<u>24,000</u>	Jan 1 Balance b/d
		Dec 31 Profit And Loss
		<u>8,000</u>
	<u>24,000</u>	<u>24,000</u>
Year 3		Year 3
Dec 31 Disposal Of Machinery	28,000	Jan 1 Balance b/d
	<u>28,000</u>	Dec 31 Profit And Loss
		<u>4,000</u>
	<u>28,000</u>	<u>28,000</u>

(c) Disposal Of Machinery

	Cost RM		Depreciation accumulated up to the date of disposal RM
Year 3			
Dec 31 Machinery (Old)	32,000	Year 3	28,000
31 Profit And Loss		31 Machinery(New)	5,000
- Gain On Disposal	<b>1,000</b>		
	33,000		33,000

**Hint** **Gain On Disposal** = Trade-in Value – Carrying Amount  
 $= RM\ 5,000 - RM\ (32,000 - 28,000)$   
 $= RM\ 5,000 - RM\ 4,000$   
 $= RM\ 1,000$

(d) Profit And Loss

	RM		RM
Year 1			
Dec 31 Accumulated Depreciation	16,000		
Year 2			
Dec 31 Accumulated Depreciation	8,000		
Year 3			
Dec 31 Accumulated Depreciation	4,000	Year 3	1,000
		Dec 31 Gain On Disposal	

(e) Income Statement (Extract)  
For The Year Ended 31 December

	RM		RM
Year 1 Accumulated Depreciation	16,000		
Year 2 Accumulated Depreciation	8,000		
Year 3 Accumulated Depreciation	4,000	Year 3 Gain On Disposal	1,000

(f) Statement Of Financial Position(Extract)  
As At 31 December

	RM		
Year 1 Non-current Assets			
Machinery	32,000		
Less: Accumulated Depreciation	(16,000)		
	16,000		
Year 2 Non-current Assets			
Machinery	32,000		
Less: Accumulated Depreciation	(24,000)		
	8,000		
Year 3 Non-current Assets			
Machinery	40,000		
Less: Accumulated Depreciation	-		
	40,000		

???

Think 8

Why was there **no charging** of depreciation for the new machine in Year 3?



## Practice 6

(Same information as in **Practice 1**)

Ali bought a motor vehicle at a cost of RM 50,000 on 1 January Year 1. He estimated the scrap value of the vehicle would be RM 16,384 after 5 years.

On 31 December Year 3, the motor vehicle was sold to Fatt Cai Dealer and exchanged for a new motor vehicle. The trade-in value of the old motor vehicle was RM 10,000 and the purchase price of the new motor vehicle was RM 55,000.

You are required to prepare the following accounts and financial statements for **3 years** using **reducing balance method** at 20% per annum:

- (a) Motor Vehicle;
- (b) Accumulated Depreciation;
- (c) Disposal Of Motor Vehicle;
- (d) Profit And Loss;
- (e) Income Statement (Extract);
- (f) Statement Of Financial Position (Extract).



1. **Loss On Disposal:** RM 15,600.
2. **Amount payable:** RM 45,000.
3. **Carrying amount** of motor vehicle at the end of **Year 3:** RM 55,000.

### 11.8 Depreciation for a Fractional Period

1. Not all non-current assets are bought on the first day or sold on the last day of an accounting period. A business may **buy** or **dispose non-current assets** at **any time** during an **accounting period**. When this happens, different businesses may adopt different policies to calculate the depreciation for a fractional period.
2. The accounting policies may be as follows:
  - a. **Depreciation** is based on the **number of months of ownership** or usage. It is calculated as follows:

$$\text{Depreciation for a fractional period} = \text{Annual Depreciation} \times \frac{\text{Fractional period in month}}{12 \text{ Months}}$$

- b. A **full year's depreciation** is charged in the year of **acquisition** and **disposal**;
- c. A **full year's depreciation** is charged in the year of **acquisition** but **no depreciation** is charged in the year of **disposal**.



### Example 5



**Hint** The machine was owned and used by Ali for a fractional period of 3 months in Year 2.

(Same information as in Example 1)

Ali bought a machine at a cost of RM 32,000 on 1 January Year 1. He estimated the scrap value of the machine would be RM 2,000 after 4 years.

On 31 March Year 2, the machine was sold for RM 12,000.

You are required to prepare the following accounts and financial statements for **2 years** using **reducing balance method** at 50% per annum for the **3 different accounting policies** mentioned in 11.8:

- (a) Machinery;
- (b) Depreciation;
- (c) Accumulated Depreciation;
- (d) Disposal Of Machinery;
- (e) Profit And Loss;
- (f) Income Statement (Extract);
- (g) Statement Of Financial Position (Extract).

#### Solution:

##### Reducing balance method:

**Policy a: Depreciation is based on the number of months of ownership**

(a)	Machinery	
Year 1		RM
Jan 1 Bank	32,000	<u>          </u>
Year 2		
Jan 1 Balance b/d	32,000	<u>          </u>
Year 1		RM
Dec 31 Balance c/d		32,000
Year 2		
Mar 31 Disposal Of Machinery		32,000
		<u>          </u>

(b)	Depreciation	
Year 1		RM
Dec 31 Accumulated Depreciation	16,000	<u>          </u>
Year 2		
Mar 31 Accumulated Depreciation <b>(Working)</b>	2,000	<u>          </u>
Year 1		RM
Dec 31 Profit And Loss		16,000
Year 2		
Dec 31 Profit And Loss		2,000
		<u>          </u>



**Hint** Depreciation for a **fractional period** was charged on **disposal**.

(c) Accumulated Depreciation	
Year 1	RM
Dec 31 Balance c/d	16,000
	<u>          </u>
Year 2	RM
Mar 31 Disposal Of Machinery	18,000
	<u>          </u>
	18,000
	<u>          </u>
Jan 1 Balance b/d	16,000
Mar 31 Depreciation	2,000
	<u>          </u>
	18,000
	<u>          </u>



The entries were recorded at the **date of disposal**.



The **loss** was **not recorded** at the **date of disposal** (i.e. 31 March Year 2). Why?

## Working:

$$\begin{aligned}
 \text{Depreciation for a fractional period} &= \text{Annual Depreciation} \times \frac{\text{Fractional period in month}}{12 \text{ Months}} \\
 &= \text{RM } 8,000 \times \frac{3}{12} \\
 &= \text{RM } 2,000
 \end{aligned}$$

**Policy b: A full year's depreciation is charged on acquisition and disposal**

(a)	Machinery		
Year 1	RM	Year 1	
Jan 1 Bank	32,000	Dec 31 Balance c/d	RM
	<u>          </u>		<u>          </u>
Year 2		Year 2	
Jan 1 Balance b/d	32,000	Mar 31 Disposal Of Machinery	32,000
	<u>          </u>		<u>          </u>

(b)	Depreciation		
Year 1	RM	Year 1	
Dec 31 Accumulated Depreciation	16,000	Dec 31 Profit And Loss	RM
	<u>          </u>		<u>          </u>
Year 2		Year 2	
Mar 31 Accumulated Depreciation	8,000	Dec 31 Profit And Loss	8,000
	<u>          </u>		<u>          </u>



*Depreciation for a **whole year** was charged on **disposal**.*

(c)	Accumulated Depreciation		
Year 1	RM	Year 1	
Dec 31 Balance c/d	16,000	Dec 31 Depreciation	RM
	<u>          </u>		<u>          </u>
Year 2		Year 2	
Mar 31 Disposal Of Machinery	24,000	Jan 1 Balance b/d	16,000
	<u>          </u>	Mar 31 Depreciation	8,000
	<u>          </u>		<u>          </u>
	24,000		24,000
	<u>          </u>		<u>          </u>

(d)	Disposal Of Machinery		
Year 2	RM	Year 2	
Mar 31 Machinery	32,000	Mar 31 Accumulated Depreciation	24,000
Dec 31 Profit And Loss		31 Bank	12,000
- Gain On Disposal	4,000		
	<u>          </u>		<u>          </u>
	36,000		36,000
	<u>          </u>		<u>          </u>

**Policy c: A full year's depreciation is charged on acquisition but no depreciation is charged on disposal**

(a)		Machinery	
Year 1	RM	Year 1	RM
Jan 1 Bank	32,000	Dec 31 Balance c/d	32,000
Year 2		Year 2	
Jan 1 Balance b/d	32,000	Mar 31 Disposal Of Machinery	32,000

(b)		Depreciation	
Year 1	RM	Year 1	RM
Dec 31 Accumulated Depreciation	16,000	Dec 31 Profit And Loss	16,000
Year 2		Year 2	
Mar 31 Accumulated Depreciation	-	Dec 31 Profit And Loss	-

These  
2 rows  
can be  
omitted.

(c)		Accumulated Depreciation	
Year 1	RM	Year 1	RM
Dec 31 Balance c/d	16,000	Dec 31 Depreciation	16,000
Year 2		Year 2	
Mar 31 Disposal Of Machinery	16,000	Jan 1 Balance b/d	16,000
		Mar 31 Depreciation	-
	16,000		16,000

This row  
can be  
omitted.

(d)		Disposal Of Machinery	
Year 2	RM	Year 2	RM
Mar 31 Machinery	32,000	Mar 31 Accumulated Depreciation	16,000
		31 Bank	12,000
		Dec 31 Profit And Loss	
		- Loss On Disposal	4,000
	32,000		32,000



(e)

## Profit And Loss

	Policy			Year 2 Gain On Disposal	Policy		
	a	b	c		a	b	c
	RM	RM	RM				
Year 1 Depreciation	16,000	16,000	16,000				
Year 2 Depreciation	2,000	8,000	-	Year 2 Gain On Disposal	-	4,000	-
Loss On Disposal	2,000	-	4,000				

The following are the financial statements for the **3 different policies**:

(f)

## Income Statement (Extract)

For The Year Ended 31 December

	Policy			Year 2 Gain On Disposal	Policy		
	a	b	c		a	b	c
	RM	RM	RM				
Year 1 Depreciation	16,000	16,000	16,000				
Year 2 Depreciation	2,000	8,000	-	Year 2 Gain On Disposal	-	4,000	-
Loss On Disposal	2,000	-	4,000				

(g)

## Statement Of Financial Position (Extract)

As At 31 December

	Policy		
	a	b	c
	RM	RM	RM
Year 1 Non-current Assets			
Machinery	32,000	32,000	32,000
Less: Accumulated Depreciation	(16,000)	(16,000)	(16,000)
	16,000	16,000	16,000



## Practice 7

(Same information as in Practice 1)

Ali bought a motor vehicle at a cost of RM 50,000 on 1 January Year 1. He estimated the scrap value of the vehicle would be RM 16,384 after 5 years.

On 30 September Year 2, the motor vehicle was sold for RM 20,000.

You are required to prepare the following accounts and financial statements for **2 years** using **reducing balance method** at 20% per annum in the **3 different accounting policies** mentioned in **11.8**:

- (a) Motor Vehicle;
- (b) Depreciation;
- (c) Accumulated Depreciation;
- (d) Disposal Of Motor Vehicle;
- (e) Profit And Loss;
- (f) Income Statement (Extract);
- (g) Statement Of Financial Position (Extract).



The motor vehicle was owned and used for a **fractional period** of **9 months** in Year 2.

	Policy		
	a	b	c
Year 2:	RM	RM	RM
1. Depreciation	6,000	8,000	-
2. Loss On Disposal	14,000	12,000	20,000



## Practice 8

Pacific Enterprise's financial year ended on 31 December each year. The transactions for its non-current assets during Year 1, Year 2 and Year 3 were as follows:

### Year 1

- January 1 Machine A was bought for RM 15,000.  
March 1 Machine B was bought for RM 20,000.

### Year 2

- July 1 Machine C was bought for RM 25,000.

### Year 3

- September 1 Machine A was traded in for a value of RM 10,000, and Machine D of RM 30,000 was exchanged.  
The balance of Machine D was paid by cheque.

The machinery of the business was depreciated on a **straight line basis** at a rate of 20% per annum.

The accounting policies adopted for the depreciation were as follows:

- (i) When an asset was bought in the first half of the financial year, full year's depreciation was charged;
- (ii) When an asset was bought in the second half of the financial year, a half year's depreciation was charged;
- (iii) When an asset was sold, no depreciation was charged in the year of disposal.

You are required to prepare the following accounts for the financial year ended 31 December Year 1, Year 2 and Year 3:

- (a) Machinery;
- (b) Accumulated Depreciation Of Machinery;
- (c) Disposal Of Machinery.

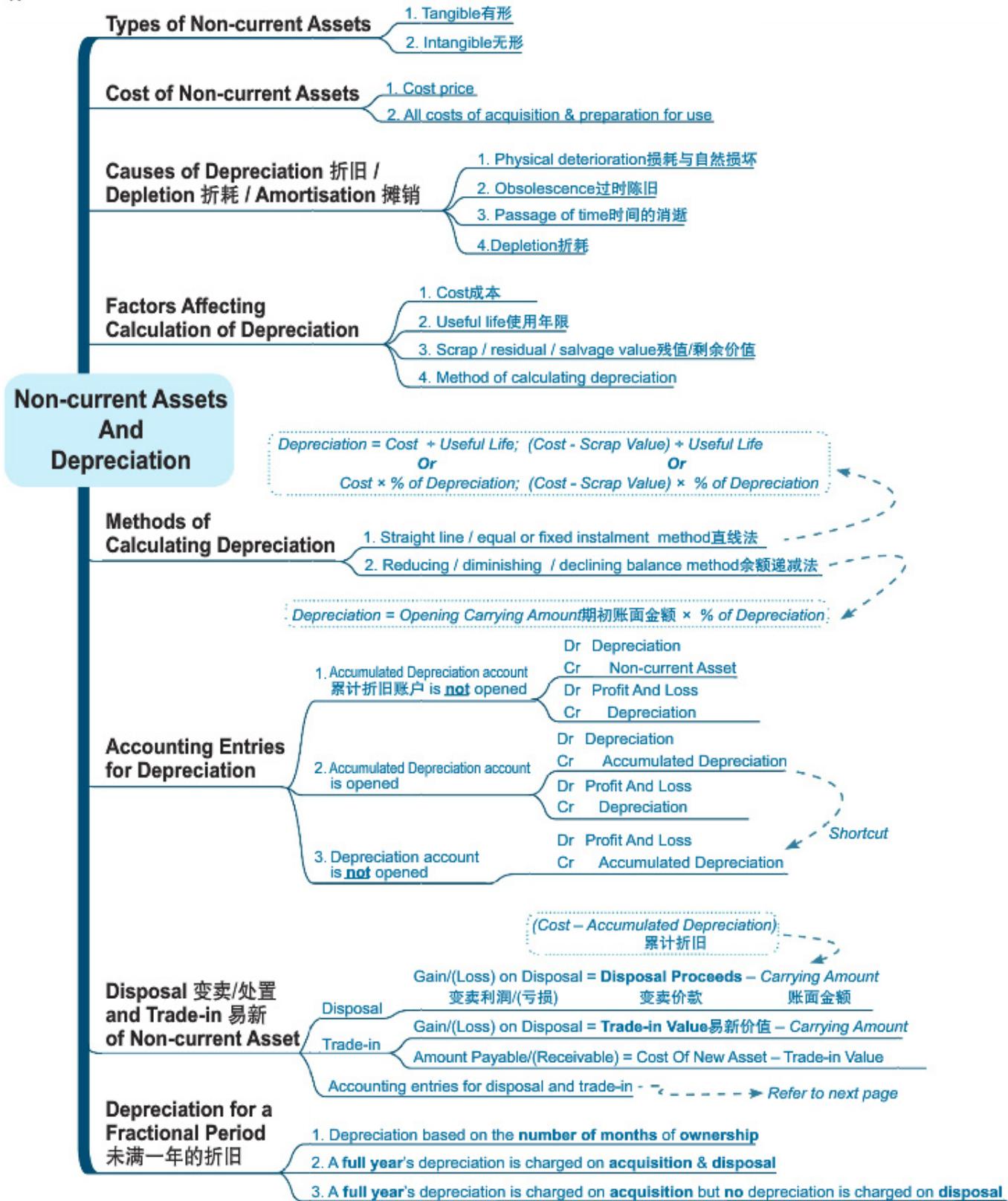


31 Dec Year 3:

1. **Machinery:** RM 75,000.
2. **Accumulated Depreciation Of Machinery:** RM 22,500.
3. **Gain On Disposal:** RM 1,000.



1.



2. Accounting entries for **disposal** of non-current asset:

If depreciation is charged  
in the **year of disposal**.

Non-current Asset		Accumulated Depreciation	
Balance b/d	RM XX	Disposal	RM XX
<b>Disposal</b>			
Cost --> Non-current Asset	RM XX	Accumulated Depreciation	RM XX
<i>Depreciation accumulated up to the date of disposal</i>			
		Bank / Cash	XX
		Profit And Loss - Loss On Disposal	XX
<i>Disposal proceeds</i>		<i>Carrying Amount</i>	
<i>Loss → Disposal Proceeds &lt; Carrying Amount or Gain → Disposal Proceeds &gt; Carrying Amount</i>			

3. Accounting entries for **trade-in** of Non-current asset:

Non-current Asset	
Balance b/d	RM XX
Cost of new asset	XX
Disposal - Trade-in Value	XX
Bank / Cash / Other Payable	XX
<i>Amount Payable → Cost Of New Asset &gt; Trade-in Value or Amount Receivable → Cost Of New Asset &lt; Trade-in Value</i>	
Balance b/d	XX
<b>Disposal</b>	
Cost --> Non-current Asset (Old)	RM XX
<i>Depreciation accumulated up to the date of disposal</i>	
Accumulated Depreciation	RM XX
Non-current Asset (New)	XX
Profit And Loss - Loss On Disposal	XX
<i>Trade-in value; as part payment of new asset</i>	
<i>Loss → Trade-in Value &lt; Carrying Amount or Gain → Trade-in Value &gt; Carrying Amount</i>	



The **differences** between the entries for **disposal** and **trade-in** are shown in the above **shaded areas**.

# **End-of-period Adjustments**



## **Learning Objectives**

After studying this chapter, you should be able to:

- ☛ understand the purpose of end-of-period adjustments;
- ☛ adjust income account for amount owing and received in advance;
- ☛ adjust expense account for amount owing and paid in advance;
- ☛ record accruals and prepayments in two different methods;
- ☛ transfer the total / actual income earned and expense incurred to Profit And Loss account;
- ☛ record opening and closing inventory, and drawings;
- ☛ show the end-of-period adjustment items in Ledger and financial statements;
- ☛ prepare a Worksheet.



### **12.1 Purpose of End-of-period Adjustments**

1. To ensure that the **income earned** in the **current accounting period** is **matched** with the **expenses incurred** for the same accounting period, irrespective of **whether** cash has been **received or paid**.

Thus, the **true profit or loss** figure for the period can be determined:

$$\text{Net Profit} / (\text{Net Loss}) = \text{Income Earned} - \text{Expenses Incurred}$$

2. **Adjustments** which have **not** been **taken into account** usually appear **below** a **Trial Balance**. These adjustments have to be recorded in order to show the **true value** of **assets, equity** and **liabilities** for a particular accounting year of a business.

In other words, the **adjustments** will **affect** the results of **financial statements** (i.e. Income Statement and Statement Of Financial Position).

## 12.2 Types of End-of-period Adjustments

The following are the **main types** of **adjustments** needed at the end of reporting period:

- a. Accrued income;
- b. Unearned income;
- c. Accrued expense;
- d. Prepaid expense;
- e. Closing inventory;
- f. Drawings;
- g. Bad debts and allowance for doubtful debts (Chapter 9);
- h. Depreciation of non-current assets (Chapter 11).

### 12.3 Accrued Income

(i.e. Income **earned** in the **current year** but **not yet received**)

1. **Income** is considered **earned** in the **current year** when **service** is **rendered** or goods sold in the year, irrespective of **whether** cash has been **received**.
2. Accounting entries:
  - a. If cash has been received as an income:  
Dr Cash / Bank  
Cr Income (A)
  - b. If there is an income **earned** in the **current year** but **not yet received** at the end of financial year, it has to be **added** to the amount of **income received** in the year, in order to arrive at the **total income earned** for the year:  
Dr Accrued Income  
Cr Income (B)
  - c. At the end of financial year, the **total income earned** for the current year has to be transferred to **Profit And Loss** account:  
Dr Income (A+B)  
Cr Profit And Loss
  - d. **Accrued Income** account with a **debit** balance will be shown in Statement Of Financial Position under **Current Assets**. It is the income **earned** in the **current year** but **not yet received** at the end of financial year.  
It is the **income** for the **current year** but will only be collected in the **following year**.



## Example 1

On 1 February Year 1, Ah Lee opened a fixed deposit account with an amount of RM 30,000 in Public Bank. Interest earned was 4% per annum. The bank paid interest quarterly on 1 May, 1 August, 1 November of Year 1, and 1 February of Year 2.

Ah Lee's financial year ended on 31 December.

The following were the records for Year 1 in the books of Ah Lee:

### Solution:

**General Journal**

Year 1		Debit RM	Credit RM
May 1	Bank	300	
Aug 1	Bank	300	
Nov 1	Bank Interest Income (Being quarterly interest received on 1 May, 1 August and 1 November)	300	900
Dec 31	Accrued Interest Income Interest Income (Being interest earned but not yet received for November and December)	200	200
31	Interest Income Profit And Loss (Being total interest earned for the year transferred to Profit And Loss account)	1,100	1,100

**Method 1: Accrued Income account is opened**

General Ledger			
Bank			
Year 1	RM		
May 1 Interest Income	300		
Aug 1 Interest Income	300		
Nov 1 Interest Income	300		
Interest Income			
Year 1	RM	Year 1	
Dec 31 Profit And Loss	1,100	May 1 Bank	300
		Aug 1 Bank	300
		Nov 1 Bank	300
		Dec 31 Accrued Interest Income	200
	<u>1,100</u>		<u>1,100</u>
Accrued Interest Income			
Year 1	RM	Year 1	
Dec 31 Interest Income	200	Dec 31 Balance c/d	200
<u>200</u>		<u>200</u>	
Year 2			
Jan 1 Balance b/d	200		
Profit And Loss			
???		Year 1	
Think 1		Dec 31 Interest Income	RM
What was the <i>period covered</i> for RM 1,100 in Year 1?			1,100
Ah Lee Income Statement (Extract) For The Year Ended 31 December Year 1			
		RM	
	Interest Income	1,100	
Ah Lee Statement Of Financial Position (Extract) As At 31 December Year 1			
Current Assets	RM		
Accrued Interest Income	200	???	
Think 2		What was the <i>period covered</i> for the accrued interest income of RM 200 in Year 1?	

## Method 2: Accrued Income account is not opened

Interest Income			
Year 1	RM	Year 1	
Dec 31 Profit And Loss	1,100	May 1 Bank	300
		Aug 1 Bank	300
		Nov 1 Bank	300
		Dec 31 <b>Balance c/d</b>	200
	<hr/> <hr/> 1,100		<hr/> <hr/> 1,100
Year 2			
Jan 1 <b>Balance b/d</b>	200		



**Balance c/d & Balance b/d**  
They can be shown as  
**Accrued c/d / Arrears c/d &**  
**Accrued b/d / Arrears b/d.**

### Practice 1

Ah Lee was given a 5% commission on the sale of electrical goods. He received the commission from January to November of Year 1 amounting to RM 15,000. For the financial year ended 31 December Year 1, he did not receive the commission for the month of December for sales totalling RM 52,000.

You are required to record the above transactions in the books of Ah Lee for Year 1, including financial statements (extract).



- ☞ **Commission earned:** January to December of Year 1.
- 1. **Commission earned** (12 months): RM 17,600.
- 2. **Accrued commission income** (1 month): RM 2,600.

### 12.4 Unearned Income (i.e. Income received in the current year but not yet earned)

1. Sometimes customer may **pay in advance** or are required to pay a deposit **before service is provided** to him.

This means that the cash received in the **current year** is **not** yet **earned**. It is just an **unearned income** or **income received in advance**.

2. Accounting entries:
  - a. If cash has been received as an income:  
 Dr Cash / Bank  
 Cr Income (A)
  - b. If a portion of the **cash** received is the **unearned income** or **income received in advance**, it has to be **deducted** from the amount of **income received** in the current year, in order to arrive at the **actual income earned** for the year:  
 Dr Income (B)  
 Cr Unearned Income
  - c. At the end of financial year, the **actual income earned** for the current year has to be transferred to **Profit And Loss** account:  
 Dr Income (A – B)  
 Cr Profit And Loss
  - d. **Unearned Income** account with a **credit** balance will be shown in Statement Of Financial Position under **Current Liabilities**. It is the income **received** in the **current year** but **not** yet **earned** at the end of financial year.  
 It is the **income** for the **following year** but **received** in the **current year**.



### Example 2

Ah Lee sublet part of his premise to ABC Company on 1 September Year 2. The rental was RM 1,500 per month, payable quarterly on 1 September, 1 December of Year 2, and 1 March, 1 June of Year 3. During the financial year ended 31 December Year 2, the total amount of rental received was RM 9,000.

The following were the records for Year 2 in the books of Ah Lee:

#### Solution:

**General Journal**

Year 2		Debit RM	Credit RM
Sept 1 Dec 1	Bank Bank Rental Income (Being rental received quarterly on 1 September and 1 December)	4,500 4,500	9,000
Dec 31	Rental Income Unearned Rental Income (Being rental received in advance for January and February of Year 3)	3,000	3,000
31	Rental Income Profit And Loss (Being actual rental earned for the year transferred to Profit And Loss account)	6,000	6,000

**Method 1: Unearned Income account is opened**

General Ledger			
Bank			
Year 2	RM		
Sept 1 Rental Income	4,500		
Dec 1 Rental Income	4,500		
Rental Income			
Year 2	RM	Year 2	RM
Dec 31 Unearned Rental Income	3,000	Sept 1 Bank	4,500
31 Profit And Loss	6,000	Dec 1 Bank	4,500
	<hr/>		<hr/>
	9,000		9,000
Unearned Rental Income			
Year 2	RM	Year 2	RM
Dec 31 Balance c/d	3,000	Dec 31 Rental Income	3,000
	<hr/>		<hr/>
Profit And Loss			
 <b>Think 3</b> How many months of the rental income were earned in Year 2?			
Year 2	RM	Year 2	RM
Dec 31 Rental Income	6,000	Dec 31 Rental Income	6,000
	<hr/>		<hr/>
Ah Lee Income Statement (Extract) For The Year Ended 31 December Year 2			
		Rental Income	RM
		6,000	6,000
Ah Lee Statement Of Financial Position (Extract) As At 31 December Year 2			
 <b>Think 4</b> How many months of this rental received in advance were unearned in Year 2?			
Current Liabilities	RM	Unearned Rental Income	3,000

**Method 2: Unearned Income account is not opened**

		Rental Income	
Year 2	RM	Year 2	RM
Dec 31 Profit And Loss	6,000	Sept 1 Bank	4,500
31 <b>Balance c/d</b>	<b>3,000</b>	Dec 1 Bank	4,500
	<hr/>		<hr/>
	<b>9,000</b>		<b>9,000</b>
<b>Input</b>			
<b>Balance c/d &amp; Balance b/d</b>			
<i>They can be shown as</i>			
<i>Prepaid c/d / Advance c/d &amp;</i>			
<i>Prepaid b/d / Advance b/d.</i>			



On 1 August Year 2, Ah Lee had 300 customers who had paid the annual subscription of New Image Magazine at RM 240 each.

Ah Lee's financial year ended on 31 December.

You are required to record the above transactions in the books of Ah Lee for Year 2, including financial statements (extract).



- **Magazine subscription earned:** August to December of Year 2.
- 1. **Magazine subscription earned** (5 months): RM 30,000.
- 2. **Unearned magazine subscription** (7 months): RM 42,000.

## 12.5 Accrued Expense

(i.e. Expense incurred in the current year but not yet paid)

- Expense incurs in the current year, irrespective of whether cash has been paid, should be matched against the income for the current year.
- Accounting entries:
  - If cash has been paid as an expense:  
Dr Expense (A)  
Cr Cash / Bank
  - If there is an outstanding expense incurred in the current year but not yet paid at the end of financial year, it has to be added to the amount of expense paid in the year, in order to arrive at the total expense incurred for the year:  
Dr Expense (B)  
Cr Accrued Expense
  - At the end of financial year, the total expense incurred for the current year has to be transferred to Profit And Loss account:  
Dr Profit And Loss  
Cr Expense (A+B)
  - Accrued Expense** account with a credit balance will be shown in Statement Of Financial Position under Current Liabilities. It is the expense incurred in the current year but not yet paid at the end of financial year.  
It is the expense for the current year but will only be made in the following year.



### Example 3

Ah Lee paid telephone expense amounting to RM 2,250 on 31 December Year 3. It did not include the telephone charge of RM 320 for the month of December Year 3. Ah Lee paid the amount due on 10 January Year 4.

The following were the records for Year 3 in the books of Ah Lee:

#### Solution:

General Journal

Year 3		Debit RM	Credit RM
Dec 31	Telephone Expense Bank (Being telephone expense paid)	2,250	2,250
31	Telephone Expense Accrued Telephone Expense (Being telephone charge incurred but not yet paid for December)	320	320
31	Profit And Loss Telephone Expense (Being total telephone expense incurred for the year transferred to Profit And Loss account)	2,570	2,570

#### **Method 1: Accrued Expense account is opened**

## General Ledger

## Telephone Expense

<b>Year 3</b>	<b>RM</b>	<b>Year 3</b>	<b>RM</b>
Dec 31 Bank	2,250	Dec 31 Profit And Loss	2,570
31 Accrued Telephone Expense	320		
	<hr/>		<hr/>
	2,570		2,570

### Accrued Telephone Expense

Year 3 Dec 31 Balance c/d	RM 320	Year 3 Dec 31 Telephone Expense	RM 320
Year 4 Jan 1 Balance b/d	320		

## Profit And Loss

Year 3 RM  
Dec 31 Telephone Expense 2,570

Ah Lee

## **Income Statement (Extract)**

Telephone Expense RM 2,570

Ah Lee

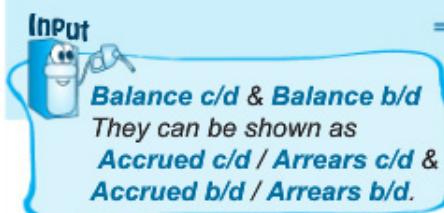
## **Statement Of Financial Position (Extract)**

AS AT 31 DECEMBER, YEAR 6	RM
<b>Current Liabilities</b>	
Accrued Telephone Expense	320

#### **Method 2: Accrued Expense account is not opened**

### Telephone Expense

Year 3	RM	Year 3	RM
Dec 31 Bank	2,250	Dec 31 Profit And Loss	2,570
31 Balance c/d	320		
	<hr/>		<hr/>
	2,570		2,570
<b>Input</b>			
Balance c/d & Balance b/d			





## Practice 5

Ah Lee's motor vehicle was repaired and serviced regularly by New Auto Workshop. He paid RM 4,375 to the workshop during the financial year ended 31 December Year 3. A debit note showed that RM 975 for December was not settled by Ah Lee.

You are required to record the above transactions in the books of Ah Lee for Year 3, including financial statements (extract).



- ☞ **Repair and maintenance incurred:** January to December of Year 3.
- 1. **Repair and maintenance incurred** (12 months): RM 5,350.
- 2. **Accrued repair and maintenance** (1 month): RM 975.

### 12.6 Prepaid Expense

(i.e. Expense paid in the **current year** but **not yet incurred**)

1. Prepaid expense is an **expense paid in advance**.
2. It may due to the following circumstances:
  - a. Traders may be requested to make an **upfront payment** 预付款 in order to **ascertain** the **business activity**.  
e.g. Rental of premise, subscription of periodic magazine, security service charge, etc.
  - b. An **unexpired value of expense paid** in the **current year**.  
i.e. The **period covered** by the expense **extends beyond** the **current financial period**.  
e.g. Insurance, water and electricity, advertising contract, etc.
  - c. A **remaining inventory** of **expense**.  
i.e. The **material** bought as an expense in the current year has **not** been **used up** within the current year. Thus, the unused inventory has to be carried down to the following year.  
e.g. **Inventory** of stationery, fuel and lubricant, etc.
3. Accounting entries:
  - a. If cash has been paid as an expense:  
Dr Expense (A)  
Cr Cash / Bank
  - b. If a portion of the **cash** payment is the **expense paid in advance**, it has to be **deducted** from the amount of **expense paid** in the current year, in order to arrive at the **actual expense incurred** for the year:  
Dr Prepaid Expense  
Cr Expense (B)

- c. At the end of financial year, the **actual expense incurred** for the current year has to be transferred to **Profit And Loss** account:  
 Dr Profit And Loss  
 Cr Expense (A – B)
- d. **Prepaid Expense** account with a **debit** balance will be shown in Statement Of Financial Position under **Current Assets**. It is the expense **paid** in the **current year** but **not** yet **incurred** at the end of financial year.  
 It is the **expense** for the **following year** but **paid** in the **current year**.



Ah Lee bought a fire insurance for his shop premise on 1 May Year 4 and paid an annual premium of RM 1,224. The insurance policy expired on 30 April Year 5.

Ah Lee's financial year ended on 31 December.

The following were the records for Year 4 in the books of Ah Lee:

**Solution:**

**General Journal**

Year 4		Debit RM	Credit RM
May 1	Insurance Expense Bank (Being an annual premium paid)	1,224	1,224
Dec 31	Prepaid Insurance Expense Insurance Expense (Being an unexpired value of premium paid in this year)	408	408
31	Profit And Loss Insurance Expense (Being actual insurance expense incurred for the year transferred to Profit And Loss account)	816	816

### Method 1: Prepaid Expense account is opened

General Ledger		
Insurance Expense		
Year 4 May 1 Bank	RM 1,224	Year 4 Dec 31 Prepaid Insurance Expense (W1) 31 Profit And Loss (W2)
	<u>1,224</u>	<u>408</u> <u>816</u>
		<u>1,224</u>
Prepaid Insurance Expense		
Year 4 Dec 31 Insurance Expense	RM 408	Year 4 Dec 31 Balance c/d
Year 5 Jan 1 Balance b/d	<u>408</u>	<u>408</u>
Profit And Loss		
Year 4 Dec 31 Insurance Expense	RM 816	???
		Think 5 How many months of the Insurance expense were incurred in Year 4?
Ah Lee Income Statement (Extract) For The Year Ended 31 December Year 4		
Insurance Expense	RM 816	
Ah Lee Statement Of Financial Position (Extract) As At 31 December Year 4		
Current Assets Prepaid Insurance Expense	RM 408	???
		Think 6 What was the period covered for the unexpired value of premium paid for Year 5?

### Method 2: Prepaid Expense account is not opened

Insurance Expense		
Year 4 May 1 Bank	RM 1,224	Year 4 Dec 31 Profit And Loss
	<u>1,224</u>	<u>816</u> <u>408</u>
		<u>1,224</u>
Year 5 Jan 1 Balance b/d	408	
		Input Balance c/d & Balance b/d They can be shown as Prepaid c/d / Advance c/d & Prepaid b/d / Advance b/d.

**Workings:**

- (1) Prepaid insurance expense:

$$\text{RM } 1,224 \times \frac{4}{12} = \text{RM } 408$$

- (2) Insurance expense incurred in Year 4:

$$\text{RM } 1,224 \times \frac{8}{12} = \text{RM } 816$$



Ah Lee paid stationery amounted to RM 4,265 on 1 January Year 4. The inventory of stationery unused at the financial year ended 31 December Year 4 was at a cost of RM 386.

You are required to record the above transactions in the books of Ah Lee for Year 4, including financial statements (extract).



1. *Actual stationery used in Year 4: RM 3,879.*

## 12.7 Inventory

1. **Closing inventory** is the **unsold goods** which has **not** been **brought into account** at the end of financial year.

When a new business starts, it will not have any inventory brought down (i.e. no opening inventory), but at the **end of financial year**, closing inventory has to be **counted, valued and recorded**:

e.g.

### Year 1

<b>Dec 31</b>	Dr	Inventory - Closing Inventory	RM 1,000
	Cr	Trading	RM 1,000

2. The **Inventory** account with a **debit** balance would be shown in Statement Of Financial Position under **Current Assets**.

3. The **closing inventory** for **Year 1** would be carried down to **Year 2** as an **opening inventory**.

4. Since the **opening inventory** was a brought down figure, it would be shown in **Trial Balance of Year 2**, and to be **closed** and **transferred** to **Trading** account at the end of **Year 2** as an **opening inventory**:

### Year 2

<b>Dec 31</b>	Dr	Trading	RM 1,000
	Cr	Inventory - Opening Inventory	RM 1,000

5. If the **closing inventory** of **Year 2** was RM 1,500, the entries of **Inventory** account at the end of **Year 1** and **Year 2** are illustrated:

Inventory			
Year 1	RM	Year 1	RM
Dec 31 Trading-Closing Inventory	1,000	Dec 31 Balance c/d	1,000
<b>Year 2</b>		<b>Year 2</b>	
Jan 1 Balance b/d	1,000	Dec 31 Trading-Opening Inventory	<b>1,000</b>
Dec 31 Trading-Closing Inventory	1,500	31 Balance c/d	1,500
<b>Year 3</b>		(1)	(2)
Jan 1 Balance b/d	1,500		
		(3)	
Trading			
		<b>Year 1</b>	RM
		Dec 31 Inventory-Closing Inventory	1,000
		Trading	
<b>Year 2</b>	RM	<b>Year 2</b>	RM
Dec 31 Inventory-Opening Inventory	<b>1,000</b>	Dec 31 Inventory-Closing Inventory	1,500

**Income Statement**  
For The Year Ended 31 December **Year 1**

	RM		RM
Opening Inventory	—	Sales	XX
Purchases	XX		
	XX		
Less: Closing Inventory	(1,000)		
Cost Of Sales	XX		

**Income Statement**  
For The Year Ended 31 December **Year 2**

	RM		RM
Opening Inventory	<b>1,000</b>	Sales	XX
Purchases	XX		
	XX		
Less: Closing Inventory	(1,500)		
Cost Of Sales	XX		

**Hint**  
*Closing inventory is shown on the debit side as an offset against opening inventory plus purchases to arrive at cost of sales.*

**Statement Of Financial Position**  
As At 31 December **Year 1**

	RM
<b>Current Assets</b>	
Closing Inventory	1,000

**Statement Of Financial Position**  
As At 31 December **Year 2**

	RM
<b>Current Assets</b>	
Closing Inventory	1,500

## 12.8 Drawings

1. When the **owner** of a company takes **money, goods or other assets** out of business for **personal use**, it is known as **drawings**.  
When a **business pays** for its **owner's private items**, it is also known as **drawings**.  
Thus, **drawings** can be:
  - a. When the owner **withdraws cash** for personal use:  
Dr Drawings  
Cr Cash
  - b. When the owner **withdraws goods** for personal use:  
Dr Drawings  
Cr Purchases
  - c. i. When the owner makes a **payment** by a **business cheque** for private purpose:  
Dr Drawings  
Cr Bank  
ii. When the owner makes a **payment** for a **business expense** which **includes** his **private expense**:  
Dr Drawings  
Cr Expenses
2. **Drawings** will **reduce** the amount of **equity**. It is **closed** and **transferred** to **Capital** account at the end of a financial year:  
Dr Capital  
Cr Drawings



### Example 5

On 15 June Year 5, Ah Lee withdrew RM 500 cash for his personal use.

On 1 July he also made a payment by a cheque of the business to buy a computer of RM 3,200 for his son.

On the balance day, he confirmed that he had withdrawn goods which was worth RM 3,400 for personal use, and issued another cheque for insurance expenses of RM 2,450 which included his own personal insurance of premium RM 1,200.

Ah Lee's financial year ended on 31 December.

The following were the records for Year 5 in the books of Ah Lee:

**Solution:**

**General Journal**

Year 5		Debit RM	Credit RM
Jun 15	Drawings Cash (Being withdrawal of cash for personal use)	500	500
Jul 1	Drawings Bank (Being issuing of a cheque of the business to buy a computer for personal purpose)	3,200	3,200
Dec 31	Drawings Purchases (Being withdrawal of goods for personal use)	3,400	3,400
31	Insurance Expenses Bank (Being issuing of a cheque for insurance expenses)	2,450	2,450
31	Drawings Insurance Expenses (Being insurance expenses paid including a premium for personal insurance)	1,200	1,200
31	Profit And Loss Insurance Expenses (Being actual insurance expenses incurred for the year transferred to Profit And Loss account)	1,250	1,250
31	Capital Drawings (Being closing of Drawings account to Capital account)	8,300	8,300

**General Ledger**  
Drawings

Year 5 Jun 15 Cash Jul 1 Bank Dec 31 Purchases 31 Insurance Expenses	RM 500 3,200 3,400 1,200 <hr/> 8,300	Year 5 Dec 31 Capital	RM 8,300 <hr/> 8,300
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Cash

Year 5 Jan 1 Balance b/d	RM XX <hr/> XX	Year 5 Jun 15 Drawings Dec 31 Balance c/d	RM 500 XX <hr/> XX
Year 6 Jan 1 Balance b/d	XX		

Bank

Year 5 Jan 1 Balance b/d	RM XX <hr/> XX	Year 5 Jul 1 Drawings Dec 31 Insurance Expenses 31 Balance c/d	RM 3,200 2,450 XX <hr/> XX
Year 6 Jan 1 Balance b/d	XX		

Purchases

Year 5 Dec 31 Trade Payables	RM XX <hr/> XX	Year 5 Dec 31 Drawings 31 Trading	RM 3,400 XX <hr/> XX
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Insurance Expenses

Year 5 Dec 31 Bank	RM 2,450 <hr/> 2,450	Year 5 Dec 31 Drawings 31 Profit And Loss	RM 1,200 1,250 <hr/> 2,450
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Capital

Year 5 Dec 31 Drawings 31 Balance c/d	RM 8,300 XX <hr/> XX	Year 5 Jan 1 Balance b/d	RM XX <hr/> XX
	O	Year 6 Jan 1 Balance b/d	XX

???

Think 7

What was the **effect** on the **Capital** account after the transfer of **Drawings** account of RM 8,300?



## Practice 5

During Year 5, Ah Lee withdrew RM 2,000 every month from his business bank account for private purpose. He also withdrew goods which was worth RM 600 for personal use.

During the year, building materials of cost RM 4,500 was bought for the renovation of the business premises. Part of the materials of cost RM 2,080 was used to renovate Ah Lee's own private house.

You are required to record the above transactions in the books of Ah Lee for Year 5.

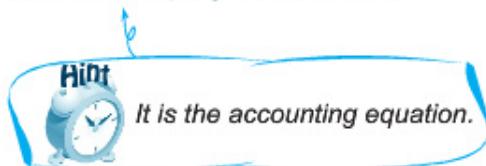


1. **Drawings in Year 5: RM 26,680.**

### 12.9 Worksheet

1. A **Worksheet** is an **extended Trial Balance**. It is a helpful tool if a **large number of adjustments** are to be made at the end of reporting period.
2. A **Worksheet** consists of **5 main parts**:
  - a. **Trial Balance**;
  - b. **Adjustments**;
  - c. **Trading account section** of Income Statement;
  - d. **Profit And Loss account section** of Income Statement;
  - e. **Statement Of Financial Position**.
3. Each part consists of a **debit** and a **credit column**. Thus, it is also known as a **10-column Worksheet**.
4. In the **Trial Balance columns** if the account is:
  - a. a **debit** balance and its adjustment is also a **debit** balance, then these two figures will be **added together** to get a **new debit** balance after adjustment;
  - b. a **credit** balance and its adjustment is also a **credit** balance, then these two figures will be **added together** to get a **new credit** balance after adjustment;
  - c. a **debit** balance and its adjustment is a **credit** balance and vice versa, then a **comparison** is made between them, **either** the **debit** balance is **greater** than the **credit** balance, the **new figure** after adjustment will be a **debit** balance; **or** the **credit** balance is **greater** than the **debit** balance, the **new figure** after adjustment will be a **credit** balance.

5. After all the **adjustments** are completed in the adjustments columns, **all the balances** with new figures (if any) are **arranged** accordingly into the respective columns of **Trading account section**, **Profit And Loss account section** and **Statement Of Financial Position**.
  6. In the **Trading account section** columns,
    - a. if **sales** is **greater** than **cost of sales**, **Gross Profit** is calculated and recorded:  
Dr Trading  
Cr Profit And Loss
    - b. if **cost of sales** is **greater** than **sales**, **Gross Loss** is calculated and recorded:  
Dr Profit And Loss  
Cr Trading
- In the **Profit And Loss account section** columns,
- a. if **income** are **greater** than **expenses**, **Net Profit** is calculated and recorded:  
Dr Profit And Loss  
Cr Capital (in Statement Of Financial Position)
  - b. if **expenses** are **greater** than **income**, **Net Loss** is calculated and recorded:  
Dr Capital (in Statement Of Financial Position)  
Cr Profit And Loss
7. After the recordings of the item 6 above are completed, the **Statement Of Financial Position** columns can be concluded as:  
**Assets = Equity + Liabilities**



8. After the Worksheet is completed, the **adjusting** and **closing entries** are then **recorded** in the **books**. The **financial statements** are then **prepared** as usual.



## Example 6

Ah Lee  
Trial Balance  
As At 31 December Year 6

	Debit RM	Credit RM
Sales		109,800
Purchases	55,600	
Inventory, 1 January Year 6	15,400	
Salaries	19,800	
Commission Income		19,800
Insurance Expenses	3,980	
Water And Electricity	2,250	
Shop Fittings	4,500	
Accumulated Depreciation Of Shop Fittings		1,350
Motor Vehicles	60,000	
Accumulated Depreciation Of Motor Vehicles		24,000
Trade Receivables	14,200	
Trade Payables		19,700
Bank	14,700	
Petty Cash	500	
Drawings	28,450	
Capital		44,730
	<hr/> <u>219,380</u>	<hr/> <u>219,380</u>

The following additional information has to be taken into consideration:

- Inventory at 31 December Year 6 was RM 18,700;
- Accrued salaries were RM 2,350;
- Prepaid insurance expenses amounted to RM 320;
- Allowance for doubtful debts was 5% of the trade receivables;
- Accrued commission income was RM 2,600;
- Depreciation charges for shop fittings and motor vehicles were 10% and 20% on cost per annum respectively;
- Ah Lee withdrew goods for personal use worth RM 2,460 and it was not recorded.

You are required to prepare a Worksheet on 31 December Year 6.

**Solution:**

2

Ah Lee  
Worksheet

**Workings:**

(1) Allowance For Doubtful Debts:

$$\text{RM } 14,200 \times 5\% = \text{RM } 710$$

(2) Depreciation - Shop Fittings:

$$\text{RM } 4,500 \times 10\% = \text{RM } 450$$

(3) Depreciation - Motor Vehicles:

$$\text{RM } 60,000 \times 20\% = \text{RM } 12,000$$

(4) Net Profit:

Income – Expenses

$$= \text{RM}(59,960 + 22,400) - \text{RM}(22,150 + 3,660 + 2,250 + 710 + 450 + 12,000)$$

$$= \text{RM}(82,360 - 41,220)$$

$$= \text{RM } 41,140$$



## Practice 6

Ah Lee's financial year ended on 31 December. Ah Lee's books showed the following balances as at 30 June Year 6:

	Debit RM	Credit RM
Building	137,600	
Capital		146,600
Cash	470	
Bank Overdraft		3,390
Sales		118,475
Returns Inwards	1,030	
Carriage Outwards	2,250	
Interest Income		500
Bank Charges	875	
Salaries	9,450	
Telephone Expenses	1,625	
General Expenses	1,245	
Trade Receivables	12,820	
Trade Payables		5,055
Discounts Received		540
Accumulated Depreciation Of Building		4,380
Inventory, 1 January Year 6	14,075	
Purchases	97,500	
	<u>278,940</u>	<u>278,940</u>

The following adjustments were to be taken into account:

- (a) Inventory at 30 June Year 6 was RM 42,580;
- (b) General expenses paid in advance amounted to RM 296;
- (c) Accrued salaries amounted to RM 800;
- (d) The depreciation of building for the half year was RM 2,190;
- (e) Accrued interest income was RM 500;
- (f) Goods withdrawn for personal use was worth RM 480.

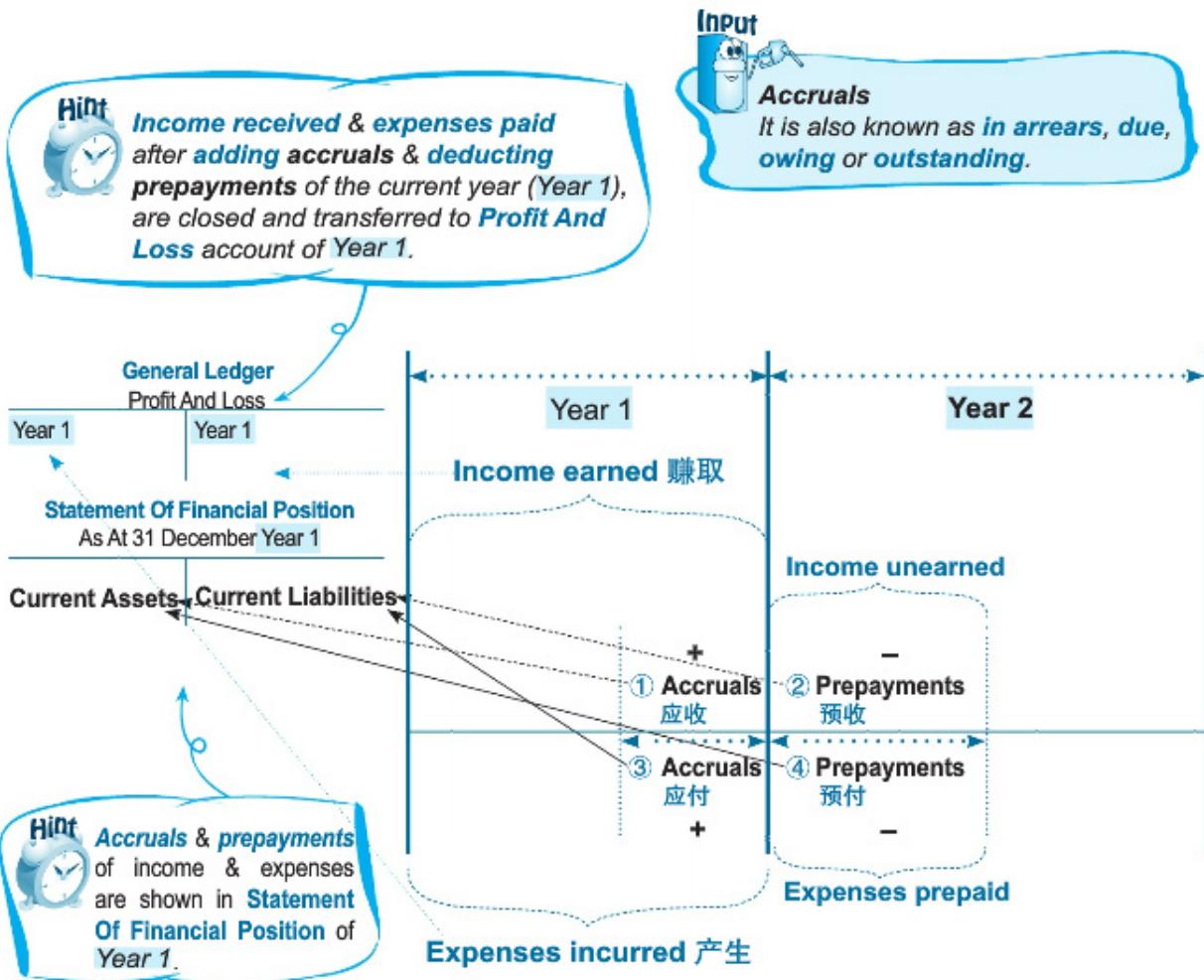
You are required to prepare a Worksheet.



- ☞ **Discounts Received** to be deducted from **Purchases**.
1. **Gross Profit:** RM 49,470.
  2. **Net Profit:** RM 32,331.



1. **Income earned & expenses incurred** and their **accruals & prepayments**, and how they will be shown in **financial statements** are illustrated below:



#### Notes:

<b>Accruals &amp; prepayments</b>		<b>Statement Of Financial Position of Year 1</b>
① <b>Accrued income</b> 应计 / 应收收入	(i.e. Income <b>earned</b> in Year 1 but <b>not yet received</b> )	<b>Current Assets</b>
② <b>Unearned income / Income received in advance</b> 未赚 / 预收收入	(i.e. Income <b>received</b> in Year 1 but <b>not yet earned</b> )	<b>Current Liabilities</b>
③ <b>Accrued expenses</b> 应计 / 应付费用	(i.e. Expenses <b>incurred</b> in Year 1 but <b>not yet paid</b> )	<b>Current Liabilities</b>
④ <b>Prepaid expenses</b> 预付费用	(i.e. Expenses <b>paid</b> in Year 1 but <b>not yet incurred</b> )	<b>Current Assets</b>

2. **Closing entry of opening inventory** 期初存货 and the recording of **closing inventory** 期末存货 at the end of **Year 2** are illustrated as follows:  
e.g.

Inventory		
	RM	
<b>Year 2</b>		
Jan 1 Balance b/d	1,000	
Dec 31 Trading – Closing Inventory	<u>1,500</u>	
		②
<b>Year 3</b>		
Jan 1 Balance b/d	1,500	
		①
Trading		
<b>Year 2</b>	RM	
Dec 31 Inventory– Opening Inventory	<b>1,000</b>	
		③
		Year 2
	RM	
		Dec 31 Inventory – Closing Inventory
	<b>1,500</b>	▲

Income Statement For The Year Ended 31 December Year 2		
	RM	
Opening Inventory	<b>1,000</b>	
Purchases	XX	
	XX	
Less: Closing Inventory	(1,500)	
<b>Cost Of Sales</b>	XX	
Gross Profit c/d	XX	
	XX	

Statement Of Financial Position As At 31 December Year 2		
	RM	
<b>Current Assets</b>		
Closing Inventory	1,500	

3. **Drawings** 提取/提用 can be the following cases for **owner's private purposes**:

- withdrawal of **cash**;
- withdrawal of **goods**;
- payment made by a **cheque** of the business;
- payment of a **business expense including private expense**.

**Hint**  
Drawings account is closed and transferred to Capital account to reduce the amount of capital.

Drawings		
Cash	RM XX	Capital
Purchases	XX	RM XX
Bank	XX	
Expenses	XX	
	XX	XX
Cash		
Balance b/d	RM XX	a. RM XX
Purchases		
Trade Payables	RM XX	b. RM XX
Bank		
Balance b/d	RM XX	c. RM XX
Expenses		
Bank	RM XX	d. RM XX
Capital		
Drawings	RM XX	Balance b/d
Balance c/d	XX	RM XX
	XX	XX
		Balance b/d
		XX

4. Format of **Worksheet** 工作底稿:

Accounts	Trial Balance		Adjustments		Income Statement				Statement Of Financial Position	
					Trading account section		Profit And Loss account section			
	Debit RM	Credit RM	Debit RM	Credit RM	Debit RM	Credit RM	Debit RM	Credit RM	Debit RM	Credit RM
Income		✓		+ / -		✓		✓		
Expenses	✓			+ / -	✓		✓			
Assets	✓			+ / -					✓	
Liabilities		✓		+ / -						✓
Equity		✓								✓
Gross Profit / (Loss)					XX			XX		
Net Profit / (Loss)							XX			XX



**Hint** *Adjustments are made for accruals & prepayments of income & expenses, inventory, drawings, etc.*



**Hint** *Statement Of Financial Position:  
Assets = Equity + Liabilities*

## Appendix I:

# Chart of Accounts

## 账户一览表

No.	Name of accounts 账户名称	Definition / Explanation / Accounting treatment 定义 / 解释 / 会计处理
a. <b>Assets</b> 资产		
i. <b>Current assets</b> 流动资产		
1.	Inventory 存货	<ul style="list-style-type: none"> <li>☞ Goods which are held <b>for resale</b> at a profit <b>at the end of a financial period</b>, and usually valued at <b>cost</b>.</li> </ul>
2.	Accounts Receivable/ Trade Receivables 应收账款/ 销货应收账款	<ul style="list-style-type: none"> <li>☞ <b>Debtors</b> 债务人 / <b>Trade debtors</b> 销货债务人 are persons (or businesses) who <b>owe</b>欠 <b>money to a business</b> for goods or services supplied <b>to them</b>.</li> <li>☞ The <b>amount owed by the debtors</b> is known as <b>accounts receivable</b>.</li> </ul>
3.	Bank/Cash At Bank 银行/银行存款	<ul style="list-style-type: none"> <li>☞ Money <b>kept in current account</b> 来往户口 at a bank by a business.</li> </ul>
4.	Cash/Cash On Hand 现金/手头现金	<ul style="list-style-type: none"> <li>☞ Money <b>kept at office</b> by a business.</li> </ul>
ii. <b>Non-current assets</b> 非流动资产		
5.	Lands And Buildings/ Premises 土地与建筑物/ 办公或营业场所/ 仓库/生产场	<ul style="list-style-type: none"> <li>☞ Lands and buildings for business use, e.g. for <b>offices, sales</b> and <b>storage</b>.</li> <li>☞ A piece of <b>land</b> together with its <b>buildings</b> on it that a business occupies.</li> </ul>
6.	Plant And Machinery 厂房与机器	<ul style="list-style-type: none"> <li>☞ <b>Machinery</b> and <b>buildings</b> for business use or production of goods.</li> </ul>
7.	Fixtures And Fittings/ Furniture And Fixtures 装置与设备/ 家具与装置	<ul style="list-style-type: none"> <li>☞ <b>Fixtures</b>: Pieces of furniture or equipment which are fixed inside a building for business use but <b>cannot be removed</b>. e.g. Built-in cupboards 内置柜, wall paintings 壁画, etc.</li> <li>☞ <b>Fittings</b>: Pieces of furniture or equipment which are fixed inside a building for business use but <b>can be removed</b>. e.g. Desks, chairs, sofas, carpets, curtains, light fittings, shelves, air conditioners, filing cabinets, etc.</li> </ul>
8.	Office Equipment 办公设备	<ul style="list-style-type: none"> <li>☞ <b>Supplies</b> 用品 and <b>equipment</b> which are regularly <b>used in office</b> by a business. e.g. Calculators, computers, printers, cameras, photocopiers, fax machines, telephones, handphones, etc.</li> </ul>
9.	Motor Vehicles 车辆	<ul style="list-style-type: none"> <li>☞ Vehicles used as a <b>means of transport</b> in a business to carry <b>goods</b> or <b>people</b>. e.g. Lorries / trucks, delivery vans, motor cars, etc.</li> </ul>

<b>b. Liabilities 负债</b>			
<b>i. Current liabilities 流动负债</b>			
10.	Short-term Loan	短期贷款	<ul style="list-style-type: none"> <li>☞ A sum of money <b>lent by a person / business</b> to another business at an agreed interest rate with a maturity of <b>less than 12 months</b>.</li> </ul>
11.	Accounts Payable/ Trade Payables	应付账款/ 购货应付账款	<ul style="list-style-type: none"> <li>☞ <b>Creditors 债权人 / Trade creditors 购货债权人</b> are persons (or businesses) <b>to whom money is owed</b> 被欠 for goods or services supplied <b>by them</b>.</li> <li>☞ The <b>amount owing to the creditors</b> is known as <b>accounts payable</b>.</li> </ul>
12.	Bank Overdraft	银行透支	<ul style="list-style-type: none"> <li>☞ The <b>amount</b> of money <b>withdrawn</b> by a business from the <b>current account</b> that exceeds the money <b>deposited</b> with a bank.</li> <li>☞ The <b>interest</b> is charged on the <b>amount overdrawn</b> and the <b>number of days</b> the <b>account is overdrawn</b>.</li> </ul>
<b>ii. Non-current liabilities 非流动负债</b>			
13.	Mortgage Loan	抵押贷款	<ul style="list-style-type: none"> <li>☞ A sum of money <b>lent by a person / business</b> to another business with a specified payment period and interest rate, and it is <b>secured against the assets</b>.</li> </ul>
14.	Bank Loan	银行贷款	<ul style="list-style-type: none"> <li>☞ A sum of money <b>lent by a bank</b> to a business at an agreed interest rate for a fixed period of time.</li> <li>☞ The <b>interest</b> is charged on the <b>amount outstanding</b> and the <b>duration</b> of the loan.</li> </ul>
15.	Long-term Loan	长期贷款	<ul style="list-style-type: none"> <li>☞ A sum of money <b>lent by a person / business</b> to another business at an agreed interest rate with a maturity of <b>more than 12 months</b>.</li> </ul>
<b>c. Equity / Owner's equity 权益 / 业主权益</b>			
16.	Capital	资本	<ul style="list-style-type: none"> <li>☞ <b>Debts 债务</b> that a business <b>owes to its owner / proprietor 业主</b>.</li> <li>☞ Total <b>resources 资源</b> (anything other than cash) <b>invested</b> in a business <b>by its owner</b>.</li> </ul>
17.	Drawings	提取/提用	<ul style="list-style-type: none"> <li>☞ <b>Personal withdrawals</b> by <b>owner</b> such as taking <b>money, goods or other assets</b> out of business for <b>personal use</b>.</li> <li>☞ When a <b>business pays</b> for its <b>owner's private items</b>, it is also known as <b>drawings</b>.</li> </ul>
<b>d. Income 收入</b>			
18.	Commission/Interest/ Rental Income	佣金/利息/ 租金收入	<ul style="list-style-type: none"> <li>☞ These are the <b>other income 其他收入</b> which could be <b>earned</b> but <b>not derived from sales</b>.</li> </ul>
19.	Discounts Received	购货折扣	<ul style="list-style-type: none"> <li>☞ It is a deduction <b>received by a business</b> from its <b>suppliers</b> when it pays its account within a specified period.</li> <li>☞ The business <b>pays less</b> than what it <b>owes 欠</b>. Thus, it is treated as a <b>deduction</b> from <b>purchases</b> or as an <b>other income</b> of the business.</li> </ul>
20.	Sales	销货	<ul style="list-style-type: none"> <li>☞ <b>Sale of goods bought for resale</b>, but <b>not</b> for the sale or <b>disposal 处置</b> of <b>non-current assets</b> which are held for <b>usage</b>.</li> </ul>
	Sales Returns/ Returns Inwards	销货退回	<ul style="list-style-type: none"> <li>☞ <b>Goods returned to a business by its customers</b>.</li> </ul>

e. Expenses 费用			
21.	Carriage/ Carriage Charges	运费	<ul style="list-style-type: none"> <li>☞ The <b>cost</b> of <b>transporting goods</b> from one place to another.</li> <li>☞ It is usually treated as <b>carriage inwards</b>.</li> </ul>
22.	Carriage Inwards/ Freight Inwards	购货运费	<ul style="list-style-type: none"> <li>☞ The <b>transportation cost</b> incurred relating to the <b>purchase of goods</b>.</li> <li>☞ It is added to the <b>cost of purchases</b> in <b>Trading</b> account section of an Income Statement.</li> </ul>
23.	Carriage Outwards	销货运费	<ul style="list-style-type: none"> <li>☞ The <b>transportation cost</b> incurred relating to the <b>sale of goods</b>.</li> <li>☞ It is a <b>selling and distribution expense</b> in <b>Profit And Loss</b> account section of an Income Statement.</li> </ul>
24.	Customs Duties/ Import Duties	关税	<ul style="list-style-type: none"> <li>☞ <b>Taxes</b> levied on <b>goods imported</b> from other countries.</li> <li>☞ It is added to the <b>cost of purchases</b> in <b>Trading</b> account section.</li> </ul>
25.	Discounts Allowed	销货折扣	<ul style="list-style-type: none"> <li>☞ It is a deduction <b>given by a business</b> to its <b>customers</b> when the customers pay their accounts within a specified period.</li> <li>☞ The business <b>receives less</b> than what is <b>owed</b> 被欠. Thus, it is treated as a <b>deduction</b> from <b>sales</b> or as an <b>expense</b> of the business.</li> </ul>
26.	Purchases	购货	<ul style="list-style-type: none"> <li>☞ Goods <b>bought</b> for <b>resale</b> 转售 to customers, but <b>not</b> for the <b>purchase of non-current assets</b> for <b>usage</b> 用途 (i.e. bought to be used).</li> </ul>
	Purchases Returns/ Returns Outwards	购货退出	<ul style="list-style-type: none"> <li>☞ <b>Goods returned</b> by a business <b>to its suppliers</b>.</li> </ul>
27.	Salaries	薪金	<ul style="list-style-type: none"> <li>☞ Fixed compensation paid to <b>employees</b> on a <b>monthly</b> basis for the work done or services rendered.</li> <li>☞ It is an item of <b>Profit And Loss</b> account section.</li> </ul>
28.	Wages	工资	<ul style="list-style-type: none"> <li>☞ Payment for labor or services to <b>workers</b> on a <b>daily / weekly</b> basis.</li> <li>☞ It is usually related to the <b>cost of sales</b>. Thus, it is an item of <b>Trading</b> account section.</li> <li>☞ It is an item of <b>Profit And Loss</b> account section if:           <ul style="list-style-type: none"> <li>① it is <b>not</b> related to the <b>cost of sales</b>, e.g. Wages on warehouse, wages on goods sold, wages of shop assistant, etc.</li> <li>or</li> <li>② only <b>one single Wages</b> account is given, treat it as an <b>administrative expense</b>.</li> </ul> </li> </ul>
29.	Wages And Salaries	工资与薪金	<ul style="list-style-type: none"> <li>☞ It is an item of <b>Profit And Loss</b> account section.</li> </ul>

30.	Advertising Expenses Bad Debts Discounts Allowed Insurance Expenses/ Insurance Interest Expenses/ Interest/ Bank Overdraft interest/ Bank Loan Interest Legal Fees Maintenance Of Premises/ Office Maintenance Expenses Motor Vehicle Expenses/ Motor Vehicle Running Expenses/ Motor Expenses Printing And Stationery Rental Expenses Salesmen Commission/ Commission Expenses Sundry Expenses/ General Expenses/ Office Expenses Telephone Expenses Transport Expenses/ Transportation Travelling Expenses Interest Expenses Warehouse Rent Water And Electricity	广告费用 坏账 销货折扣 保险费  利息费用/ 利息/ 银行透支利息/ 银行贷款利息 律师费 办公或营业场所/ 维护费用 车辆费用  印刷费与文具 租金费用 推销人员佣金  杂费  电话费 交通费  旅差费 利息费用 仓库租金 水电费	☞ These are the <b>expenses</b> incurred in the business operation.
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# Appendix II: Definitions of Elements of Financial Statements (IFRS Framework)

## 1. Elements relating to financial position

### a. Asset 资产

It is a **resource** controlled by the entity as a **result** of **past events** and from which future **economic benefits** 经济利益 are **expected** to **flow** to the **entity**.

### b. Liability 负债

It is a **present obligation** of the entity **arising** from **past events**, the **settlement** of which is expected to **result** in an **outflow** from the entity of **resources** embodying **including economic benefits**.

### c. Equity 权益

It is the **residual interest** 剩余权益 in the **assets** of the entity after **deducting** all its **liabilities**.

## 2. Elements relating to performance

### d. Income 收入

It is **increases in economic benefits** during the accounting period in the form of **inflows or enhancements** 增强 of **assets** or **decreases of liabilities** that **result** in **increases in equity**.

Income encompasses 包括 **revenue** and **gains**:

- Revenue arises** in the course of the **ordinary activities** of an entity and is referred to by a variety of different names including sales, fees, interest, dividends, royalties and rent.
- Gains may or may not arise** in the course of the **ordinary activities** of an entity.

### e. Expenses 费用

They are **decreases in economic benefits** during the accounting period in the form of **outflows or depletions of assets** or **incurrences of liabilities** that **result** in **decreases in equity**.

Expenses encompasses **losses** and **expenses**:

- Expenses arise** in the course of the **ordinary activities** of an entity include, for example, cost of sales, wages and depreciation. They usually take the form of an **outflow** or **depletion of assets** such as cash, inventory, property, plant and equipment.
- Losses** meet the definition of expenses and **may or may not arise** in the course of the **ordinary activities** of the entity. They represent **decreases in economic benefits**.

资料来源: Conceptual Framework for Financial Reporting 2010 approved by IASB



### "Revenue" vs "Income"

**"Revenue"** includes **economic benefits** arising **solely** in the course of an entity's **ordinary activities**, whereas **"Income"** includes such **benefits** that arise from all **activities** whether **ordinary** or **otherwise**.