高中适用

会计学参考书

Senior Middle ACCOUNTING Reference Book

1

董教总华文独中工委会统一课程委员会编纂

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Senior Middle

Accounting Reference Book 1

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鸣谢

本书承蒙编审团队与独中会计学老师协助编写与审稿，谨此统致谢忱。

董教总华文独中工委会统一课程委员会 启
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Unified Curriculum Committee of MICSS Working Committee
June 2023

编辑说明

1. 本参考书是根据马来西亚董教总华文独中工委会统一课程委员会所拟定的《会计学课程标准》以及国际财务报告准则（International Financial Reporting Standard）的会计原则和标准编写。

2. 本参考书的宗旨是通过培养学生拥有处理财务记录和编制财务报表的知识和技能、并了解会计对企业管理和商务决策的重要性以贯彻独中教育蓝图的“乐教爱学，成就孩子”这目标。

3. 本参考书共有三册，其涵盖范围：
第一册 – 以通用会计基本概念和准则为基础的商业簿记学。

   第二册 – 制定财务报表的准则、会计记录错误的调整、存货估值法以及非法人企业（unincorporated）财务报表的编制。

   第三册 – 有限公司财务报表的编制，使用会计比率分析企业财务业绩，以及预算编制和盈亏平衡分析等管理会计知识和技能。

4. 采用平衡方式编写会计的基本原则和概念，包括了每章均采用分步解说、示例和练习题。除此之外，每章的最后有不同类型的测验题供学生课堂讨论。

5. 为了让学生把握学习重点、启发思考、延伸学习、培养自学能力和增进学习效果，各章设有：

   Input● 作为提醒和增强知识。

   Hint ▶ 让老师与学生在课堂上进一步讨论和探索要点和领域。

6. 本书的示例都有示范答案。除了参考书的练习题，学生也可以使用马来西亚董教总华文独中工委会统一课程委员会出版的作业簿来巩固学习。

7 本书各章都有：

Chapter Summary 以双语式呈现章节摘要。

此外，三册书籍也提供常用的：

中英文常用词汇对照表　以提升学生对会计中英文专业术语的掌握能力。

8 本参考书如有错误、遗漏或欠妥善之处，请不吝指教，电邮至accounting@dongzong.my，以供再版修订参考。

董教总华文独中工委会统一课程委员会
《会计学参考书》编审团队
2023年6月

Preface

1 The Accounting textbooks (The Book) are divided into 3 books. The contents of these books are based on the Curriculum Standards that is compiled by the Unified Curriculum Committee of Malaysian Independent Chinese Secondary School (MICSS) Working Committee and is in compliance with the accounting principles and standards that are stipulated by the International Financial Reporting Standards (IFRS).

2 The rationale adopted in all levels of the book is driven by the aim of implementing the vision of 'Enjoy teaching, love learning - empower children to attain achievement' raised in the MICSS Education Blueprint. The book reflect. the importance of business acumen in dealing with maintaining financial records that served as a basis for business decisions and management.

3 Book 1 mainly cover the fundamentals of bookkeeping practice in business organisations based on commonly adopted accounting principles and concepts.

Whereas, Book 2 cover financial reporting principles, accounting adjustments for errors, valuation of inventories as well as preparing financial statements for unincorporated organisations.

Last but not least, Book 3 focus on preparation of financial statements for limited company, analysing financial performance with accounting ratios as well as managerial accounting techniques like budgeting and break-even analysis.

4 The book adopted a balanced approach in elaborating fundamental accounting knowledge and technical skills with step-by-step explanation, illustrative examples and practice questions in each chapter. In addition to that, different style of quizzes is available at the end of each chapter for classroom discussion.

5 In most chapters of all 3 levels of the book, there will also contain:

Input● Additional reminders and enhanced knowledge.

Hint ▶ Points and areas for further discussions and exploration in class.

6 The model answers of each example is shown alongside with the examples, whereas the model answers for each practice question will be available for access at www.elearning.dongzong.my under subject named 'Accounting'. In addition to these practice questions, there will be more practice questions for most chapters that found in the official practice workbook that published by Unified Curriculum Committee of Malaysian Independent Chinese Secondary School (MICSS) Working Committee.

7 At the end of each chapter, it has:

Chapter Summary A key takeaway on the highlights as well as references for technical terminology in Chinese language.

At the end of each level of the book, it also has:

Glossary Listing of English — Chinese common use terminologies.

8 We welcome any feedback from teachers and readers in helping to improve future editions of the series. We can be reached at accounting@dongzong.my

Unified Curriculum Committee of MICSS Working Committee
Accounting Reference Book Editorial Board
June 2023

Overview of Accounting
会计学大纲

The key contents of Book 1,2 and 3 of Accounting are shown in an integrated diagram as below:
以下综合图是会计学第一，二及三册的主要内容框架:

—— Key contents of Accounting — Book 1

—— Key contents of Accounting — Book 2

—— Key contents of Accounting — Book 3

Contents

Chapter 1

Introduction to the types of organisation

Learning Outcome

Upon completing this chapter, you should be able to:

- Understand and explain the nature and differences of business entity — sole proprietorship, partnership, limited liability company.
- Prepare receivables and payables control accounts, including contra entry.

Synopsis

- There are two broad types of organisations; Namely profit and not-for-profit making organisation which driven by two distinct objectives.
- The profit-making organisation (Business / Private sector) can be divided into three main types of entity which is much reflecting the size of business.
- Not-for-profit making organisation is mainly referring to service providers that either government or non-government owned.

1.1 Types of organisation

1. According to the ownership of assets and the purpose of establishment, organisations can be divided into profit and not-for-profit making organisation.

2. The differences between profit and not-for-profit making organisation are listed below:

Characteristics	Profit organisation	Not-for-profit organisation
Main objective	To make profit for its owner(s) / shareholders.	To provide services and facilities (such as social, recreation, sport or culture) to its members or public at large.
Examples	Sole proprietorship / Sole trader, partnership and limited liability company.	Sports club, language society, cultural association, church, etc.
Source of income	Sale of goods and services.	Donation, subscription, membership fees etc.
Tax obligation	Corporation and/or their owners are subject to income taxes.	Exempt from income taxes.

1.2 Types and nature of profit organisation/ business entity

1. The followings are three main types of profit organisation (Business /Private sector):

   a. Sole proprietorship / Sole trader

   It is a business that:
   - owned by one person.
   - the owner runs the business alone with or without employees.
   - the sole proprietor has absolute right of operating the enterprise.
   - the owner is liable for unlimited liability arising from the business.

b. Partnership

It is a business that:

- owned by at least two but not more than twenty partners.
- the partners run the business together and share their expertise.
- any profits or losses of the partnership business will be shared between the partners based on agreed sharing ratio.
- additional capital may be injected by all partners.
- each partner has unlimited liability.

Input●

For Sole proprietorship and Partnership, unlimited liability refers to situation where a business cannot afford to pay the business debts, the assets of the owner may be used to settle the debts.

c. Limited liability company

It is a business that:

- in Malaysia, a limited liability company is incorporated under the Companies Act 2016 which is enforced by the Companies Commission of Malaysia (Suruhanjaya Syarikat Malaysia — SSM).
- the company's name is usually end with 'Sendirian Berhad' (Sdn Bhd) for limited liability which are private, whereas 'Berhad' (Bhd) for limited liability which are public.
- is a separate legal entity from the owners (shareholders); should the company be found unable to settle the debts fully and declare bankrupt, the maximum loss of each shareholder is restricted to the amount invested in the ordinary shares.
- the legal owner of a limited liability company is known as ordinary shareholders who owns the ordinary (equity) share of the limited liability companies.
- can either be a private limited company that has at least one shareholder to a maximum of 50 shareholders or a public limited company that has at least two shareholders to unlimited shareholders.
- If it is a public limited company, it can either be remain unlisted (unquoted) or listed (quoted) if it meets the listing requirements.

2. There are three broad types of business that differentiated by its operating activities, namely, manufacturing business, trading business and service business.The differences are defined as follows:

Types of business	Definition	Example
Manufacturing Business	A firm that converts raw materials into products and then sell the products to other companies or to the final consumers.	Bakeries, clothing factories, steel mills, etc.
Trading Business	A firm that sells tangible products. This type of business buys products from their suppliers and resell it without changing its form to customers.	Groceries, department stores, electrical appliance stores, stationery shops, etc.
Service Business	A firm that provides intangible products or services to customers. These services include professional skills, advice, expertise, and other similar products.	Audit firms, lawyer firms, car wash, laundries, etc.

1.3 The nature of not-for-profit organisation

1. The not-for-profit organisation can be divided into government sector and non-government sector.

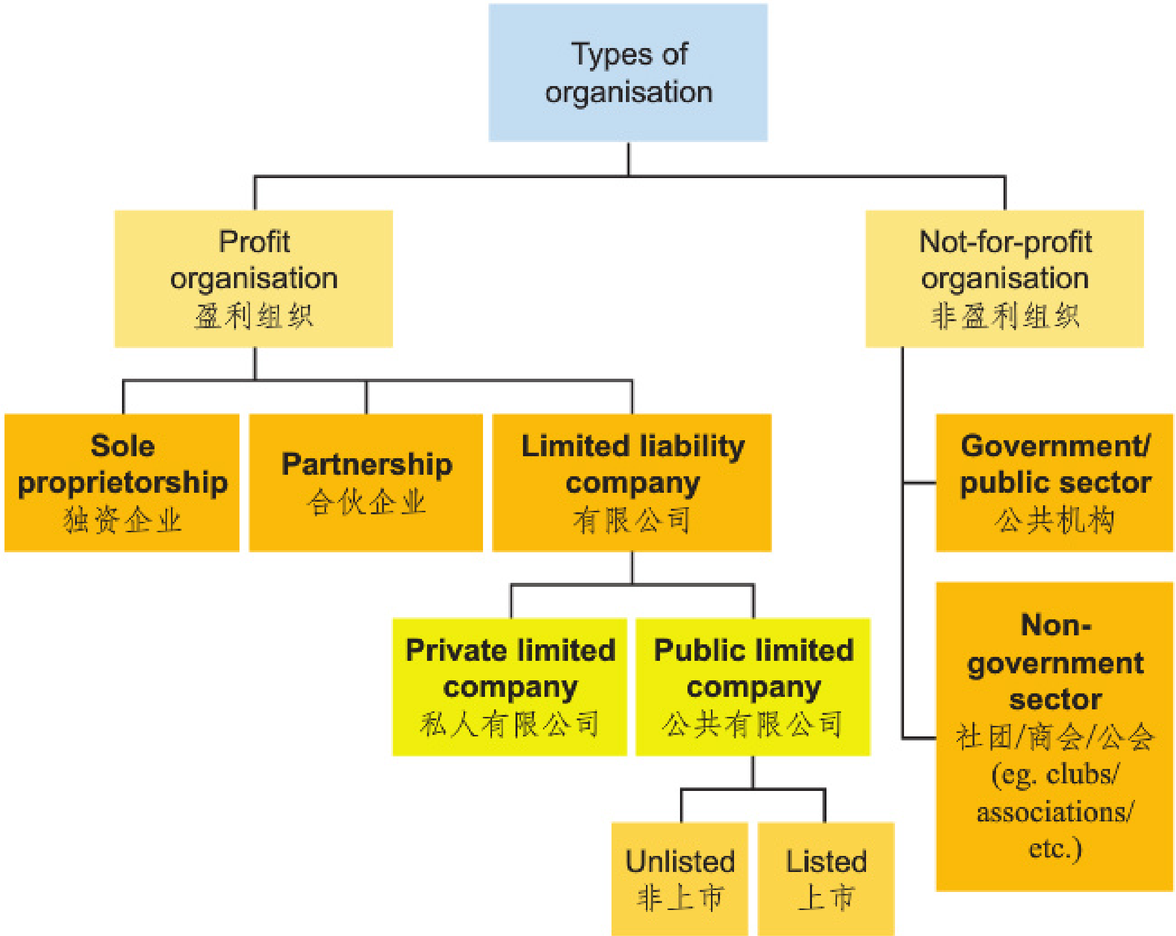
   a. Government / Public sector are established with government funds and owned by the government. The aim of government sector is to provide the public with basic services such as electricity, water supply, sanitation and education, at affordable and reasonable cost, to take care of the public interest and to improve people's living standards. Example: Public Works Department (Jabatan Kerja Raya — JKR), Immigration Department of Malaysia (Jabatan Imigresen Malaysia), Radio Television Malaysia (RTM)

   b. Non-government sector is basically a group of employees and volunteers, who organise and help people in need. Their objective is to provide assistance to the needies and not for profit-making. They are committed to contribute and bring benefits to the society. Example: The Association of Chartered Certified Accountants (ACCA), Malaysian Red Crescent Society, etc.

Hint ►

The accounting for non-government sector will be covered in **Chapter 19**.

Chapter Summary



Quiz

1 Which of the following is correct about a profit organisation?

A All profit organisations must be a Sdn Bhd
B A Chinese Independent Secondary School in Malaysia is a profit organisation
C Operating activities are carried out with the main motive of profit making
D All profit organisations are only allowed to have 2 business owners

2 Which of the following is not a not-for-profit organisation?

A Public hospital
B Public listed company
C Public university
D Public library

3 Which of the following business activity is a service business?

A Confectionery business
B Tailoring business
C Property development business
D Travel and tours business

4 What should a cycling club that is formed by residents within a housing community be classified as?

A Not-for-profit organisation that is non-government owned
B Not-for-profit organisation that is government owned
C Profit organisation in service business
D Profit organisation in trading business

5 Which of the following entity carry a feature where the business owner may only suffer a maximum loss which limited to the amount invested into the business?

A Sole trader
B Partnership
C Limited liability company
D Public sector

6 Which of the following service can be found in both private and public sectors?

A Consumer banking
B Luxury vacation accommodation
C Accounting and tax advisory
D Primary school education

Answer guide to Quiz

1 C **2** B **3** D **4** A **5** C **6** D

Chapter 2

Development and roles of bookkeeping and accounting

Learning Outcome

Upon completing this chapter, you should be able to:

- Understand and identify the purposes of financial reporting.
- Understand the components and roles of financial statements.
- Understand the roles of financial reports to different users.

Synopsis

- Financial reporting provides an overview of the financial performance and position of a business for a specific accounting period.
- Financial statements contain Statement of Profit or Loss, Statement of Financial Position and a few other supporting financial statements.
- Financial reports / statements are of relevant to various user group for different purpose.

2.1 Purposes and scopes of financial reporting

1. Why is it important to have financial reporting?

   Financial Reporting is a method of recording, analysing, and summarising financial information about a business's operating activities during a specific accounting period.

   The fundamental objective of financial reporting is to furnish those having the right and interest to such information with details of the business's activities during the period under review.

2. The components and roles of financial statements

   When a business is in operation for a period of time, the owners will want to know the result / financial performance of the operation for a particular period and the financial position of the business at a particular date. Thus, it gives rise to the needs to prepare the financial statement.

   The International Accounting Standard, IAS 1 Presentation of Financial Statement states:

   'The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions.'

3. What is Bookkeeping?

   a. Bookkeeping is the process of recording business transactions accurately and systematically in accordance with the accounting principles and rules.

   b. A business transaction is the occurrence of a business activity which can be expressed in monetary terms.
      Payment of money in exchange for goods or services is an example of a business transaction.
      e.g.
      - Bought goods by cash;
      - Paid staff salaries by cheques.

c. The objectives of bookkeeping can be summarised as follows:
   i. To keep the full sets of financial records of a business operation.
   ii. To ascertain the profit or loss of a business for a particular period.
   iii. To show the financial position of a business at a particular date on what it owns and owes.
   iv. To provide useful accounting information for commercial decision making in a business.

4. What is Accounting?

   a. It is a step further from bookkeeping.

   b. In addition to what bookkeeping is involved, accounting mainly include:
      i. Preparing full sets of financial statements in accordance with accounting principles and standards for all organisation types of all sizes.
      ii. Interpreting and analysing the financial performance based on the financial statements.
      iii. Financial planning.
      iv. Business decision making.
      v. Provide advisory and recommendations for performance improvements.

   c. With such a wide scope of roles and functions that accounting plays, it is common that this subject will subsequently divide into Financial Accounting, Cost Accounting and Management Accounting at the higher level of learning.

Hint ▶

Can you differentiate what a bookkeeper and accountant is responsible for in a business organisation?

5. The main components and roles of financial statements:

a. Statement of Profit or Loss
(it was formerly known as Income Statement)

This statement presents the results of the business operation **for a certain accounting period.**

Figure 2.1: Statement of Profit or Loss

A brief sample of Statement of Profit or Loss (SOPL) of a sole trader / proprietorship business will contain the main components as shown below:

<u>Statement of Profit or Loss for the year ended 31 December Year XX</u>

	RM
Sales (Net off sales returns)	X
Less: Cost of Sales	X
Gross Profit	X
Less: Expenses	(X)
Net Profit	X

b. Statement of Financial Position
(it was formerly known as Balance Sheet)

It is a reflection of the financial position of a business in terms of assets, liabilities and owner's equity **at a particular date**, normally at the end of an accounting period.

The format of the statement of financial position follows the basic accounting equation, Assets = Liabilities + Equity.

The equation reflects all asset items have to be financed and hence are matched with the total of liabilities and equity which represent all sources of fund used.

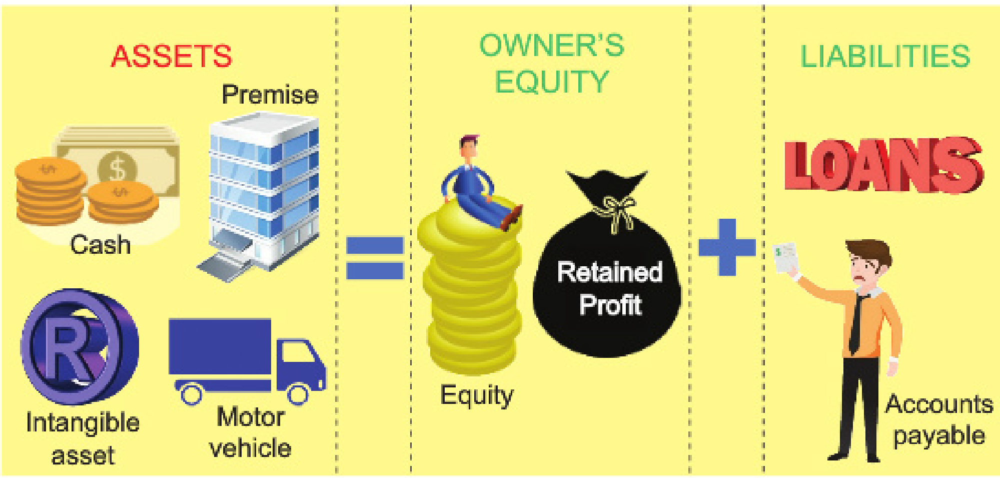


Figure 2.2: Statement of Financial Position

A brief sample of Statement of Financial Position (SOFP) of a sole trader / proprietorship business will contain the main components as shown below:

<u>Statement of Financial Position as at 31 December Year XX</u>

	RM	RM
Non-current Assets		X
Current Assets		X
Total Assets		X
Equity / Capital		X
Non-current Liabilities	X	
Current Liabilities	X	
Total Liabilities		X
Total Equity and Liabilities		X

Input●

In addition to the above, there will be a few other supporting financial statements which only applicable to limited liability companies as required by regulatory body such as Companies Commission of Malaysia. The preparation of these supporting financial statements will be discussed in **Chapter 25-26**.

2.2 Users of financial reports

1. There are two broad types of user groups who are interested in the information that contained in the financial reports / statements: internal users and external users.

   Internal users
   They are from inside the organisation and involve in the day-to-day business operations.

   a. Business owners:
      Business owners will be able to find out how much profit or loss they have made and what the business owns and owes.
      For limited liability company, the owners, who are the shareholders will make their investment decision on the share of the company based on such financial information.

   b. Managers / Executives:
      They are appointed by the owners to supervise the daily operating activities. They need the financial information as a basis to manage the business efficiently as well as implementing effective control action and sound decision making.

   c. Employees:
      Employees' future careers and pay is depending on the business operating results which lead them showing interest to understand the business's financial performance.

   External users
   They are from outside the organisation and not involved in the day-to-day business operations.

   a. Trade contacts:
      Financial reports of a business are also served as a basis for its suppliers to assess the ability of the business to pay its debts. On the other hand, customers may also need to know whether the business is financially secured and able to supply goods or services continuously.

b. Lenders:

The lenders may refer to banks / financial institution, other companies or individuals. Their primary concern is the ability of the business in the repayment of outstanding debts, which can be reflected from the business's financial reports.

c. Financial analyst / adviser:

The analyst / adviser will advise their clients (investors) on investment decision into the business based on the analysis carried on the business's financial report.

d. Taxation authority:

The Malaysian tax authority—Inland Revenue Board—IRB (Lembaga Hasil Dalam Negeri, —LHDN) require all businesses to declare their income tax based on the reported profit.

e. Stock Exchange (Bursa Malaysia):

Bursa Malaysia is the official stock exchange of Malaysia. All listed companies in Bursa Malaysia are required to publish its Annual Report which include its audited financial statements in accordance with Companies Act 2016.

f. Public:

The public is concerned about whether a company is operating its business in not only a financially viable manner but also a socially and environmentally responsible manner.

Such motive hence formed a need to publish a limited liability company (especially listed company)'s annual report for public access.

Chapter Summary

Development and roles of Bookkeeping and Accounting

Bookkeeping
簿记

- Recording
  记录
- Classifying
  分类
- Summarising
  汇总
- Preparing financial statement
  编制财务报表

Preparation of Financial Reports / Statements
财务报告/报表

- Statement of Profit or Loss
  损益表
- Statement of Financial Position
  财务状况表
- Others
  其他

Accounting
会计

Users of Accounting information
会计资料使用者

<u>Internal users</u>
<u>内部使用者</u>

- Business owners
  企业拥有者
- Managers / Executives
  经理 / 执行员
- Employees
  职员

<u>External users</u>
<u>外部使用者</u>

- Trade contacts
  贸易往来者
- Lenders
  贷款者
- Financial analyst / adviser
  财务分析员 / 顾问
- Taxation authority
  税务局
- Stock Exchange (Bursa Malaysia)
  股票交易所
- Public
  公众

Quiz

1 Match the question that may be asked by the appropriate user group of financial report / statement of a business.

User	Question
(a) Banker	(i) What was the past performance of the branch in Kuantan?
(b) Suppliers	(ii) Is the business of my current employer financially secured?
(c) Customer	(iii) Will the company be able to repay the loan?
(d) Manager	(iv) Is the company able to pay their debts for its credit purchases?
(e) Employee	(v) Will the company be able to honour the product's five years warranty obligation?

Answer guide to Quiz

1 (a) - iii (b) - iv (c) - v (d) - i (e) - ii

Chapter 3 Business cycles and documentations

Learning Outcome

Upon completing this chapter, you should be able to:

- Outline the purpose and understand a range of business documents including:

  Non accounting bills —
  Letter of inquiry, Quotation, Purchase Order, Sales Order, Delivery Note, Goods Received Note, Remittance Advice and Statement of Account.

  Accounting bills —
  Invoice, Debit Note, Credit Note, Receipt, Automated Banking Transaction slip.

Synopsis

- A business uses different types of documents to record different transactions.
- Various types of business documents are issued by one party to the other who can either be a supplier or customer.
- Business documents issued or received that merely serve as notification of information requested and no accounting records are to be made at both ends are known as 'non accounting bills'.
- Whereas, certain types of business documents issued or received that formed as source evidence for making entries in the books of account are all known as 'accounting bills'.

3.1 Types of business documentations

1. A business uses different types of documents to record different transactions. When a transaction occurs, a document will be created.

2. There are many types of business documents, and their respective usage are different. The classification of business documents are:

- Business Documents
  - **Accounting bills**
    - Invoice
    - Debit Note
    - Credit Note
    - Receipts / Simplified Invoice and Receipts
    - Automated Banking Transaction Slip
  - **Non accounting bills**
    - Letter of Inquiry
    - Quotation
    - Purchase Order
    - Sales Order
    - Delivery Order / Note
    - Goods Received Note
    - Remittance Advice
    - Statement of Account

3. Accounting bills are the business documents which are used as sources for making entries in the books. Whereas non accounting bills are the business documents which served as notification requested and no accounting records are to be made.

4. Every business document whether it is accounting or non accounting bills are equally important as all are served as evidence for every business transaction. When any dispute occurs, business documents are legal evidence and can be submitted in court.
   Besides, business documents that are accounting bills are also the main source for bookkeeping. It will be used by auditors to verify that the transactions recorded in the books were genuinely occurred. All types of business documents provide legal protection and evidence for both sellers and buyers in financial reporting and tax reporting.

5. Letter of Inquiry

   Letter of inquiry is a letter written by the buyer to communicate with the seller to ask for more detailed information about the product. Usually, it is used when the buyer is interested to know the price and specification of the product. Terms of payment and terms of delivery are also commonly found in the letter of inquiry.

6. Quotation

   A quotation is issued by seller as a response to letter of inquiry sent by the customer. The objective of quotation is to provide information of product, such as price, specification, terms of delivery and payment terms to the potential buyer. It also includes the duration in which the goods delivered and the validity of the quotation.

7. Purchase Order (PO)

   - Purchase order is a document created by the buyer when placing an order with the seller, it indicates the items they wish to purchase from the suppliers.

   - Purchase order helps the buyer to keep track of what has been ordered and from whom, it helps the buyer to avoid duplicate orders.

8. Sales Order (SO)

   - Sales order is generated by the seller when they receive and accept a purchase order from the buyer. When sales order is issued to the buyer, it signifies that the seller has confirmed and approved the sale, and it indicates that the seller is willing to provide the product to the buyer.

   - Sales order is a legally binding contract between the buyer and the seller.

9. Delivery Order / Note (DO)

    - When the seller is delivering goods to the buyer, a delivery order is always enclosed with the goods.

    - Delivery order is a document that lists out the quantity of goods included in a delivery.

    - If there is no dispute, the buyer will sign or stamp on the delivery order to confirm that the goods delivered are well received. A copy of the order is then returned to the seller as proof of delivery.

10. Goods Received Note (GRN)

    - After receiving the goods, the buyer will fill a note to validate and verify that they have received the goods ordered. The note is called the goods received note.

    - The usage of goods received note is to notify the accounts department that the goods have been received and the department will use the note to verify the invoice before making payment to the supplier.

11. Invoice

KIM TAT TRADING
98, Jalan Usahaniaga Berjaya,
13500 P.Pinang.
Tel: 04 – 530 1234
Email: xxxl@ktt.com.my

INVOICE

BILLED TO:
SENTRA STATIONERY ENTERPRISE
9, Jalan Pearl,
16500 Taman Pearl, P.Pinang.

INVOICE NO.	INV-2005/20X3
DELIVERY ORDER NO.	DO-1995 /20X3
INVOICE DATE	10/12/20X3
P.O. NO.	PO654
DUE DATE	09/01/20X4

Code	Description	Qty	Unit Price (RM)	Total (RM)
Sta-01	Stabilo Highlighter Pen (Dozen)	5	8.00	40.00
Sta-15	Stabilo Colored Pencil (Box)	10	45.00	450.00
Uni-18	Uni A4 Green Foolscap Paper 100s (Box)	2	350.00	700.00
			Subtotal:	1,190.00
			Less 10% Trade Discount:	(119.00)
			Total:	1,071.00

E. & O.E.

Note:
- Payment terms: 1/10, net 30 days. Failure to do so will be charged 1% interest per month on overdue accounts.
- Please make cheque payable to KIM TAT TRADING and note the invoice number.
- Goods sold are not returnable.

Khasfri
……………………
Khasfri Bin Ali
(Sales Manager)

- When goods are delivered to buyer, an invoice is created by the seller and submitted to the buyer.

- Typically, a sales invoice will include a description of the goods sold, invoice date, the amount owed after netting off the trade discount (it is offered by seller to buyer who ordered up to a specific purchase quantity) and the deadline for payment.

- Invoice date is an important component in the invoice because it ensures both parties know when the payment is due.

- Besides, payment terms are also formed as one of the main components in invoice. Some of the standard payment terms are:

i. Due upon receipt	Payment is due as soon as the invoice is received.
ii. Net 30 days	Payment must be made within 30 days.
iii. 1/10, net 30 days	1% off the net amount owed, if pays within 10 days of the invoice date. Otherwise, full payment must be made within 30 days.
iv. 2/10, net 30 days	2% off the net amount owed, if pays within 10 days of the invoice date. Otherwise, full payment must be made within 30 days.

- Payment terms shown in item 'iii' and 'iv' above represent a form of discount, known as 'cash discount' or 'early settlement discount' given to customer to encourage early and prompt payment of debts. When customer take up the discount by settling the debt within the specific period, it is described as 'Discount Allowed'. The bookkeeping of Discount Allowed will be further discussed in **Chapter 5** and **6**.

- E. & O.E. is an abbreviation for errors and omissions excepted, it always printed on invoice. It means clerical errors that may occur on invoices. Such phrase is meant to exclude the invoice creator from any possible legal liability as a result of the incorrect information.

12. Debit Note

KIM TAT TRADING
98, Jalan Usahaniaga Berjaya,
13500 P.Pinang.
Tel: 04 – 530 1234
Email: xxxl@ktt.com.my

DEBIT NOTE

BILLED TO:
SENTRA STATIONERY ENTERPRISE
9, Jalan Pearl,
16500 Taman Pearl, P.Pinang.

DEBIT NOTE NO. DN-101/20X3
DEBIT NOTE DATE 12/12/20X3

Description	Total Cost (RM)
Charges for carriage of goods inadvertently omitted in Invoice No. INV-2005/20X3	100.00

E. & O.E.

Khasfri
……………………..
Khasfri Bin Ali
(Sales Manager)

- Debit note issued by the seller to the customer in order to make an adjustment to the original invoiced amount. If the buyer is underbilled on an invoice, a debit note might be issued to increase the amount due from the buyer.

- For example, if the packing expenses, freight and insurance are not yet charged in the invoice, the seller will issue a debit note to amend the invoice amount.

- When the buyer received a debit note, it means that more amount is required to be paid to the seller to settle his liability.

13. Credit Note

KIM TAT TRADING
98, Jalan Usahaniaga Berjaya,
13500 P.Pinang.
Tel: 04 – 530 1234
Email: xxxl@ktt.com.my

CREDIT NOTE

BILLED TO:
SENTRA STATIONERY ENTERPRISE
9, Jalan Pearl,
16500 Taman Pearl, P.Pinang.

CREDIT NOTE NO. CN-153/20X3
CREDIT NOTE DATE 13/12/20X3

Code	Return of Description	Qty	Unit Price (RM)	Total (RM)
Uni-18	Return of Uni A4 Green Foolscap Paper 100s (Box)	1	350.00	350.00
			Subtotal:	350.00
			Less 10% Trade Discount:	(35.00)
			Total:	315.00

E. & O.E.

Khasfri
……………………..
Khasfri Bin Ali
(Sales Manager)

- Credit note is issued by seller to cancel part or all of an invoice that has already been issued, it indicates the overcharging in the invoice issued previously. Examples of credit note include incorrect or damaged products returned by customers, purchase cancellation, or other specified circumstance.

- Credit note allows deduction of the amount stated in the invoice from the financial records without deleting the invoice itself.

- If a buyer returns goods to the seller, a credit note must be issued by the seller so that both parties can process it and make adjustments in the books accordingly.

- It is also sent to the buyer to indicate the cancellation of the payment in the original invoice.

- The total amount payable by the buyer is the amount payable in the invoice minus the amount of the credit note.

14. i. Automated Banking Transaction Slip

P BANK

TRANSACTION RECORD : DEPOSIT

	AMOUNT	DATE	TIME
	RM856.00	15/12/20X3	10:52AM

FROM	TO	LOCATION
	OTHER A/C	DESA PKCITY 1

OTHER A/C NO. = 3148138831

RM2 = 3	RM5 = 0	RM10 = 0
RM20 = 0	RM50 = 1	RM100 = 8

SILA SIMPAN PENYATA UNTUK REKOD ANDA
TERIMA KASIH KERANA BERURUSAN DENGAN KAMI
RETAIN STATEMENT FOR YOUR RECORD
THANK YOU FOR BANKING WITH US

ii. Bank in Slip

P BANK	Drawee Bank	Cheque No.	Place	RM Amount SEN
	PBB	209876		856.00
P银行	Cash			
Visa / Mastercard				
Account No.	3114811388831	■ Deposit □ Withdrawal		
Name	KIM TAT TRADING			

15/12/20X3	CA DEPOSIT	At PULAU PINANG
647/469964	KIM TAT TRADING	RM856.00sen

- When cash or cheques were collected from the cash sales or credit customer, it will be deposited into the business's bank account. Banking transaction slip will be generated automatically by the cash deposit machine (refer to 14(i)) or the cheques deposit machine. It can also be provided by the bank teller if one is depositing cash or cheque through the bank counter (refer to 14(ii)).

- Nowadays, with the growing trend of Electronic Commerce (e-commerce), banking transactions are increasingly common to perform via the official website of the bank (e-banking). Hence, apart from the above physical banking transaction, online banking transfer of fund serve another medium of settlement for all business transactions.

- Automated banking transaction slip / manual bank in slip / online banking payment acknowledgement serve as evidence of receipt or payment of fund which mostly relating to purchases, sales and other business's related transactions.

15. Remittance Advice

- Remittance advice is a document sent by a buyer to a seller to inform the seller that they have paid their invoice. If the customer is paying the invoice by cheque, remittance advice is usually sent with the cheque.

- Remittance advice is a proof of payment sent by a buyer to a seller.

- Some sellers create invoices with a removable portion as remittance advice, so that buyers can fill in and return it along with the payment.

- Remittance advice is not mandatory, however it is seen as a courtesy, because it helps seller's accounting department to match invoices and the payments easily.

16. i. Official Receipt

OFFICIAL RECEIPT

KIM TAT TRADING
98, Jalan Usahaniaga Berjaya,
13500 P.Pinang.
Tel: 04 – 530 1234
Email: xxxl@ktt.com.my

RECEIPT NO. OR-252/20X3
RECEIPT DATE 15/12/20X3

Received from SENTRA STATIONERY ENTERPRISE

The sum of Ringgit EIGHT HUNDRED AND FIFTY SIX ONLY

Being payment of INVOICE NO. INV-2005/20X3, DEBIT NOTE NO. DN-101/20X3 AND CREDIT NOTE NO. CN-153/20X3

RM 856.00
Cash/
Cheque No. PBB 209876

Lim Siu Bee
....
Lim Siu Bee
(Cashier)

ii. Simplified Invoice & Receipt

BLUE OCEAN BAKERY @ CONFECTIONERY SUPPLIES
No. 37, Lebuh Air Merah, Taman Mutiara,
45000 Kuala Selangor, Selangor.
Tel: 03 - 25678901

TAX INVOICE

Invoice No	: 029438420035
Date	: 15 May 20X3
Counter	: 200
Cashier	: WINNCY

	RM
EZYWRAP PREMIUM CLING WRAP RM5.00 × 10	50.00
NON-STICK BAKING PAPER 5 METERS RM4.50 × 6	27.00
BGS ANCHOR SALTED BUTTER 250G RM9.20 × 10	92.00
CHOCOLATE BROWNIE CAKE MIX 500G RM8.50 × 5	42.50

No of items: 31	Total	: RM 211.50
	Cash	: RM 220.00
	Change	: RM 8.50

- When a customer pays cash or cheques to settle the debt, an official receipt must be issued by the supplier as written evidence on collection of payment from the customer.

- Official receipt is a proof of payment, it is an acknowledgment to the buyer that the seller has received payment for goods sold or services provided.

- Official receipt is the main evidence and basis of recordkeeping.

- For most of the retail businesses, simplified invoice and receipt are used for cash transactions instead. When a customer bought goods from suppliers and paid in cash or with credit card immediately, a receipt will be printed from an Electronic Point of Sales (EPOS) system (i.e. electronic cashier machine) by the supplier to the customer to provide evidence of goods sold and payment received.

17. Statement of Account

STATEMENT OF ACCOUNT

KIM TAT TRADING
98, Jalan Usahaniaga Berjaya,
13500 P.Pinang.
Tel: 04 – 530 1234
Email: xxxl@ktt.com.my

CUSTOMER NAME:
SENTRA STATIONERY ENTERPRISE
9, Jalan Pearl,
16500 Taman Pearl, P.Pinang.

STATEMENT PERIOD:
01/12/20X3 - 31/12/20X3

DATE		TRANSACTIONS	DEBIT	CREDIT	BALANCE
20X3			RM	RM	RM
DEC	1	Opening Balance	1,200		1,200
	3	OR-240/20X3		1,200	-
	10	INV-2005/20X3	1,071		1,071
	12	DN-101/20X3	100		1,171
	13	CN-153/20X3		315	856
	18	OR-252/20X3		856	-
	27	INV-2035/20X3	1,530		1,530

Aging of debts:

Due in 30 days:	Due in 60 days:	Due in 90 days:	Due in 120 days:
RM 1,530	RM 0	RM 0	RM 0

- Statement of account is issued by the seller to the customer to outline all the financial transactions between the two businesses within a specific period, usually in the period of one month.
- The financial transactions record in the statement of account includes sales, payments, goods returned and refunds.
- Statement of account provides the buyer information about the outstanding balance for the month, it helps the seller by encouraging and facilitating the buyer in managing and settling their debt.
- Statement of account also helps the buyer to check and track the transaction history with the seller, it can avoid disputes with the supplier.

Chapter Summary

The sequence of business documents used for business transaction were as follows:

1. Letter Of Inquiry 询问信
2. Quotation 报价单
3. Purchase Order 订货单
4. Sales Order 销货单
5. Delivery Order / Note 送货单
6. Invoice 发票
7. Debit Note 借项凭单
8. Credit Note 贷项凭单
9. Automated / Manual / Online Banking Transaction Slip 银行存款单
10. Remittance Advice 汇款通知书
11. Official Receipt 收据 / Simplified Invoice & Receipt
12. Statement Of Account 月结单

Customer
(Buyer)

Supplier
(Seller)

Hint ▶

Documents 6, 7, 8, 9 and 11 are accounting bills. They are used as source documents in bookkeeping.

Quiz

1 Which of the following document is issued by the seller to request for a payment from buyer?

A Invoice
B Quotation
C Debit Note
D Credit Note

2 Which of the following document should be used when the seller found that the invoice issued to the buyer was understated?

A Debit Note
B Credit Note
C Sales Order
D Statement of Account

3 When Baya Enterprise received an invoice, it means ________.

A Baya Enterprise received goods returned from customer
B Baya Enterprise bought goods from supplier
C Baya Enterprise sold goods to customer
D Baya Enterprise returned goods to supplier

4 When Yokga Trading received a debit note from the supplier, it means ______.

A Yokga Trading returned goods to supplier.
B Yokga Trading made a payment to supplier.
C Yokga Trading needs to pay more debt owing to supplier.
D Yokga Trading is overcharged in the invoice received previously.

5 Cash discount was given by the seller to encourage the buyer to ______.

A buy more goods
B make a payment by cash
C settle debt within the discount period
D buy the goods that are going to expire

6 Which of the following document that issued by seller served as an evidence of goods received in good form by the buyer?

A Invoice
B Delivery Order
C Purchase Order
D Goods Received Note

7 When Sata Sdn Bhd received a cheque from customer, which of the following should be issued to inform the customer that the seller has received the payment?

A Sales Order
B Official Receipt
C Letter of Inquiry
D Statement of Account

8 Which of the following shows the correct sequence regarding the document used in a transaction between two businesses?

A Invoice → Sales Order → Credit Note → Receipts
B Invoice → Purchase Order → Debit Note → Receipts
C Letter of Inquiry → Quotation → Purchase Order → Invoice → Receipts
D Letter of Inquiry → Purchase Order → Statement of Account → Invoice

9

INVOICE

ABC TRADING
107, Jalan Aroma,
47000 Sungai Buloh, Selangor.
Tel: 03 – 2780 3342
Email: sales@abc.com.my

BILLED TO:
CENTURY ENTERPRISE

INVOICE NO. 2089
INVOICE DATE 01/07/20X3
DUE DATE 31/07/20X3

Description	Qty	Unit Price (RM)	Total (RM)
Uni A4 Green Foolscap Paper 100s (Box)	5	400.00	2,000.00
		Subtotal:	2,000.00
		Less 5% Trade Discount:	(100.00)
		Total:	1,900.00

E. & O.E.

Note:
- Payment terms: 1/10, net 30 days. Failure to do so will be charged 1% interest per month on overdue accounts.

Lee Zhii Jiat
....
Lee Zhii Jiat
(Sales Manager)

According to the invoice above, if Century Enterprise made a payment on 8 July 20X3, how much is the amount that should be shown in the cheque that issued to ABC Trading?

A RM1,919
B RM1,900
C RM1,881
D RM1,710

10 Which of the following are the source documents that involved in the bookkeeping recording process?

I. Official Receipts
II. Credit Note
III. Quotation
IV. Invoice

A I,II,III
B I,II,IV
C I,III,IV
D II,III,IV

Answer guide to Quiz

1 A **2** A **3** B **4** C **5** C **6** B **7** B **8** C **9** C **10** B

Chapter 4 Types and uses of journals, ledger and cash book

Learning Outcome

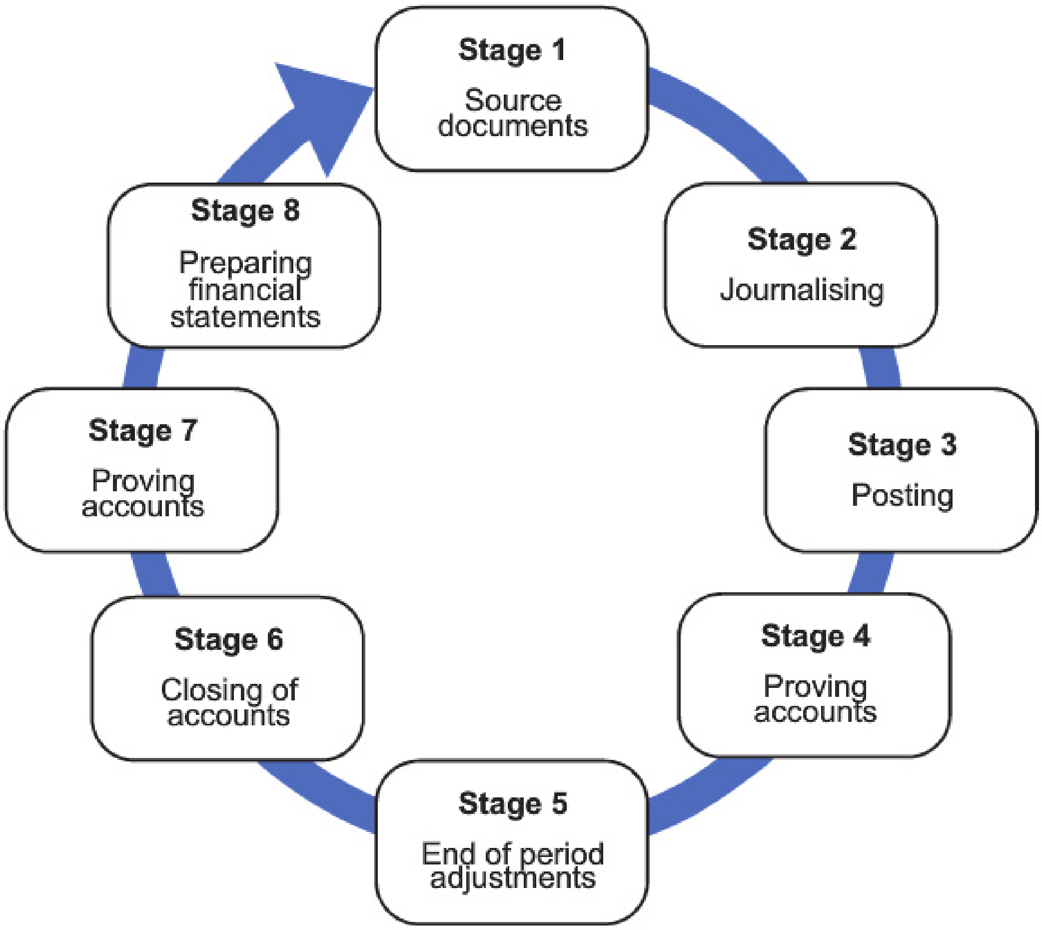
Upon completing this chapter, you should be able to:

- Understand the accounting cycle in financial reporting.
- Understand the types and roles of books of entry:
  a. Journals
  b. Ledgers
  c. Cash Books

Synopsis

- Accounting cycle is a process of recording business transactions in the books.
- Journals are the first record of transaction in the books and each of the transaction will be recorded according to the date of transaction.They contain detailed information of all transactions occurred in the business.
- Ledgers are second record of transaction in the books and segregated by type of accounts for assets, liabilities, owner's equity, revenues and expenses.
- Cash Book is used to record transaction related to receipts and payments by cash, cheque and electronic banking will be recorded in cash book and respective ledger accounts.

4.1 The accounting cycle in financial reporting



	Stage	Remarks
1	Source documents	*Accounting Bills* - Invoice - Debit Note - Credit Note - Receipts - Banking transaction slip *Internal Documents* - Payment voucher
2	Journalising	*Books of original entry* - Special Journal (Include Petty Cash Book & Cash Book) - General Journal
3	Posting	*Ledgers* - Receivables / Sales Ledger - Payables / Purchases Ledger - General / Nominal Ledger
4	Proving accounts	*Trial balance*
5	End of period adjustments	- Irrecoverable (bad) debt - Irrecoverable (bad) debt recovered - Allowance for receivables - Depreciation - Prepayments and accruals - Correction of errors
	Input All the above adjustments will involve Stage 2 and 3.	
6	Closing of accounts	*Ledgers* - Receivables / Sales Ledger - Payables / Purchases Ledger - General Ledger - Petty Cash Book - Cash Book

Stage		Remarks
7	Proving accounts	*Extended trial balance (worksheet)*
8	Preparing financial statements	- Statement of Profit or Loss (and other comprehensive income) - Statement of Financial Position - Others

1. Accounting cycle is a process of recording business transactions in the books. This cycle involves several standard procedures over a particular period of time.

2. An accounting cycle begins with collecting and analysing business documents and ended with preparing financial statements. It shows the steps to record business transaction systematically, so that an accurate financial report can be presented to the owner and other stakeholders.

3. The owner and stakeholders are highly interested in the business's financial statements as they can make decisions like whether to approve a loan or whether to invest in the share of the company. Given that the accuracy of financial statements is of important, the goal of the accounting cycle is to ensure that every transaction is correctly accounted for and properly reflected in financial statements.

4. When the accounting cycle comes to the end of an accounting period, the cycle will be repeated again in the next accounting period which can be yearly, half yearly, quarterly or monthly.

5. The steps of accounting cycle are as follow:

Stage		Things to be done
1	Source documents	Classify and sort all the documents by types and determine which accounts are affected.
2	Journalising	Record the transactions in the respective journals in chronological order. For example, an invoice received from a trade supplier, it must be treated as purchase of goods and hence to be recorded in the Purchases Journal.

Stage		Things to be done
3	Posting	Post the journal entries to the respective ledger accounts. Ledger accounts is the breakdown of all accounting transactions. Upon completion of posting, all the ledger accounts in the books should be balanced off accurately from time to time.
4	Proving accounts	All the balances in the ledger accounts should be extracted to prepare an unadjusted trial balance. Trial balance is a list of accounts created to verify and ensure the arithmetical accuracy of all double entries.
5	End of period adjustments	All the end of period adjustments are prepared to alter the final balances of certain ledger accounts to reflect the practice of accrual / matching concept and prudence concept during an accounting period. Besides, some errors detected can be corrected should the trial balance failed to balance in Step 4.
6	Closing of accounts	Upon completion of end of period adjustments, all the ledger accounts in the books should be balanced off. In this step, nominal accounts (revenue and expenses) will be closed off and will be presented in the Statement of Profit or Loss. Whereas, the remaining accounts, known as real or personal accounts will be carried forward to the next accounting period and will be presented in the Statement of Financial Position.
7	Proving accounts	An adjusted / extended trial balance (worksheet) is prepared to reconfirm the accuracy of all financial data in the books and show updated balances of each account.

Stage		Things to be done
8	Preparing financial statements	For all businesses, the two main components of financial statements will be prepared: - Statement of Profit or Loss (and other comprehensive income) - Statement of Financial Position For **limited liability company** (it is compulsory for listed company), the three additional components of financial statements will also be prepared: - Statement of Cash Flows - Statement of Changes in Equity - Notes to the Financial Statements

4.2 The types and roles of books of entry

A. Journals

1. When all source documents have been identified, the information provided by these documents will then be recorded into the Journals.

2. Journals are also known as day books, books of original entry, books of prime entry or books of first entry. They are the first record of transaction in the books and each of the transactions will be recorded according to the date of transaction chronological order. They contain detailed information of all transaction occurred in the business.

3. The journal is important because of the following:
   i. Reduction and detection of errors in recording of transactions.
   ii. Summarise similar transactions, resulting in less frequent posting to the general ledger.
   iii. Different individuals responsible for different journals for better internal control and sharing of workload.

4. Journals can be classified into two main types, namely Special Journals and General Journal, as follows:

5. Each type of Journals is used to record a specific type of transaction. The relationship between Journals, transaction and source documents are as follows:

Journals	Transaction	Source Document
Sales Journal	Credit sale of goods	Sales Invoice issued
Purchases Journal	Credit purchases of goods	Purchases Invoice received
Sales Returns / Returns Inwards Journal	- Returns of goods from credit customers - Invoice issued to customer was overstated	Credit Note issued
Purchase Returns / Returns Outwards Journal	- Returns of goods to credit suppliers - Invoice received from supplier was overstated	Credit Note received

Journals	Transaction	Source Document
Cash Book	Receipts and payments in cash / cheque / credit card / electronic banking It includes: - cash sales, - cash purchases, - receipt from credit customers, - payment to credit suppliers, - receipt of other income, - payment of expenses, - etc.	Receipts: - Official Receipt - Banking Transaction Slips (manual / automated) - Simplified Invoice Payments: - Payment Vouchers (With supporting documents)
Petty Cash Book	Small / Low value cash payments	Petty Cash Vouchers (With supporting documents)
General Journal	All other transactions that cannot be recorded in any special journals: - Opening and closing entries - Purchase and sale of non-current assets on credit - End of period adjustments - Correction of errors - Others, e.g. drawings of goods or assets and additional capital brought in by owner.	Invoice received and issued, directors' resolution, etc.

B. Ledger

1. After journalising all of the transactions, the entries are then summarised and the information from journals will be posted to various ledgers based on double entry system.

2. The main difference between journal and ledger is the transaction information recorded in the ledger are segregated by type of accounts namely: assets, liabilities, owner's equity, revenues and expenses. For example, Motor Vehicles Account summaries all the transactions that involved a business's delivery truck, car, motorcycle, bus and so on.

3. The ledger has three main functions:
   i. Record keeping of all financial transactions.
   ii. Summary of same transactions for a particular period of time.
   iii. Easy access to the information.

4. There are three types of ledgers:

   a. Receivables / Sales Ledger
   It is used to record each individual credit customers' personal accounts.

   b. Payables / Purchases Ledger
   It is used to record each credit suppliers' personal accounts.

   c. General / Nominal Ledger
   General Ledger contains all other impersonal accounts which comprise of:

   i. Real accounts (Permanent accounts)
   These are the accounts that will remain existing from one to another accounting period, so the net balances in these accounts will be carried forward / down to the next accounting period and appeared in the statement of Financial Position.
   e.g. asset accounts, capital accounts, liability accounts.

   ii. Nominal accounts (Non permanent accounts)
   These are the accounts that are not continuously existed from one to another accounting period, so the net balances in these accounts will NOT be carried forward / down to the next accounting period, but transferred to the Statement of Profit or Loss.
   e.g. revenue accounts, costs / expenses accounts.

C. Cash Book

1. Cash Book is a book of original entry as well as a ledger account. It is used to record all transactions related to receipts and payments of cash, cheque and electronic banking should be first recorded in the Cash Book and then posted to ledger accounts.

2. There are two types of Cash Book:

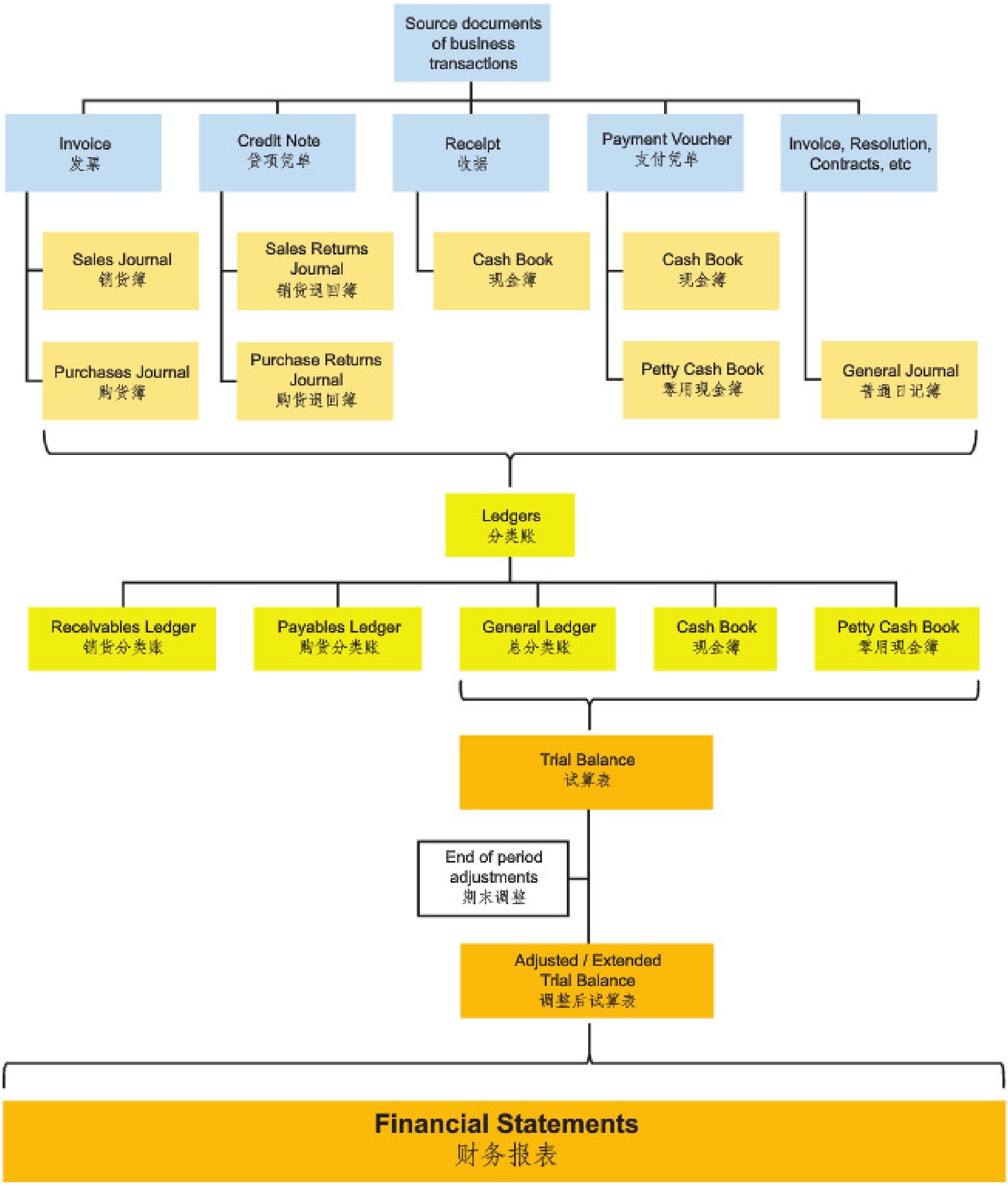
a. Cash Book

- It consists of both the Cash account and Bank account which all are included into one book.
- The advantages of the general Cash Book are as follows:
  - It reduces the number of entries in the General Ledger;
  - It enables the accounts department to assign specific personnel to be in charge of the Cash Book;
  - It makes it easier to cross-reference the Cash and Bank accounts.
    - The details of Cash Book will be covered in **Chapter 6**.

b. Petty Cash Book

- Petty Cash Book is used to record frequent and small value cash payments, just like payment for stationery, postage and printing expenses.
- The advantages of the Petty Cash Book (also known as analytical Petty Cash Book) are as follows:
  - It reduces the number of postings for small value expenses in the Cash Book. Only the periodical totals for the different types of recurring petty expenses that need to be posted to the General Ledger;
  - To reduce the issuance of cheques with small value payments because if cheques are issued for the numerous small payments, it would be troublesome and not practical;
  - The task of handling small value cash transactions can be delegated to a junior staff, while the senior staff can concentrate on the larger cash transaction.
    - The details of Petty Cash Book will be covered in **Chapter 7**.

Chapter Summary



Quiz

1 Which of the following is the correct sequence of preparing trial balance before end of period adjustments?

A Balancing off the accounts → Journalising → Adjusting → Preparing trial balance
B Collecting source documents → Journalising → Posting → Preparing trial balance
C Preparing financial statements → Posting → Adjusting → Preparing trial balance
D Journalising → Posting → Adjusting → Preparing trial balance

2 Which of the following is created to check the accuracy of double entry?

A Trial balance
B Ledger accounts
C Statement of Profit or Loss
D Statement of Financial Position

3 What is the main purpose of accounting cycle?

A To detect errors and adjust it.
B To prepare accurate financial statements.
C To evaluate the performance of employees.
D To check the arithmetical accuracy of entries in ledger.

4 What is the first step in accounting cycle?

A Preparing financial statements.
B Create an adjusted trial balance.
C Post the journal entries to the respective ledger accounts.
D Identify the transactions through the original source documents.

5 The first record of transaction in the books are __________.

A Journals
B Ledger
C Trial balance
D Statement of Profit or Loss

6 When a business received a credit note from supplier, it should be first recorded in the __________.

A Sales Journal
B Purchases Journal
C Returns Inwards Journal
D Returns Outwards Journal

7 Once journal entries are recorded, it can then be posted to _________.

A Trial balance
B Ledger accounts
C Statement of Profit or Loss
D Statement of Financial Position

8 When a business purchased goods on credit, which of the below journal should such transaction be recorded in?

A Cash Book
B Sales Journal
C General Journal
D Purchases Journal

9 Which of the following is best describes about Ledger?

A Ledger is created to verify the accuracy of double entries.
B Ledger is the first record of the transaction in books.
C Ledger is segregated by type of accounts.
D Ledger is recorded in chronological order.

10 Which of the following transaction should be recorded in Petty Cash Book?

A Small value cash payment
B Credit sales of goods
C A car brought in by owner
D Cheque received from customers

Answer guide to Quiz

1 B **2** A **3** B **4** D **5** A **6** D **7** B **8** D **9** C **10** A

Chapter 5 Double entry bookkeeping

Learning Outcome

Upon completing this chapter, you should be able to:

- Understand and apply accounting equation with the concept of double entry.
- Understand the nature of and post entries into the main types of journals:
  a. Purchases and purchase returns journal
  b. Sales and sales returns journal
  c. General journal
- Understand the nature of the main types of ledger accounts:
  a. Personal accounts
     i. Trade receivables
     ii. Trade payables
  b. Impersonal accounts
     i. Real accounts
     ii. Nominal accounts
- Apply and post entries into the main types of ledgers:
  a. General ledger
  b. Sales / Receivables ledger
  c. Purchases / Payables ledger
- Demonstrate the closure of all ledger accounts and cash books.
- Understand the purpose of trial balance.
- Prepare the trial balance.
- Understand the limitations of trial balance.

Synopsis

- Double entry bookkeeping system / Double entry concept is the fundamental framework of Accounting system in all organisations.
- Every financial transaction in an organisation will always give rise to TWO (dual) effects on its financial performance. This is the basis that form the duality principle (dual aspects) of Accounting.
- All financial and business transactions will be recorded into various books of account in accordance with the accounting cycle based on the double entry **bookkeeping** system that developed from the duality principle.
- Before the preparation of financial statements, all balances in each account from the General Ledger and Cash Books will be listed in the preparation of trial balance.
- Trial balance is used as a test of accuracy of all accounting entries made.
- When all transactions are recorded according to double entry concept, the total debit balances should be equal to the total credit balances in the trial balance.

5.1 Fundamentals of double entry bookkeeping / double entry concept

1. As related to **Chapter 2**, when a business organisation is formed, it gives rise to its very first accounting equation by:

Investing / Acquiring all types of assets (resources) required ⟵ With money / finances that are from TWO broad types of investors

		Business owner		Lender
Assets (RM)	**=**	**Equity / Capital (RM)**	**+**	**Debts / Liabilities (RM)**

2. When business operation commenced (e.g. production, purchasing, sales and other operating activities), it then gives rise to:

   - **Revenue / Sales / Income** that arising from sale of goods or delivery of services, and

- **Costs** that incurred from purchases of goods from suppliers, renting of spaces for production and shops, employment of staffs, etc.

3. Hence, to all business organisations that continuously carrying out its business / operating activities, the accounting equation above will be expanded to:

At commencement of business:

Assets (RM)	=	Equity / Capital (RM)	+	Debts / Liabilities (RM)

During the business operation:

Assets (RM)	=	Equity / Capital (RM)	+	Debts / Liabilities (RM)

Capital (RM) + **(Retained)Profit (RM)**

i.e.
Revenue
(Costs)
Profit
(Withdrawal by owners)
Retained profit

Hint ▶

Why is it that retained profit is considered as part of the equity? Based on the above accounting equation, what can the business do with the amount of retained profit?

4. Every financial transaction that took place in a business organisation must be related to any TWO of the above accounting equations. Such dual impact is called the duality principle / dual aspects of accounting.

5. Even though, small businesses that do not have the capability in maintaining a complete sets of books of accounts may choose to keep just a simple listing of financial records, e.g. listing of cash collections and payments (these are NOT even a proper books of account and it is called single entry bookkeeping), most of other businesses, especially the limited liability companies preferred and required by laws to keep a complete books of account that based on the formal system called double entry bookkeeping.

Input

- Under the double entry bookkeeping system, any financial transaction that recorded using single entry bookkeeping will give rise to incomplete record which will be further discussed in **Chapter 15**.
- The double entry bookkeeping system was first discovered by an Italian; Luca Pacioli in 1494.

6. The fundamentals of double entry bookkeeping system that developed based on the duality principle reflect the logic of a business transaction as follow:

Business transactions in Win Enterprise	**Assets (RM)**	**=**	**Equity (RM)**			**+**	**Debts / Liabilities (RM)**
			Capital (RM)	**+**	**(Retained) Profit (RM)**		
1. Owner inject capital (in the form of cash) into Win Enterprise	↑ (Cash)	=	↑ (Capital)	+		+	
2. Win Enterprise buy motor vehicle by cash	↑ (Motor Vehicle) ↓ (Cash)	=		+		+	

Business transactions in Win Enterprise	**Assets (RM)**	**=**	**Equity (RM)**			**+**	**Debts / Liabilities (RM)**
			Capital (RM)	**+**	**(Retained) Profit (RM)**		
3. **(N1)** Win Enterprise purchase goods from supplier on:		=		+		+	
- cash term	↓ (Cash)				↓ (Cost of purchases will reduce the profit and hence retained profit)		
- credit term					↓ (Cost of purchases will reduce the profit and hence retained profit)		↑ (Accounts / Trade Payable)

Business transactions in Win Enterprise	Assets (RM)	=	Equity (RM)			+	Debts / Liabilities (RM)
			Capital (RM)	+	(Retained) Profit (RM)		
4. **(N1)** Win Enterprise sell goods to customers on:		=		+		+	
- cash term	↑ (Cash)				↑ (Sales will increase the profit and hence retained profit)		
- credit term	↑ (Accounts / Trade Receivable)				↑ (Sales will increase the profit and hence retained profit)		

Business transactions in Win Enterprise	**Assets (RM)**	**=**	**Equity (RM)**			**+**	**Debts / Liabilities (RM)**
			Capital (RM)	**+**	**(Retained) Profit (RM)**		
5. Owner withdraw profit from Win Enterprise for own use in the form of:		=		+		+	
- Cash	↓ (Cash)				↓ (Drawings will reduce the retained profit)		
- Goods					↓ (Drawings will reduce the retained profit) ↑ (As drawings of goods will reduce the cost of purchases and hence lead to increase in retained profit)		

(N1) Cash vs Credit transactions

There are TWO common types of settlement arrangement for most business transactions:

Cash term:

Settlement (payment / receipt) by cash / cheques / credit card / online banking transfer is made when goods / resources are bought or sold respectively. i.e. business transactions are settled on cash term.

E.g.

When Win Enterprise:

- Buy goods from suppliers, payment is made on the spot: **Cash decrease** ↓
- Sell goods to customers, payment is received on the spot: **Cash increase** ↑

Credit term:

Settlement (payment / receipt) by cash / cheques / credit card / online banking transfer will only be made at the later stage after goods / resources are bought or sold respectively. i.e. business transactions are settled on credit term.

The credit supplier of goods for resale are known as trade creditors / payables. Whereas, amount owing to other credit supplier for other transactions like purchase of non-current asset, expenses outstanding are known as other creditors / payables.

Conversely, when a business is selling goods to credit customer, it is known as trade debtors / receivables. As for other third party who owe to a business for other transactions such as, landlord who withheld rental deposit, etc are known as other debtors / receivables.

E.g.

When Win Enterprise:

- Buy goods from credit supplier: **Liability increased** ↑ and **Accounts / Trade Payables Account** is created for such recording.
- Sell goods to credit customer: **Asset increased** ↑ and **Accounts / Trade Receivables Account** is created for such recording.

Hint ▶

Apart from the five transaction items as demonstrated above, you may try to figure out how would many other financial transactions in Win Enterprise may affect the above accounting equation.

5.2 Rules of double entry in the ledgers

1. When all financial transactions were to be recorded using the double entry bookkeeping system, it can be as simple as just tabulating the summary as shown in Section 5.1, item 6 above to as sophisticated as maintaining a full set of accounting records.

2. The level of sophistication in maintaining the financial records is much depends on the:

   - Size of the business organisation
   - Volume of business transactions
   - Complexity of business transactions
   - Compliance to regulatory framework

   i.e.

Level of sophistication	Process of maintaining financial records (Types of bookkeeping system)		
	Source documents	Books of account	Summary
E.g. Sole proprietorship with only few financial transactions	<u>**Type 1**</u> E.g. - Cash transactions (with / without invoices / bills)	No formal books of account are kept but only a listing of: -Cash receipt -Cash payment i.e. No proper bookkeeping	Preparation of financial statements will be based on the incomplete records which to be discussed further in **Chapter 15**.
	<u>**Type 2**</u> E.g. - Cash transactions (with invoices / bills)	All transactions will be recorded in 5 types of accounts created and recorded in ONE book called **General / Nominal ledger**.	Balances in each account will be extracted in preparing the **trial balance**. ↓ Preparation of **financial statements**.
	<u>**Type 3**</u> E.g. - Cash - Credit transactions (with invoices / bills)	All transactions will be first recorded in the **books of prime entry (day book / journal)**.	Balances in each account will be extracted from **General ledger & Cash books** in preparing the **trial balance**.

Any businesses types with many financial transactions		↓ The *summary* of transactions will then be recorded in various type of **ledgers**	↓ Preparation of **financial statements**.

Hint ▶

Which type of bookkeeping system is preferred by most stakeholders of a business (e.g. business owner, lender, inland revenue board)? Why?

Input●

Businesses who adopt type 3 bookkeeping system are said to maintain the **full set of accounts**. Please refer to **Chapter 4** to find out all types of day books / journals, ledgers that formed the full set of accounts.

3. From the above, it is obvious that the General / Nominal Ledger is the most important books of account as it includes all the accounts that created for recording all the financial transactions that took place during a period in a business organisation.

4. It is hence important to first understand the use of General / Nominal Ledger based on the duality principle in maintaining all financial transaction records before the use of other books of account.

5. The component and format of an account is appeared in a 'T' format (it is also called the T account or ledger account). There are 5 types of accounts that created in the General / Nominal Ledger based on the accounting equation as discussed in Section 5.1, item 3:

<u>General ledger</u>

XX Account or **XX** GL 01

Date	Particular / Item	Folio (F)	Amount (RM)	Date	Particular / Item	Folio (F)	Amount (RM)

Debit(Dr) **Credit(Cr)**

Note on:

Date
To indicate the timing when the transaction took place (i.e. it is also call transaction date).

Particular / Item
To indicate the name of the account where the corresponding record was made based on the double entry principle.

Folio
To indicate the source of books of account and the code that represent a particular account (e.g. the code of XX Account is 'GL 01') where the corresponding record was made.

Amount
To indicate the value of the transaction that are recorded in the account. The currency in used will be based on the country where the business organisation is resided.

6. Business organisation that has high complexity of financial transactions may need to create many different accounts in the General Ledger (supported by other specific ledger that will be discussed later). For the facilitation of creating, classifying the accounts by types as well as ensuring correct recording for each of the financial transaction, a chart of account (COA) will usually be created with a sample as shown below:

Win Enterprise Chart of account			
Types of accounts	**Code**	**Name of accounts**	**Nature of record (Dr / Cr)**
Assets			**Dr (Increase in value)**
<u>Non-current assets</u> Resources that owned by business and meant to be USED in performing the business operation.	**A1-XXX:** A1-001 A1-002 A1-003 A1-004 A1-005	 -Land, Property -Plant, Machinery -Equipment -Motor Vehicles -Furniture, Fittings -Others	**Dr**
<u>Current assets</u> Resources that owned by business and meant to RESELL for profit.	**A2-XXX:** A2-001 A2-002 A2-003 A2-004 A2-005	 -Inventory -Trade Receivables -Other Receivables -Bank -Cash -Others	**Dr**
Capital	**Cp1-XXX**		**Cr (Increase in value)**
Sources of finance that invested by / owed to business owners.	Cp1-001	Capital	**Cr**
This account records all withdrawals of profit in the form of cash or goods by the business owner in a sole proprietorship.	Cp1-002	Drawings	**Dr (Increase in value)**

Win Enterprise Chart of account			
Types of accounts	**Code**	**Name of accounts**	**Nature of record (Dr / Cr)**
Non-current liabilities Sources of debt finance OR amount owing to third party where the due date for repayment is more than 12 months.	**L1-XXX:** L1-001 L1-002	 - Bank / Mortgage loan - Loan note / Loan stock / Bond / Debenture - Others	Cr
Current liabilities Sources of debts finance OR amount owing to third party where the due date for repayment is **12 months or lesser than 12 months**.	**L2-XXX:** L2-001 L2-002 L2-003	 -Trade Payables -Other Payables -Bank overdraft	Cr
Revenue	**R1-XXX**		**Cr (Increase in value)**
Income that generated from business & other operation.	R1-001 R1-002	-Sales -Other income	Cr

<table>
<tr><th colspan="4">Win Enterprise

Chart of account</th></tr>
<tr><th>Types of accounts</th><th>Code</th><th>Name of accounts</th><th>Nature of record (Dr / Cr)</th></tr>
<tr><td>Expenses that related to the consumption of resources in operating & non-operating activities.</td><td>C1-001
C1-002
C1-003
C1-004

C1-005
C1-006
C1-007

C1-008</td><td>-Purchases
-Salary, Wages
-Rent, Rates
-Telephone, Wifi expenses
-Electricity expenses
-Travelling expenses
-Entertainment expenses
-General / Sundry expenses
-Others</td><td>Dr</td></tr>
</table>

In summary:

Assets / Drawings / Costs	
Increase ↑	Decrease ↓

Liabilities / Capital / Revenue	
Decrease ↓	Increase ↑

7. As refer to Section 5.1, item 6 above, all business transactions will be recorded into the respective accounts created in the General Ledger based on the rules of double entry that stated clearly in the COA as shown in item 6 above:

<table>
<tr><td colspan="2" rowspan="2">Business transactions in Win Enterprise For the month ended 31 January Year 1
RM</td><td colspan="4">General Ledger
(RM)</td></tr>
<tr><td colspan="2">Code</td><td colspan="2">Code</td></tr>
<tr><td rowspan="2">1.
Owner inject capital (in the form of cash) into Win Enterprise</td><td rowspan="2">5,000</td><td colspan="2">Cash (A2)</td><td colspan="2">Capital (C1)</td></tr>
<tr><td>Capital
5,000</td><td></td><td></td><td>Cash
5,000</td></tr>
</table>

Business transactions in Win Enterprise For the month ended 31 January Year 1	RM	**General Ledger (RM)**			
		Code		Code	
2. Win Enterprise buy motor vehicle by cash	3,000	Motor Vehicle **(A1)**		Cash **(A2)**	
		Cash 3,000			Motor Vehicle 3,000
3. Win Enterprise purchase goods from supplier on cash term	200	Purchases **(C1)**		Cash **(A2)**	
		Cash 200			Purchases 200
4. Win Enterprise sell goods to customers on cash term	500	Cash **(A2)**		Sales **(R1)**	
		Sales 500			Cash 500
5. Owner withdraw cash from Win Enterprise for own use	100	Drawings **(C1)**		Cash **(A2)**	
		Cash 100			Drawings 100

Hint ▶

Can you tell which type of Accounting system (Type 1, 2 or 3) that the above bookkeeping practice adopted? (Please refer to Section 5.2, item 2 for clues)

Example 1

On 1 January Year 2, Peter started a business; PJ Enterprise with cash of RM 50,000. The following transactions took place for the month of January:

Year 2			RM
Jan	1	Cash banked into a newly opened bank account	45,000
	2	Bought office furniture by cheque	10,000
	3	Bought Motor Vehicle by cheque	20,000
	4	Bought goods by cheque	5,000
	6	Sold goods to Ali for cash	2,000
	15	Bought goods by cash	500
	20	Received cash from cash sales	3,000
	31	Paid salaries by cash	2,500
	31	Paid office rental by cheque	3,200
	31	Paid water and electricity bills by cash	900

You are required to record the above transactions in the General Ledger of PJ Enterprise and balance off all the accounts as at 31 January Year 2.

Solution to example 1

In the General Ledger of PJ Enterprise

Cash Account 01

Date	Particulars	F	Amount	Date	Particulars	F	Amount
Year 2			RM	Year 2			RM
Jan 1	Capital	02	50,000	Jan 1	Bank	03	45,000
6	Sales	07	2,000	15	Purchases	06	500
20	Sales	07	3,000	31	Salary	08	2,500
				31	Water and Electricity Expenses	10	900
				31	Balance c/d		6,100
			55,000				55,000
Year 2							
Feb 1	Balance b/d		6,100				

Step 1 and 2

Step 3

Capital Account 02

Date		Particulars	Ref	RM	Date		Particulars	Ref	RM
Year 2					Year 2				
Jan	31	Balance c/d		50,000	Jan	1	Cash	01	50,000
					Year 2				
					Feb	1	Balance b/d		50,000

Bank Account 03

Date		Particulars	Ref	RM	Date		Particulars	Ref	RM
Year 2					Year 2				
Jan	1	Cash	01	45,000	Jan	2	Office Furniture	04	10,000
						3	Motor Vehicle	05	20,000
						4	Purchases	06	5,000
						31	Rent	09	3,200
						31	Balance c/d		6,800
				45,000					45,000
Year 2									
Feb	1	Balance b/d		6,800					

Office Furniture Account 04

Date		Particulars	Ref	RM	Date		Particulars	Ref	RM
Year 2					Year 2				
Jan	2	Bank	03	10,000	Jan	31	Balance c/d		10,000
Year 2									
Feb	1	Balance b/d		10,000					

Motor Vehicle Account 05

Date		Particulars	Ref	RM	Date		Particulars	Ref	RM
Year 2					Year 2				
Jan	3	Bank	03	20,000	Jan	31	Balance c/d		20,000
Year 2									
Feb	1	Balance b/d		20,000					

Purchases Account 06

Date		Particulars	Ref	RM	Date		Particulars	Ref	RM
Year 2					Year 2				
Jan	4	Bank	03	5,000	Jan	31	Balance c/d		5,500
	15	Cash	01	500					
				5,500					5,500
Year 2									
Feb	1	Balance b/d		5,500					

Sales Account 07

Year 2			RM	Year 2			RM
Jan 31	Balance c/d		5,000	Jan 6	Cash	01	2,000
				20	Cash	01	3,000
			5,000				5,000
				Year 2			
				Feb 1	Balance b/d		5,000

Salary Account 08

Year 2			RM	Year 2			RM
Jan 31	Cash	01	2,500	Jan 31	Balance c/d		2,500
Year 2							
Feb 1	Balance b/d		2,500				

Rent Account 09

Year 2			RM	Year 2			RM
Jan 31	Bank	03	3,200	Jan 31	Balance c/d		3,200
Year 2							
Feb 1	Balance b/d		3,200				

Water and Electricity Expenses Account 10

Year 2			RM	Year 2			RM
Jan 31	Cash	01	900	Jan 31	Balance c/d		900
Year 2							
Feb 1	Balance b/d		900				

To balance off an account…

Step 1: Compute the value of both Debit and Credit side.

Step 2: State the total value based on the HIGHEST value in Step 1.

Step 3: Determine the balancing figure on the side which has the lower value to ensure the total of it must be the same as Step 2.

Reminder:

- Should the value in Step 1 are the SAME, the total value in Step 2 will be the same and hence, Step 3 WILL NOT be required.
- Balance c/d: Balance carried down / forward to NEXT accounting period.
- Balance b/d: Balance brought down / forward from LAST accounting period.
- **All types of account will be balanced off using the SAME approach if financial statement is NOT prepared.**

Practice 1

You are required to write out the corresponding account that used for recording the transactions based on the double entry principle:

	Business transactions	Account to be debited	Account to be credited
1	Owner deposited cash as capital into the business's bank account	**Bank**	**Capital**
2	Withdrew cash from the bank account for own use		
3	Withdrew cash from bank account for business use		
4	Cash Purchases		
5	Cash sales / Cash takings banked in		
6	Received commission in cash		
7	Paid rental in cash		
8	Bought office furniture by cash		
9	Credit sales to customers with 1 month credit		
10	Bought goods from supplier with 1.5 months credit		

Practice 2

(This question is a continuation to Example 1)
The following transactions took place for the month of February at PJ Enterprise:

Year 2			RM
Feb	4	Cash sales	2,500
	9	Purchases from supplier; Jack Trading on credit term	4,800
	12	Bought goods by cash	1,200
	16	Sold goods to customer; Ahmad Enterprise on credit term	7,000
	18	Return defective goods to Jack Trading	500
	20	Paid carriage outwards for sale of goods by cheque	800
	29	Paid salaries by cash	2,500
	29	Paid office rental by cheque	3,200
	29	Paid water and electricity bills by cash	950
	29	Paid motor vehicle expenses by cash	600

You are required to record the above transactions in the General Ledger of PJ Enterprise and balance off all the accounts as at 29 February Year 2.

5.3 Uses of books of prime entry and ledgers

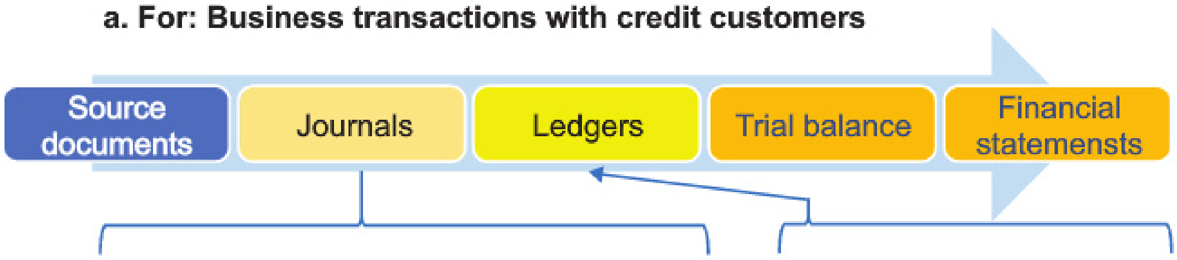
1. As discussed in Section 5.2, item 2 that there are 3 types of bookkeeping system that can be used by a business organisation in maintaining its financial records.

2. When a business organisation has expanded its business operation, not only that there will be more types of business transactions to deal with, but also there will be large volume of business transactions that related to many customers and suppliers.

3. In order to cope with such a large scale of complexity and transaction volume, maintaining a complete and accurate set of financial records is no longer practical and sufficient by just relying on one set of books of accounts: General Ledger.

4. For such business entity, a complete bookkeeping system (type 3) which involve a complete accounting cycle as discussed in **Chapter 4** will be required. This process involved the use of:

a. For: Business transactions with credit customers



Journal / Day Book

Sales Journal / Day Book
(Only record: **Credit sales**)

SJ1

Date	Invoice No.	Customer	F	(RM)
Day6	004	Customer A	RL 1	XX
Day27	005	Customer B (Net off 5% trade discount)	RL 2	YY
Day30		Total for the period	GL 12, 14	ZZ

Sales Returns Journal / Day Book
(Only record: **Returns from credit customer**)

SRJ1

Date	Credit Note No.	Customer	F	(RM)
Day10	C002	Customer A	RL 1	X1
Day30		Total for the period	GL 13, 14	X1

Ledger

Receivables / Sales Ledger
(Only record: **ALL transactions with credit customer**)

RL1

Customer A

Day6 Sales SJ1 XX	Day10 Sales Returns SRJ1 X1

RL2

Customer B

Day27 Sales SJ1 YY	

General / Nominal Ledger
(Recording for: **ALL transactions**)

GL12

Sales

	Day30 Trade Receivables SJ1 / GL14 ZZ

GL13 — Sales Returns

Day30 Trade Receivables SRJ1 / GL14 X1	

GL14 — Trade Receivables

Day30 Sales SJ1 / GL12 ZZ	Day30 Sales Returns SRJ1 / GL13 X1

The Trade Receivables A/C is more commonly known as **Receivables Control A/C** which will be discussed further in **Chapter 9**.

Notes on: Accounting treatment on discounts offered to credit customer
There are TWO main types of discounts that could be offered:

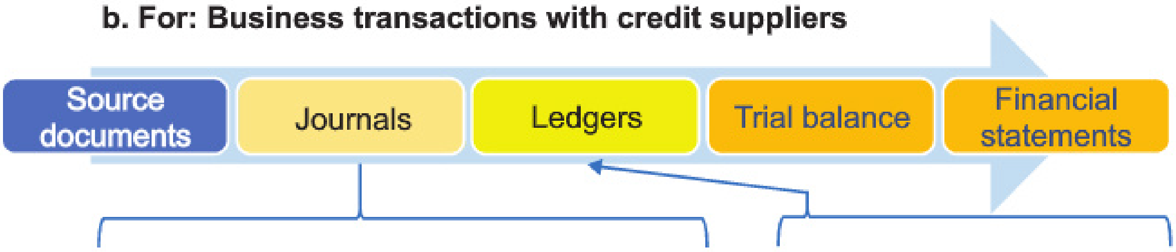
Type	1. Trade / Bulk discount	2.Cash / Early settlement discount
What is it for?	It is a **reduction in the selling price** of goods when the ordering quantity has reached a specific volume that set by the seller. It is a type of business strategy to boost sales volume. (i.e. trade discount is part of the negotiation in business dealing)	It is a **reduction in the sales value** of credit customer when payment is made by a specific credit term. (i.e. discount given for early settlement of debt is known as **DISCOUNTS ALLOWED**) It is a type of financing strategy to manage the business's working capital and cash flow.
Accounting treatment in the: >Receivables Ledger & >General Ledger	**No double entry needed** because the sales value which taken from the invoices are already net off the trade discount.	Based on: (To be discussed in **Chapter 12**, **22**) >IFRS 15, & >Prudence concept

		The principles applied are: Based on the past trade history / other reliable references, when the credit sales took place, the business will need to predict the possibility that the customer might pay within the specific credit term to enjoy the discount: **(N2)** If: (RM) Credit sales: Gross – G Cash discount Offered: (Discount) – D Net credit sales Net – N

	The customer **is expected** to take up the discount by paying the debt within the specific credit term…	The customer **is NOT expected** to take up the discount and NOT paying the debt within the specific credit term…
When credit sales take place:	Dr Trade Receivables (TR) **N** Cr Sales **N**	Dr Trade Receivables (TR) **G** Cr Sales **G**
When customer make payment:	**Within** the specific credit term… Dr Bank / Cash (B) **N** Cr TR **N** OR **After** the specific credit term… Dr Bank / Cash (B) **G** Cr TR **N** Cr Sales **D**	**Within** the specific credit term… Dr Bank / Cash (B) **N** Dr Sales **D** Cr TR **G** OR **After** the specific credit term… Dr Bank / Cash (B) **G** Cr TR **G**

(N2) IMPORTANT:
For learning and examination purpose, question will always state clearly whether the credit customer is likely to take up the cash discount.

b. For: Business transactions with credit suppliers



Journal / Day Book

Purchases Journal / Day Book
(Only record: **Credit purchases**)

PJ1

Date	Invoice No.	Customer	F	(RM)
Day2	A459	Supplier R (Net off 8% trade discount)	PL 4	KK
Day19	3245	Supplier S	PL 9	LL
Day30		Total for the period	GL 15, 17	AA

Ledger

Payables / Purchases Ledger
(Only record: **ALL transactions with credit supplier**)

Supplier R — PL4

Day5 Purchase Returns PRJ1 X2	Day2 Purchases PJ1 KK

Supplier S — PL9

	Day 19 Purchases PJ1 LL

Purchase Returns Journal / Day Book
(Only record: **Returns to credit supplier**) PRJ1

Date	Credit Note No.	Supplier	F	(RM)
Day5	CN011	Supplier R (Net off 8% trade discount)	PL 4	X2
Day30		Total for the period	GL 16, 17	X2

General / Nominal Ledger
(Recording for: **ALL transactions**)

GL15
Purchases

Day30 Trade Payables PJ1 / GL17 AA	

GL16
Purchase Returns

	Day30 Trade Payables PRJ1 / GL17 X2

GL17
Trade Payables

Day30 Purchase Returns PRJ1 / GL16 X2	Day30 Purchases PJ1 / GL15 AA

The Trade Payables A/C is more commonly known as **Payables Control A/C** which will be discussed further in **Chapter 9**.

Notes on: Accounting treatment on discounts offered by credit supplier
There are TWO main types of discounts that could be offered:

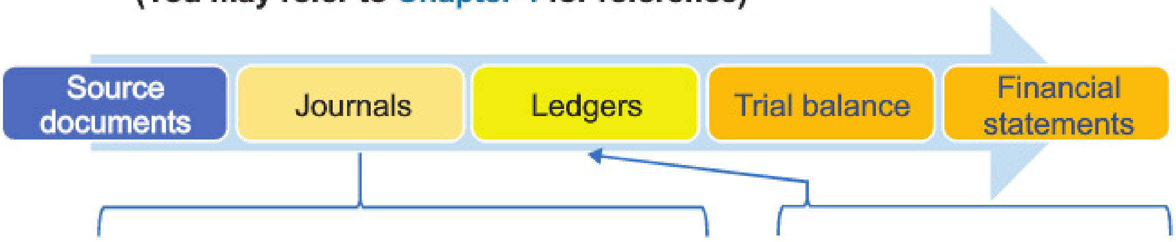
Type	1. Trade / Bulk discount	2.Cash / Early settlement discount
What is it for?	It is a **reduction in the purchase price** of goods when the ordering quantity has reached a specific volume that set by the seller.	It is a **reduction in the purchases value** from credit supplier when payment is made by a specific credit term. (i.e. discount given by supplier for early settlement of debt is known as **DISCOUNTS RECEIVED**) It is a type of financing strategy to manage the business's working capital and cash flow.
Accounting treatment in the: >Payables Ledger & >General Ledger	**No double entry needed** because the purchases value which taken from the invoices are already net off the trade discount.	If: (RM) Credit purchases Gross – G Cash discount received: (Discount) – D Net credit purchases Net – N

When credit purchases take place:	Dr Purchases **G** Cr Trade Payables (TP) **G**
When payment is made to supplier:	**Within** the specific credit term… Dr TP **G** Cr Bank / Cash (B) **N** Cr Discounts Received **D** OR **After** the specific credit term… Dr TP **G** Cr Bank / Cash (B) **G**

Hint ►

Can you differentiate the accounting treatment between discounts allowed and discounts received?

c. For: All other non-routine business transaction
(You may refer to Chapter 4 for reference)



Journal / Day Book

General Journal / Day Book
(Only record: **Non-routine business transactions**)

GJ1

Date	Ref. No.	Particular	F	(RM) Dr	(RM) Cr
Day 1		Bank	GL 2	C	
		Machinery	GL 3	D	
		Capital	GL 1		E
		Being assets, liabilities and capital as at Day 1			
Day 3		Machinery	GL 3	F	
		Bank	GL 2		F
		Being purchase of new machine by cheque			

Ledger

General Ledger
(Record: **ALL transactions**)

GL1

Capital

	Day1 Balance b/d GJ1 E

GL2

Bank (N3)

Day1 Balance b/d GJ1 C	Day3 Machinery GJ1 / GL3 F
	Day9 Drawings GJ1 / GL4 G

	Day 9		Drawings Bank Being withdrawal of cash for own use	GL 4 GL 2	G	G

GL3	
Machinery	
Day1 Balance b/d GJ1 D	
Day3 Bank GJ1 / GL2 F	

GL4	
Drawings	
Day9 Bank GJ1 / GL2 G	

(N3) IMPORTANT:
The full details of preparing the Bank and Cash Account will be discussed further in **Chapter 6** and **7**.

Input

All accounts that created in each type of ledger can be classified as follow:

Types of ledgers	Accounts created	Types of account
Receivables / Sales Ledger	Individual credit customer account	**Personal accounts**
Payables / Purchases Ledger	Individual credit supplier account	
Genaral Ledger	Assets account Liabilities account Capital account Drawings account	**Real / Permanent accounts** (The balances of these accounts will be carried forward to next accounting period and appeared in the Statement of Financial Position)
	Revenue / Sales acccount Cost account	**Nominal / Temporary accounts** (The balances of these accounts will NOT be carried forward to next accounting period and hence appeared in the Statement of Profit or Loss)

Practice 3

The following are parts of the transactions relating to sales and purchases that took place for the month of March at Victory Enterprise:

Year	2	
Mar	2	Bought goods on credit from Johnson & Gary amounted to RM 6,300.
	3	Received cheque of RM4,000 for goods sold on cash term to Oliver Trading.
	10	Issued invoice for goods sold on credit amounting RM6,000 to Paul & Partner.
	11	Bought goods in bulk from Regan Sdn Bhd for RM 3,000 on credit term.
	12	Sold 80 units of goods to TSL & Co at RM 40 per unit on credit term.
	12	Sold goods on credit to Bee Enterprise amounting to RM8,000.
	20	Issued credit note to TSL & Co for the return of 8 units of expired goods bought on 12 March.
	21	Received credit note from Regan Sdn Bhd for the return of incorrect goods worth RM500 bought on 11 March.
	23	Received cheque of RM6,000 from Paul & Partner.
	24	Received cheque of RM2,880 from TSL & Co.
	29	Received cheque of RM8,000 from Bee Enterprise.
	30	Pay Johnson & Gary by cheque amounting to RM6,300.
	31	Amount owing to Regan Sdn Bhd remain unpaid.

In the books of Victory Enterprise, you are required to
(a) record the above transactions in following special journal:

(i)	Purchases Journal	(PJ)
(ii)	Sales Journal	(SJ)
(iii)	Purchase Returns Journal	(PRJ)
(iv)	Sales Returns Journal	(SRJ)

(b) prepare the following:

(i) Payables Ledger
- Johnson & Gary Account (PL01)
- Regan Sdn Bhd Account (PL02)

(ii) Receivables Ledger
- Paul & Partner Account (RL01)
- TSL & Co (RL02)
- Bee Enterprise (RL03)

(iii) General Ledger

- Bank Account	(GL01)
- Purchases Account	(GL02)
- Sales Account	(GL03)
- Sales Returns Account	(GL04)
- Purchase Returns Account	(GL05)
- Trade Payables Account	(GL06)
- Trade Receivables Account	(GL07)

For the month ended 31 March Year 2 with all accounts to be balanced off.

Hint ►

Do you notice that all the above credit transactions are without discounts? Practice 3 will be modified by including consideration of discounts that related to credit purchases and credit sales in **Chapter 6**.

Guidance for recording of sales / sales returns / purchases / purchase return:

Step 1: Identify the nature of transaction (i.e. is it cash or credit transaction)
E.g. Mar 2: Credit purchases.

Step 2: Identify the types of journals (only for credit transaction) and ledgers required for recording
E.g. Mar 2: Credit purchases → Purchases journal → Payables ledger

Step 3: (ONLY for credit transaction): Record the transaction into the respective special journal followed by subsidiary ledger (Receivables / Payables ledger)
E.g. Purchases journal: Refer to 4b
Payables ledger: Refer to 4b

Step 4:
For credit transactions –
Record the TOTAL value of transactions shown in the special journals to respective accounts in the General ledger at the end of the period
E.g. Purchases Account, Trade Payables Account

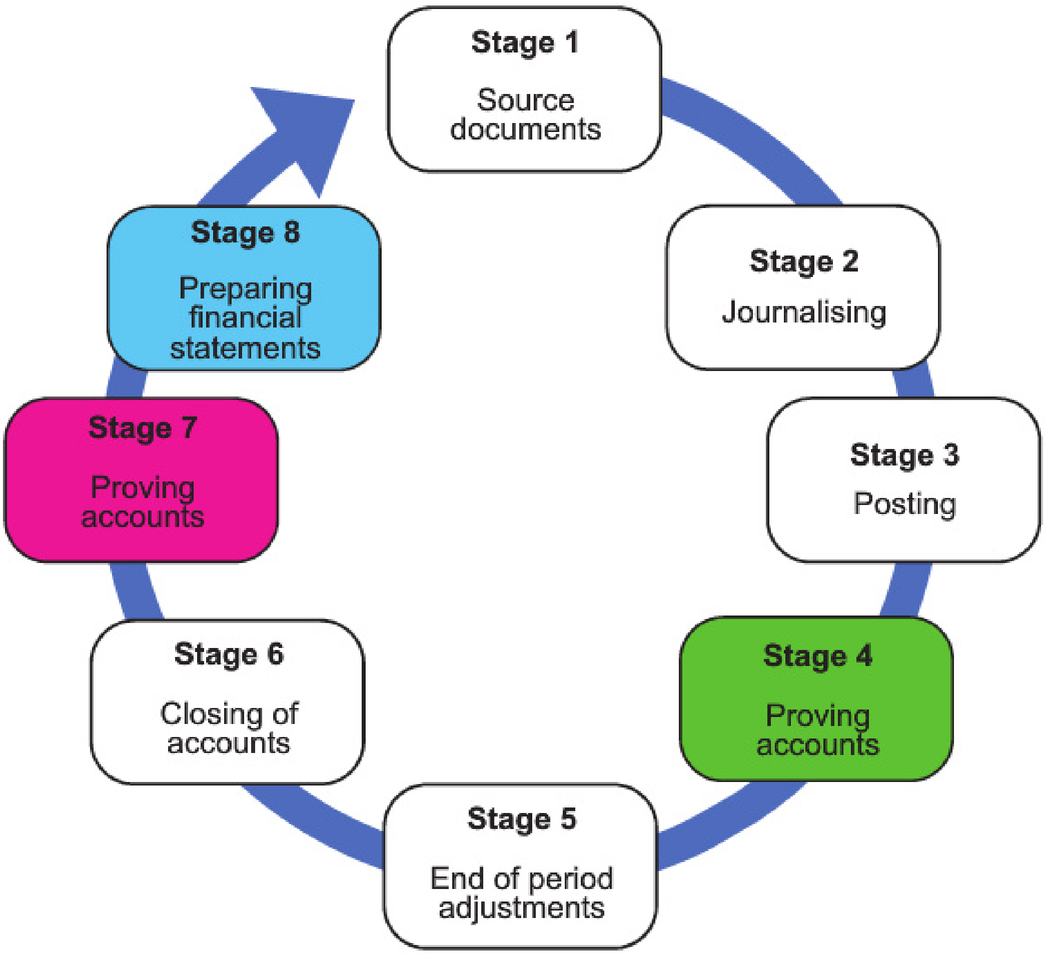
For all other transactions (e.g. Cash sales / Cash purchases) –
Record the value of transaction to respective accounts in the General ledger on the date of transaction

5.4 Purpose of trial balance

1. How do we ensure that the debit and credit entries made into the General Ledger are balanced? Since double entry of each transaction is made in the ledger, the total amount of the debits and credits supposed to be equal. We can list down all the debit balances and credit balances from the General Ledger and Cash Book as a method to find out whether errors are made during the recording transactions.

2. A trial balance is a list of all the **debit balances** and **credit balances** of all accounts in the General Ledger and Cash Book extracted on the day where the trial balance is prepared (i.e. **Trial Balance AS AT** …). The purposes of trial balance are:
   a. Checking the accuracy of all double entries in the ledger.
   b. Checking the accuracy and completeness on recording the transaction from book of original entry to ledger.
   c. Facilitating the preparation of financial statements.

3. Referring to the accounting cycle as mentioned in **Chapter 4**, there are two stages (i.e. Stage 4 and 7) where verification of the accuracy of all accounting records made (i.e. Proving accounts) via the use of trial balance. Hence, it is worth noting that the third purpose (i.e. 'c') of preparing a trial balance is only of relevant at the financial year end of a business.
   i.e.



Stage 4: Trial balance is prepared at a point of time (e.g. End of the week, month, etc) but NOT at the financial year end.
Hence, Trial balance is meant for: **a, b**

Stage 7: Trial balance is prepared at the **financial year end**.
Hence, Trial balance is meant for: **a, b, c**

Stage 8: Preparation of –
-Statement of Profit or Loss (SOPL)
-Statement of Financial Position (SOFP)
-Others

To be discussed in **Chapter:**
- **16**
- **16, 17, 25**
- **25**

5.5 Preparing the trial balance

1. When preparing the trial balance, there are 3 key steps to follow:

   Step 1: Balance off accounts in the General Ledger & Cash Book

   Step 2: Copy all balances from the accounts (Ignore accounts with nil balance) to the trial balance.

   Step 3: Total up the debit balance and credit balance in the trial balance ensure that both balances are equal.

2. It is important to remember that, at Step 1, the treatment of balancing off the accounts is much depend on the stage (i.e. Stage 4 or 7) where the trial balance is prepared.

i.e.
At **Stage 4**: (Based on a sole proprietorship business)

General Ledger		**Trial Balance AS AT XX XX XX**	Dr	Cr	**Remark:**
Revenue (e.g. Sales)					
	*Balance b/d X	** → Revenue		X	* **Step 1** i.e. Carried forward to next account period.
Cost (e.g. Purchases)					
*Balance b/d X		** → Cost	X		
Capital **(N4)**					
	*Balance b/d X	** → Capital		X	** **Step 2**
Liabilities					
	*Balance b/d X	** → Liabilities		X	*** **Step 3**
Assets					
*Balance b/d X		** → Assets	X		
Cash Book Bank / Cash					
*Balance b/d X		** → Assets	X		
		***	**XX**	**XX**	

Input

It is worth noting that only all the balances of each account in the General Ledger are to be listed in the trial balance which will subsequently be shown in the financial statements of the business.

Hence, **all accounting entries made in the subsidiary ledgers (i.e. Receivables Ledger and Payables Ledger) DO NOT form part of the double entry in the General Ledger**. Both the subsidiary ledgers are only served for memorandum purpose (i.e. A reminder record).

This recording system hence give rise to the need to create both Trade Receivables Account and Trade Payables Accounts which later will be known as Trade Receivables Control Account and Trade Payables Control Account respectively in **Chapter 9**.

Example 2

Refer to Example 1, you are required to prepare the trial balance for PJ Enterprise as at 31 January Year 2.

Solution to example 2

PJ Enterprise
Trial Balance as at 31 January Year 2

	Debit	Credit
	RM	RM
Cash	6,100	
Capital		50,000
Bank	6,800	
Office Furniture	10,000	
Motor Vehicle	20,000	
Purchases	5,500	
Sales		5,000
Salary	2,500	
Rent	3,200	
Water and Electricity Expenses	900	
	55,000	55,000

The total of debit balances and credit balances should be equal.

Input

All accounts listed above may / may not be arranged in any specific manner (e.g.alphabetical order).

Practice 4

Refer to Practice 2, you are required to prepare the trial balance for PJ Enterprise as at 29 February Year 2.

Practice 5

Refer to Practice 3, you are required to prepare the trial balance for Victory Enterprise as at 31 March Year 2.

5.6 The limitations of trial balance

1. Given the purpose of preparing the trial balance as discussed above, if trial balance is imbalanced, it might be an indication of the following errors:
   a. Mathematical errors in the book of original entries.
   b. Posting of incorrect amount from journal to ledger; for instance, total sales from sales journal of RM700 has wrongly posted to sales account as RM70.
   c. Recording a transaction on the same side of the accounts twice.
   d. Single entry recording was made for a transaction.

2. However, in bookkeeping, even though the total amount of debit and credit in trial balance are equal, it does not mean that the ledger are free from errors. This is due to some errors arising in bookkeeping process will still lead to a balanced trial balance, hence the usefulness of trial balance is affected by these limitations.

3. The limitations of trial balance are mainly refer to the following type of errors that unable to be detected by a trial balance:

   a. Errors of omission
   This error appeared when no double entry record was made at all for a business transaction.

   For example, goods return to supplier are not recorded in the Accounts Payable and Returns Outwards Account.

   b. Errors of commission
   This error arose when the bookkeeper mistakenly debited or credited a transaction in an incorrect account.

   For example, general expenses of RM100 were debited to the Purchases Account.

c. Errors of principle

This error appeared when double entry of a transaction was not in accordance with the accounting principle or concept. i.e. Incorrect double entry principle applied.

For example, motor van expenses of RM130 had been wrongly debited to Motor Van Account.

d. Compensating error

This error took place when one error which coincidentally, equal and offset with another error.

For example, telephone expenses of RM200 had been debited as RM220 while the commission received of RM350 had also been credited as RM370. Both accounts were overstated by RM20. However, the total amount of debit and credit in the trial balance will still be equal.

e. Errors of posting

A transaction may have posted on the wrong side in either individual personal account or control accounts.

For instance, credit purchases had been wrongly debited to Trade Payables Account and credited to Purchases Account.

f. Error of amount in original entry

This error occurred when the bookkeeper had posted an incorrect amount with a correct double entry.

For example, cash sales of RM930 was wrongly recorded as RM903 in both Sales and Cash Account.

Input

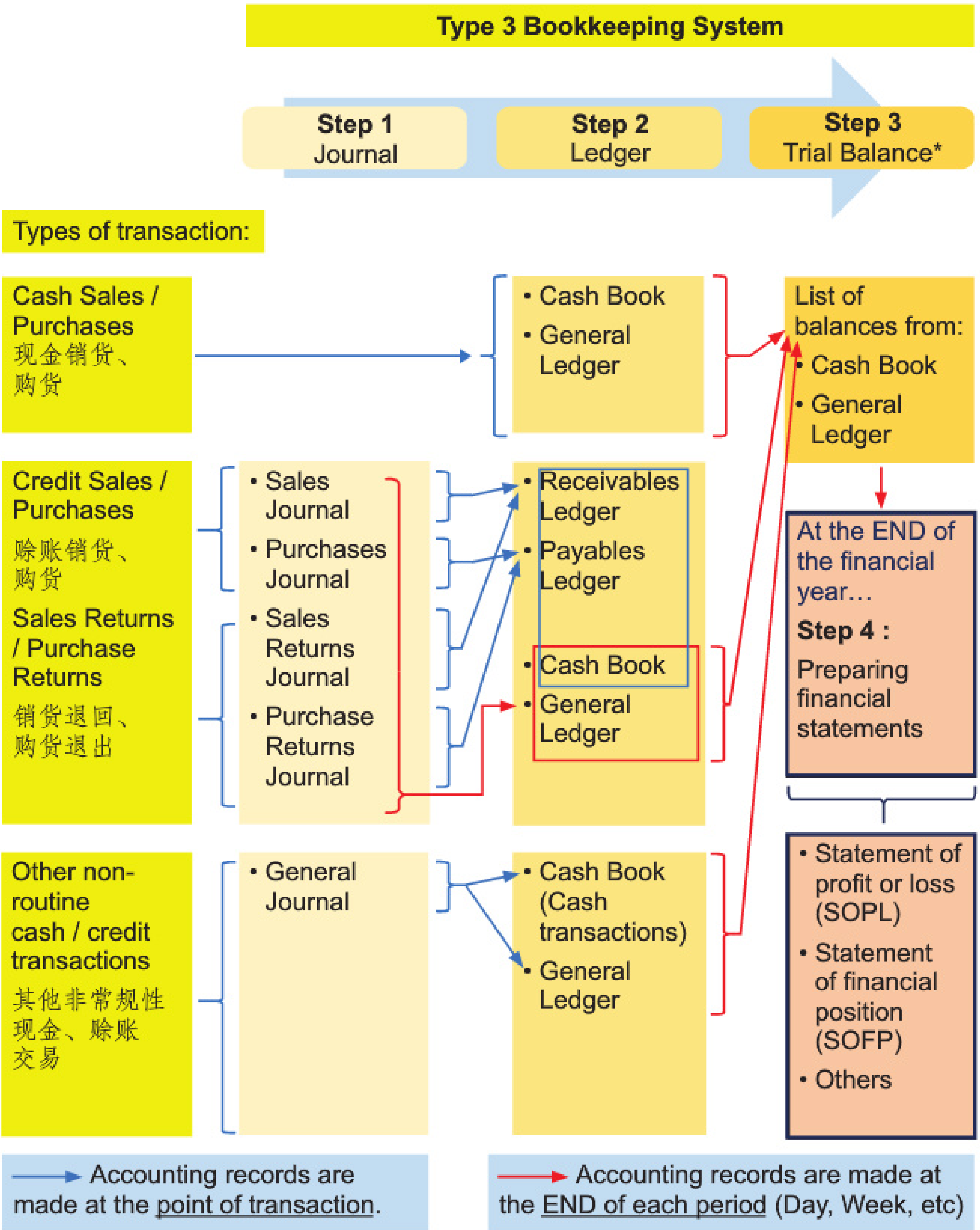
It is common that, after preparing the trial balance, there could be other end of period adjustments arise (to be discussed in **Chapter 8 – 11**) and corrections of errors detected (to be discussed in **Chapter 13**) that may hence affect the closing value of certain accounts. These adjustments take place at Stage 5 in the accounting cycle as shown in Section 5.4.

Such additional accounting entries hence required the trial balance to be 'extended' to include all the above and become an EXTENDED Trial Balance (it is also known as Worksheet).

The purpose of preparing extended trial balance is to ensure all the above additional recording and adjustments are duly and correctly made which facilitate the preparation of financial statements. At this stage, the accounting cycle has come to the last stage; Stage 8 as shown in Section 5.4.

The sample of extended trial balance can be found in **Chapter 16**.

Chapter Summary



***Trial balance 试算表**
Listing of debit balances and credit balances from all ledger accounts as at an accounting period

- Purpose of trial balance
  - Checking the accuracy of all double entries in the ledger
  - Checking the accuracy and completeness on recording the transaction from book of original entry to ledger
  - Facilitating preparation of financial statements
- Errors not detected by trial balance
  - Error of omission
  - Error of commission
  - Error of principle
  - Compensating Error
  - Errors of posting
  - Error of amount in original entry

Quiz

1 There are four types of ledgers that used in the bookkeeping system:

I Sales / Receivables Ledger
II Purchases / Payables Ledger
III General / Nominal Ledger
IV Cash Book

Which of the above ledgers form the source of reference in the preparation of trial balance?

A I,II
B II,III
C III,IV
D I,II,III,IV

2 Which of the following component that found in every 'T' account is served as a purpose to reflect the types of books of entry and corresponding accounting entry for every transaction recorded?

A Date
B Folio
C Amount
D Title of the 'T' account

The following relate to Quiz 3 and 4:

The following information relates to one of the credit transactions at LKT Trading for the month of March Year 5:

- Credit sales to Jack, one of the regular credit customers of LKT Trading amounting to RM6,500 before trade discount of 10%. Cash discount of 5% is also applicable if payment is made in 14 days from the invoice date.
- Based on the past experience, Jack is likely to take up the cash discount.

3 What is the amount of credit sales that to be debited to Jack Account in the Receivable Ledger of LKT Trading?

A RM6,500.00
B RM6,175.00
C RM5,850.00
D RM5,557.50

4 Which of the following is the correct entry in the books of LKT Trading for the receipt of cheque from Jack on Day 13 after the credit sales?

A	Dr	Bank Account	RM5,850.00	
	Cr	Sales Account		RM5,850.00
B	Dr	Bank Account	RM5,850.00	
	Cr	Trade Receivables Account – Jack		RM5,850.00
C	Dr	Bank Account	RM5,557.50	
	Cr	Sales Account		RM5,557.50
D	Dr	Bank Account	RM5,557.50	
	Cr	Trade Receivables Account – Jack		RM5,557.50

5 Kent Enterprise bought a batch of goods from one of its regular suppliers; Jay Trading on credit, worth RM8,400 before 5% bulk (trade) discount. An early settlement (cash) discount of 10% is also offered by the supplier if the invoice is paid within 10 days from the invoice date.

What would be the double entry for recording the payment made by cheque to the supplier in 1 week time after the credit purchase in the book of Kent Enterprise?

A	Dr	Trade Payables Account – Jay Trading	RM7,980	
	Cr	Bank Account		RM7,182
	Cr	Discount Received Account		RM 798
B	Dr	Trade Payables Account – Jay Trading	RM7,182	
	Cr	Bank Account		RM7,182
C	Dr	Purchases Account	RM7,980	
	Cr	Bank Account		RM7,182
	Cr	Discount Received		RM 798
D	Dr	Purchases Account	RM7,182	
	Cr	Bank Account		RM7,182

6 A Trial Balance has been drawn up for Linda Enterprise as at 31 December Year3. However, it does not balance due to misplacement of debit and credit column for certain accounts

	Dr	Cr
	RM	RM
Carriage Outwards	4,274	
Stationery	2,977	
Bank (Overdraft)	3,861	
Purchase Returns / Returns Outwards	7,479	
Sundry Expenses	9,921	
Sales Returns / Returns Inwards	11,420	
Heating and Lighting	15,077	
Capital	76,401	
Machinery - Cost	36,679	
Accounts Payable	260,070	
Sales		743,722
Wages		123,278
Purchases		371,077
Discount Received		2,368
Carriage Inwards		3,724
Buildings - Cost		352,170
Drawings		11,646
Telephone Expenses		2,581
Accounts Receivable		149,077
	428,159	1,759,643

REQUIRED
Prepare a corrected Trial Balance as at 31 December Year 3.

7 The following list of balances were extracted from the books of Tan Hing Enterprise as at the 31 December Year 4:

	RM
Accounts Payable	12,874
Accounts Receivable	34,668
Bank	18,545
Capital	???
Carriage Inwards	450
Cash in Hand	600
Discounts Received	214
Drawings	9,784
Insurance	804
Inventory as at 1 January Year 4	12,458
Loan	17,845
Office Equipment - cost	37,000
Purchases	115,456
Returns Inwards	1,215
Returns Outwards	948
Sales	245,453
Sundry Expenses	545
Telephone Expenses	78
Wages	98,545

REQUIRED
Prepare Trial Balance as at 31 December Year 4 and derive the amount of capital.

Answer guide to Quiz

1 C **2** B **3** D **4** D **5** A

6 Total balance in the corrected trial balance:
Dr : RM 1,093,901
Cr : RM 1,093,901

7 Total balance in the corrected trial balance:
Dr : RM 330,148
Cr : RM 330,148
Capital : RM 52,814 (Cr)

Chapter 6 Cash Book

Learning Outcome

Upon completing this chapter, you should be able to:

- Understand the roles and uses of cash book in recording cash and bank transactions with the presence of trade and cash discount allowed and discount received.

Synopsis

- Cash Book served not only as a special journal but also a ledger that record all cash transactions that settled by cash, cheques, bank transfer, standing orders and credit cards.

- The needs and design of Cash Book is much depended on the volume and variety of settlement business transactions in a business organisation.

- The use of Cash Book facilitates segregation of roles of bookkeeping and provide a clearer presentation of financial information for managing cash flow of a business.

- The closing balance of cash and bank in the Cash Book will be appeared in the trial balance and presented in the Statement of Financial Position.

6.1 Maintaining Cash and Bank Account

1. Among all the ledger accounts that created in the General Ledger, both Cash and Bank Accounts are among all, two of the accounts that have highest volume of double entry records at any point of time given that most business transactions will ultimately be settled by cash, cheques, bank transfer, standing order or credit cards.

2. As the volume and variety of business transactions grow in line with the growth of a business organisation, the creation and maintenance of Cash and Bank Account has also developed over the period of time from just one of the ledger accounts in the General Ledger to columnar account that kept separately in a book of entry named as **Cash Book**.

6.2 Development and format of Cash Book

1. When there are not too many transactions that involved double entry with Cash or Bank Account, it is acceptable that both accounts are kept in the General Ledger. You may refer to **Chapter 5**, Example 1 and Practice 3.

2. However, given the expansion of business as discussed in Section 6.1, it gives rise to a need to maintain both Cash and Bank Account in the Cash Book that served as not only a type of day book / journal but also a ledger that formed part of the double entry with all other accounts in both subsidiary ledgers as well as the General Ledger.

3. The creation of Cash Book in business organisation that has high transaction volume served the following purposes:
   a. Reduce lengthy accounting entries in the General Ledger.
   b. Facilitate segregation of duty on bookkeeping for cash and banking transactions.
   c. Facilitate checking of accuracy on accounting entries in Cash and Bank Account.
   d. Facilitate the monitoring process of cash flow.

4. There are two broad formats for writing up a Cash Book:

Format 1: Cash Book without analysis of receipts and payments

Cash Book									
Date	Particular	F	Cash	Bank	Date	Particular	F	Cash	Bank
						Balance c/d		X	Y
			XX	YY				XX	YY
	Balance b/d **(N1)**		X	Y					

Dr – Receipt

Cr – Payment

(N1)
This cash and bank balance will be included in the Trial Balance and appear under Current Asset in the Statement of Financial Position.

Format 2: Cash Book with analysis of receipts and payments

Cash Book									
Date	Particular	F	Cash	Bank	Date	Particular	F	Cash	Bank
						Balance c/d		X	Y
			XX	YY				XX	YY
	Balance b/d		X	Y					

At both debit and credit side, each item of receipt and payment will be recorded in an additional column that analysed by categories of transaction.

Hence, in order to cater for additional column created for each of debit and credit side, it is common that the 'T' account will be separated into two section, but, the principle of double entry still applied.

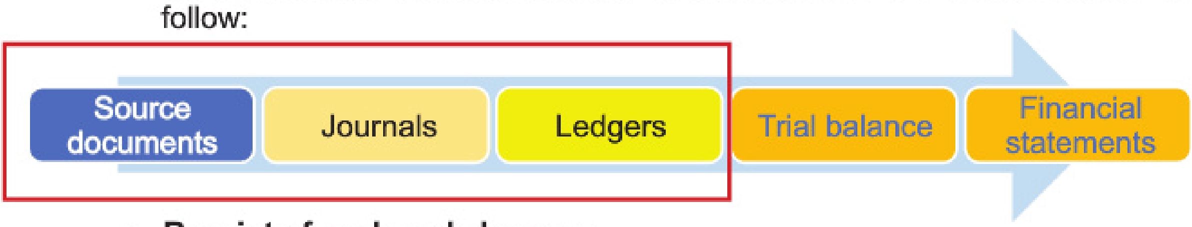
CB-R1 Cash Book (Receipts) – Dr								
Date	Particular / Item	Ref. No.	F	Cash (RM)	Bank (RM)	Trade Receivables (RM)	Cash Sales (RM)	Others (RM)

CB-P1 Cash Book (Payments) – Cr								
Date	Particular / Item	Ref. No.	F	Cash (RM)	Bank (RM)	Trade Payables (RM)	Cash Purchases (RM)	Others **(N2)** (RM)

(N2)
It can be expanded into more columns to cater for other high volume transactions (e.g. Salaries, Travelling cost, etc in Payment section).

6.3 Writing up a Cash Book

1. As refer to the accounting cycle in **Chapter 4**, the process of bookkeeping for receipts and payments of cash and cheques to the Cash Book are as follow:



a. Receipt of cash and cheques:

Example of transactions for Co. K	Type of source documents for bookkeeping (Refer to **Chapter 3** for samples)	Supporting documents (Refer to **Chapter 3** for samples)
Day 2: Receive RM500 cash from Co. A for cash sales	**Official receipt** (O/R No.21) issued to Co. A	Sales invoice issued (separate document from official receipt OR combine with official receipt)
Day 8: Receive a cheque of RM850 from Co. B for credit sales	**Official receipt** (O/R No.45) issued to Co. B	Sales invoice issued (separate document from official receipt)
Day 11: Receive a cheque of RM700 as proceed from sale of non-current asset (Printer)	No source document, but supported by recording in the General Journal (GJ)	Bank in slip (for the cheque deposited)

CB-R1

Cash Book (Receipts) – Dr

Date (Day)	Item	Ref. No.	F	Cash (RM)	Bank (RM)	Trade Rec. (RM)	Cash Sales (RM)	Others (RM)
2	Sales	O/R21	-	500			500	
8	Co.B	O/R45	RL		850	850		
11	Printer		GJ		700			700
				500	1550	850	500	700
						GL 1	**GL 2**	**GL 3**

RL: Receivables Ledger, **GL**: General Ledger, **GJ**: General Journal

b. Payment of cash and cheques:

Example of transactions for Co. K	Type of source documents for bookkeeping	Supporting documents (Refer to **Chapter 3** for samples)
Day 1: Pay RM300 cash to Co. T for cash purchases (PUR.)	**Payment Voucher (N3)** (P/V No.32)	Purchases invoice OR official receipt from supplier
Day 5: Pay a cheque of RM450 to Co. P for credit purchases	**Payment Voucher** (P/V No.33)	Purchases invoice from credit supplier, Co. P
Day 28: Pay a cheque of RM600 as salary to Staff 1, Jack	**Payment Voucher** (P/V No.34)	Salary slip for Jack

CB-P1

Cash Book (Payments) – Cr

Date (Day)	Item	Ref. No.	F	Cash (RM)	Bank (RM)	Trade Pay. (RM)	Cash Pur. (RM)	Salary (RM)
1	PUR	P/V32	-	300			300	
5	Co.P	P/V33	PL		450	450		
28	Jack	P/V34	-		600			600
				300	1050	450	300	600
						GL 4	**GL 5**	**GL 6**

PL: Payables Ledger, **GL**: General Ledger

(N3) Sample of Payment Voucher

Payment Voucher		P/V No. XXX
Payable to:		Date:
Amount (RM):		
Amount in word:		
Mode of payment: Cash / Cheque / Online transfer		(Ref. No.: XXX)
Being:		
Prepared by:	Approved by:	Received by:

Example 1

On 29 February Year 6, Beyond Enterprise has provided its receipt and payment transactions for the month as follow:

Year 6		
Feb	2	Paid RM3,200 to Ace Trading, one of the trade creditors by cheque.
	5	Bought a desktop computer for business use by cheque of RM4,500.
	9	Received a cheque of RM9,800 from Dawn Sdn Bhd, one of the trade debtors.
	16	Paid sundry expenses of RM700 by cash.
	17	Withdraw RM2,000 from bank as cash in hand for business use.
	20	Withdraw RM4,000 from bank for personal use by the owner, Steve.
	23	Received cash of RM1,500 from cash sales.
	27	Paid electricity bill of RM850 by cash.
	27	Paid RM1,600 to Jay Enterprise, one of the trade creditors by cash.
	29	Paid salary of RM2,000 to Staff 1, Siti by cheque.
	29	Paid salary of RM2,500 to Staff 2, Jay by cheque.

The balance of cash in hand and cash at bank as at 1 February Year 6 was RM3,600 and RM20,000 respectively.

You are required to record the above transactions in the Cash Book of Beyond Enterprise and balance off both the cash and bank accounts as at 29 February Year 6. The RECEIPTS and PAYMENTS section of the Cash Book should be shown in two separate tables, each of which should have the analysis of receipts and payments based on the following headings;

RECEIPTS section:
- Trade Receivables (TR)
- Cash Sales (CS)
- Others (Oth)

PAYMENTS section:
- Trade Payables (TP)
- Cash Purchases (CP)
- Salary (S)
- Others (Oth)

Ignore:
- Reference number of each of the above transaction and
- Folio

Solution to example 1

In the RECEIPT section of Cash Book:

CB-R1

Cash Book (Receipts) – Dr

Date	Item	Ref. No.	F	Cash (RM)	Bank (RM)	TR** (RM)	CS** (RM)	Oth** (RM)
Feb1	Balance b/d			3,600	20,000			
9	Dawn Sdn Bhd		RL		9,800	9,800		
17	Bank		C*	2,000				2,000
23	Sales		-	1,500			1,500	
				7,100	29,800	9,800	1,500	2,000
Mar1	Balance b/d			3,950	11,600			

Note:

- **Credit** to respective account in respective ledger on the **date of transaction** (F)
- **Credit** to TR Account in General Ledger on **29 February** (TR)
- **Credit** to Sales Account in General Ledger on **29 February** (CS)

*'C': Contra
As the double entry of this transaction are in the same book of account (Cash Book), 'C' as shown under folio indicate the corresponding entry are found in Cash Book too.

**'TR', 'CS', 'Oth'
These abbreviations can only be used if it is predefined as shown in the requirement of Example 1.

In the PAYMENT section of Cash Book:

CB-P1

Cash Book (Payments) – Cr

Date	Item	Ref. No.	F	Cash (RM)	Bank (RM)	TP** (RM)	CP** (RM)	S** (RM)	Oth** (RM)
Feb 2	Ace Trading		PL		3,200	3,200			
5	Office Equipment		GL		4,500				4,500
16	Sundry Expenses		GL	700					700
17	Cash		C*		2,000				2,000
20	Drawings		GL		4,000				4,000
27	Electricity Expenses		GL	850					850
27	Jay Enterprise		PL	1,600		1,600			
29	Siti		-		2,000			2,000	
29	Jay		-		2,500			2,500	
29	Balance c/d			3,950	11,600				
				7,100	29,800	4,800	-	4,500	12,050

Note:

Debit to respective account in respective ledger on the **date of transaction**

Debit to TP A/C in General Ledger on **29 February**

Debit to Purchases Account in General Ledger on **29 February**

Debit to Salary Account in General Ledger on **29 February**

*'C': Contra
As the double entry of this transaction are in the same book of account (Cash Book), 'C' as shown under folio indicate the corresponding entry are found in Cash Book too.

**'TP', 'CP', 'S','Oth'
These abbreviations can only be used if it is predefined as shown in the requirement of Example 1.

2. As discussed in Chapter 5 **Section 5.3** that, there are two types of discounts that may arise in credit sales and credit purchases; **trade discount** and **cash discount**.

3. The value of credit sales and credit purchases are captured after netting off the trade discount.

4. However, the accounting treatment for cash discount that allowed to credit customers (trade debtors) is different from cash discount that received from credit suppliers (trade creditors).

   i.e.
   Discount allowed:
   Discount Allowed Account is **NOT** created in the General Ledger as it will either:

   - Net off from the credit sales value directly at the point of sales should the customer is EXPECTED TO TAKE UP the discount by paying within the specific credit period.

   OR

   - Deduct from sales value at the point of receipt of cash or cheque from the customer who DO NOT EXPECT TO TAKE UP the discount but subsequently pay within the specific credit period.

   Discount received:
   Discount Received Account is created in the General Ledger to capture the discount received from supplier should payment is made to supplier within the specific credit period.

Example 2

On 31 March Year 6, Beyond Enterprise has provided its receipt and payment transactions for the month as follow:

Year 6		
Mar	3	Received a cheque of RM3,420 from Zex Trading for credit sales that took place on 26 February Year 6 of RM4,000 less 10% trade discount and a cash discount of 5% if payment is made in 15 days (Zex Trading is expected to take up the cash discount).
	14	Paid a cheque of RM2,880 to Best & Co for purchases on 2 March Year 6 of RM3,200 with a credit term of 15 days (10% cash discount), 15 days or later (net).
	20	Received cash of RM1,100 from cash sales.
	21	Paid RM1,330 to NEP & Co by cash for credit purchases on 15 March Year 6 of RM1,400 with a credit term of 14 days (5% cash discount), 14 days or later (net).
	27	Received a cheque of RM3,870 from AB Enterprise for credit sales that took place on 10 March Year 6 of RM4,300 with a cash discount of 10% if payment is made in 20 days (AB Enterprise is not expected to take up the cash discount).
	27	Paid electricity bill of RM650 by cash.
	30	Paid salary of RM2,000 to Staff 1, Siti by cheque.
	30	Paid salary of RM2,500 to Staff 2, Jay by cheque.

The balance of cash in hand and cash at bank as at 1 March Year 6 was extracted from Example 1.

You are required to record the above transactions in the Cash Book of Beyond Enterprise and balance off both the cash and bank accounts as at 31 March Year 6. The RECEIPTS and PAYMENTS section of the Cash Book should be shown in two separate table, each of which should have the analysis of receipts and payments based on the following headings;

RECEIPTS section:
- Trade Receivables (TR)
- Cash Sales (CS)
- Others (Oth)

PAYMENTS section:
- Trade Payables (TP)
- Cash Purchases (CP)
- Salary (S)
- Others (Oth)

Ignore:
- Reference number of each of the above transaction and
- Folio

Solution to example 2

In the RECEIPT section of Cash Book:

CB-R1

Cash Book (Receipts) – Dr

Date	Item	Ref. No.	F	Cash (RM)	Bank (RM)	TR (RM)	CS (RM)	Oth (RM)
Mar1	Balance b/d			3,950	11,600			
3	Zex Trading		RL		3,420	3,420		
20	Sales		-	1,100			1,100	
27	AB Enterpise		RL		3,870	3,870		
				5,050	18,890	7,290	1,100	-
Apr 1	Balance b/d			3,070	11,510			

In the PAYMENT section of Cash Book:

CB-P1

Cash Book (Payments) – Cr

Date	Item	Ref. No.	F	Cash (RM)	Bank (RM)	TP (RM)	CP (RM)	S (RM)	Oth (RM)
Mar14	Best & Co		PL		2,880	2,880 DR: 320			
21	NEP & Co		PL	1,330		1,330 DR: 70			
27	Electricity Expenses		GL	650					650
30	Siti		-		2,000			2,000	
30	Jay		-		2,500			2,500	
31	Balance c/d			3,070	11,510				
				5,050	18,890	4,210	-	4,500	650
						DR: 390			

Credit to Discount Received Account in General Ledger on **31 March**

Note:
DR: Discount Received

6.4 Writing up Journals, Ledgers and Cash Book

1. At this point of time, we should have a clearer understanding on the accounting cycle as discussed in **Chapter 4**, double entry bookkeeping in **Chapter 5** and writing up a Cash Book in this chapter.

2. Hence, we should be ready to put together all the fundamentals of bookkeeping in recording business transactions, in particular, sales and purchases on both cash and credit term right from the Journals to all respective Ledgers and Cash Book to fully appreciate the complete flows of bookkeeping.

Practice 1

(Modified from Practice 3 in Chapter 5)

The following are parts of the transactions relating to sales and purchases that took place for the month of March at Victory Enterprise:

Year 2

Mar 2 Bought goods on credit from Johnson & Gary amounted to RM 6,300 less trade discount 10% and a cash discount of 10% if paid within 30 days.

3 Received cheque of RM4,000 for goods sold on cash term to Oliver Trading.

10 Issued invoice for goods sold amounting RM6,000 to Paul & Partner with 10% trade discount and cash discount of 5%, if paid within 14 days. (Based on reliable source, Paul & Partner is expected to take up the cash discount)

11 Bought goods in bulk from Regan Sdn Bhd for RM 3,000, less 10% trade discount and a cash discount of 4% if paid within 20 days.

12 Sold 80 units of goods to TSL & Co at RM 40 per unit, with 5% cash discount, if paid within 14 days. (Based on reliable evidence, TSL is not planned to take up the cash discount)

12 Sold goods to Bee Enterprise amounting to RM8,000, with 15% trade discount and 5% cash discount, if paid within 14 days. (Based on reliable evidence, Bee Enterprise is planned to take up the cash discount)

20 Issued credit note to TSL & Co for the return of 8 units of expired goods bought on 12 March.

21 Received credit note from Regan Sdn Bhd for the return of incorrect goods worth RM500 (before trade discount) bought on 11 March.

23 Received cheque of RM5,130 from Paul & Partner.

24 Received cheque of RM2,736 from TSL & Co.

29 Received cheque of RM6,800 from Bee Enterprise.

30 Paid Johnson & Gary by cheque amounting to RM5,103.

31 Amount owing to Regan Sdn Bhd remain unpaid.

In the books of Victory Enterprise, you are required to

(a) record the above transactions in following special journal:

(i)	Purchases Journal	(PJ)
(ii)	Sales Journal	(SJ)
(iii)	Purchase Returns Journal	(PRJ)
(iv)	Sales Returns Journal	(SRJ)

(b) prepare the following:

(i) Payables Ledger

- Johnson & Gary Account	(PL01)
- Regan Sdn Bhd Account	(PL02)

(ii) Receivables Ledger

- Paul & Partner Account	(RL01)
- TSL & Co	(RL02)
- Bee Enterprise	(RL03)

(iii) General Ledger

- Bank Account	(GL01)
- Purchases Account	(GL02)
- Sales Account	(GL03)
- Sales Returns Account	(GL04)
- Purchase Returns Account	(GL05)
- Trade Payables Account	(GL06)
- Trade Receivables Account	(GL07)

(iv) Cash Book

The RECEIPTS and PAYMENTS section of the Cash Book should be shown in two separate table, each of which should have the analysis of receipts and payments based on the following headings:

RECEIPT section: (CB-R)

- Trade Receivables - TR
- Cash Sales - CS
- Others - Oth

PAYMENT section: (CB-P)

- Trade Payables - TP
- Cash Purchases - CP
- Others - Oth

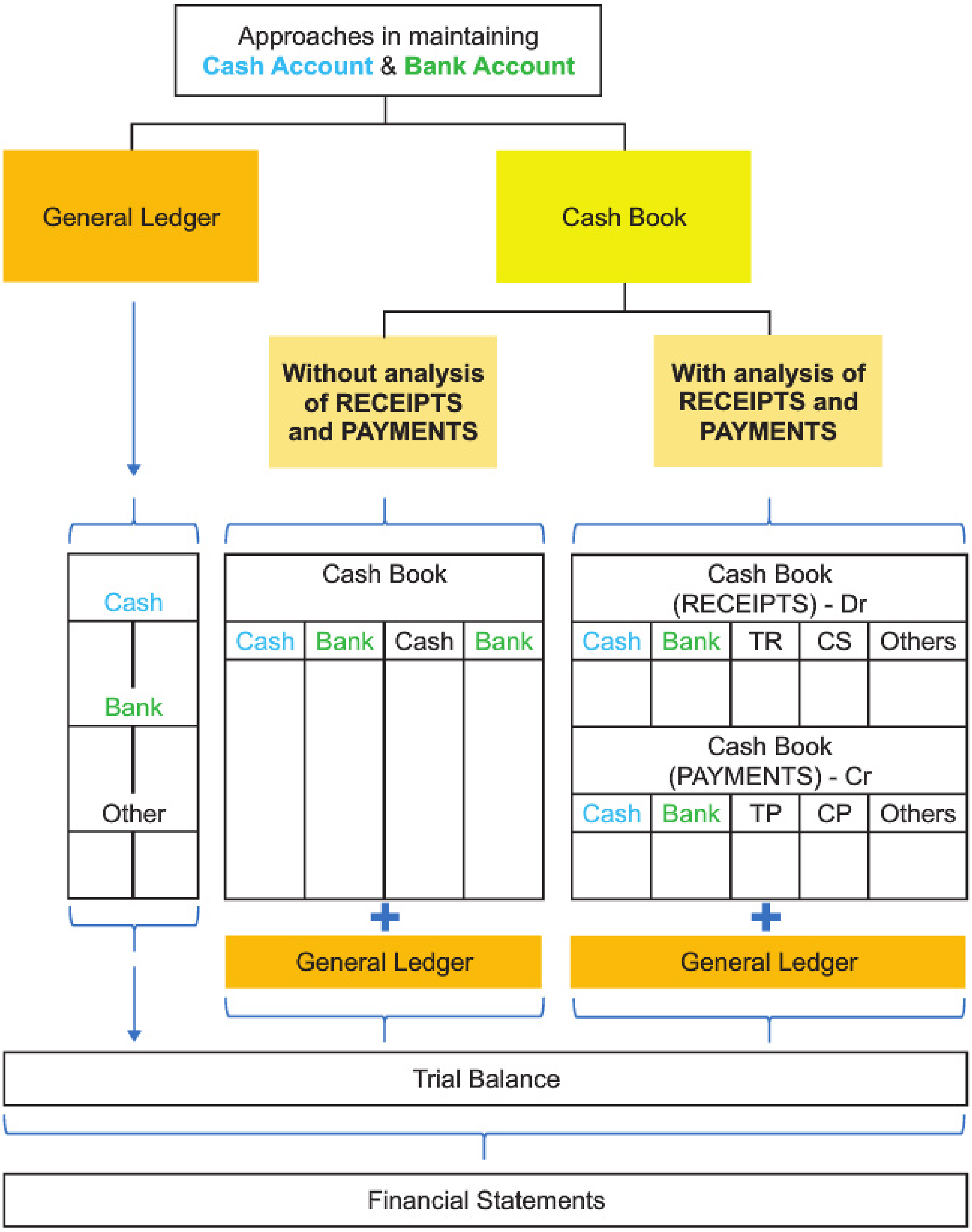
Ignore:

Reference number of each of the above transaction

For the month ended 31 March Year 2 with all accounts to be balanced off.

(c) prepare the trial balance as at 31 March Year 2.

Chapter Summary



Quiz

The following relate to Quiz 1 and 2:

Below is the partial information shown in the Cash Book:

Cash Book									
Date	Particular	F	Cash (RM)	Bank (RM)	Date	Particular	F	Cash (RM)	Bank (RM)
	X Account	C		500		Y Account	C	500	

1 What is X Account and Y Account represented by?

	X Account	Y Account
A	Bank	Cash
B	Cash	Bank
C	Sales	Purchases
D	Purchases	Sales

2 What is the transaction activity that the above double entry that denoted by 'C' – 'Contra' represents?

A Withdraw RM500 from Bank Account for owner's personal use
B Withdraw RM500 cash for owner's personal use
C Deposit RM500 cash in hand into Bank Account
D Deposit a cheque of RM500 into Bank Account

3 Which of the following transaction will not have a double entry that involved Cash or Bank Account in the Cash Book?

A Payment made to trade creditors
B Received payment from trade debtors
C Settle rental for the month with landlord
D Returning a batch of damaged goods to trade creditors

4 Kent Enterprise operates a wholesale business for stationery with high transaction volume each day and dealing with many customers and suppliers with cash and credit terms.

Which of the following approach in maintaining the Cash Account and Bank Account is most appropriate for Kent Enterprise?

A Two separate sections of Cash Book with analysis of receipts and payments
B Single Cash Book without analysis of receipts and payments
C No Cash Book is created, but maintain both accounts in the General Ledger
D No Cash Book is created, but maintain only one of the accounts in the General Ledger

The following relate to Quiz 5 and 6:

Below is the partial information shown in the Cash Book of ABC Trading:

CB-P1

Cash Book (Payments) – Cr

Date	Item	Ref. No.	F	Cash (RM)	Bank (RM)	TP (RM)	CP (RM)	S (RM)	Oth (RM)
Apr 3	Comfort & Co		PL		6,000	6,000			
8	Office Furniture		GJ		5,500	I	II	III	IV
						6,000			
						GL	GL	GL	GL

TP: Trade Payables
CP: Cash Purchases
S: Salary
Oth: Others
PL: Payables Ledger
GJ: General Journal
GL: General Ledger

5 If all accounts are to be balanced off on 30 April, when will the total of RM6,000 under TP column be posted on to Trade Payables Account under General Ledger?

A 3 April
B 10 April
C 20 April
D 30 April

6 For the analysis of payments, which of the following should amount of RM5,500; purchase of new office furniture be shown at?

A I
B II
C III
D IV

Answer guide to Quiz

1 B **2** C **3** D **4** A **5** D **6** D

Chapter 7 Petty Cash Book

Learning Outcome

Upon completing this chapter, you should be able to:

- Understand the roles and preparation of petty cash book using the imprest system.

Synopsis

- Apart from all the major business transactions, it is common in a business organisation to pay for ranges of expenses that are small in value.
- A fixed amount of petty cash will hence be kept at the beginning of every period to meet for such small value payments.
- At the end of the period, the petty cash will be reimbursed to the fixed amount. This is known as the imprest system.
- A petty cash book is hence created to maintain the record for these payment transactions under the imprest system.
- The closing balance of the petty cash book will be appeared in the trial balance and presented in the Statement of Financial Position.

7.1 Maintaining Petty Cash

1. As discussed in **Chapter 6**, part of the purposes in creating the Cash Book is to segregate the duty of bookkeeping for cash and banking transactions as well as to reduce lengthy accounting entries in the General Ledger.

2. In order to facilitate the maintenance a cash book, it is common for a business to set aside a petty cash for all the small value and frequently recur payments (e.g. payment for staff meals, postage, taxi fares for staff meeting at clients' office, etc) .

3. To simplify and facilitate the management of petty cash, the **imprest system** is commonly in used; a fixed amount of petty cash (**imprest amount / petty cash float**) is set aside at the beginning of every period (it can be daily, weekly or monthly interval) for meeting all petty cash payments and the petty cash balance will be reimbursed / replenished at the end of the period to restore back to the fixed amount.

Input●

It is worth noting that:
- The frequency of the reimbursement, and
- The imprest amount

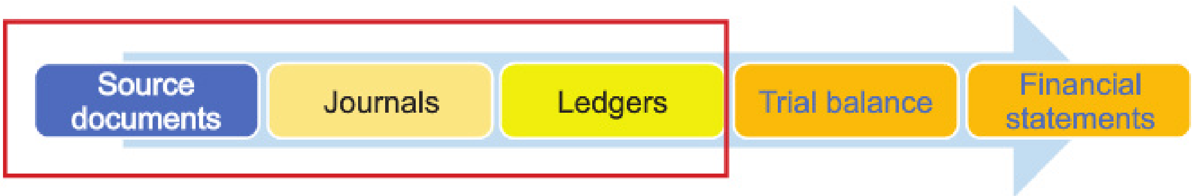
may subject to change according to the needs of the business.

5. All transactions (mainly payments) in the petty cash during the period will be recorded in another not only a day book / journal but also a ledger that formed part of the double entry with all other accounts in the General Ledger. It is known as the **Petty Cash Book**.

6. From the perspective of bookkeeping, the main purpose of creating and maintaining the Petty Cash Book is to reduce the lengthy accounting entries in both the Cash Book and General Ledger. Whereas, from the perspective of cash management, writing up a Petty Cash Book enable segregation of duty in managing small value cash transactions to junior executive staff.

7.2 Writing up a Petty Cash Book

1. Despite that Petty Cash Book is mainly used for recording of small value cash payments, the bookkeeping process as shown in the accounting cycle in **Chapter 4** still apply:



2. Given that the Petty Cash Book is serving as a journal as well as a ledger and most accounting entries are relating to cash payment, it is common that the design of the Petty Cash Book will cater for analysis of payments by types.

3. A typical Petty Cash Book will usually have the following layout and it will start with the petty cash float or imprest amount (W1) at the beginning of the period:

PCB-1

Petty Cash Book

(Dr) Receipts (RM)	F	Date	Item	Ref. No.	(Cr) Payments (RM)	Travelling Expenses (TE) **(N1)** (RM)	Staff Welfare (SW) **(N1)** (RM)	Others **(N2)** (RM)	F
W1			Balance b/d						
			Taxi fares	#	X1	X1			
			Petrol and parking	#	X2	X2			
			Medical bill	#	Y1		Y1		
			School donation	#	Z1			Z1	
					P	X	Y	Z	
R(N3)			Bank			**GL 1** **(N4)**	**GL 2** **(N4)**		
			Balance c/d		W1				
XXX					XXX				
W1 **(N5)**			Balance b/d						

E.g.:
CB 1
(N4)

Step 2

#
Petty Cash Payment Voucher No.
E.g.: 023, 024

Step 1

Step 3

E.g.:
GL 6
(N4)

(N1)
It usually caters for high volume recurring transactions which may vary with types of business and can be expanded into more columns to cater for other high volume transactions (e.g. Postage, Stationery, Carriages, etc).

(N2)
It usually caters for all other small value cash payment transactions that are mostly one off item.

(N3)
(R) represent the reimbursement at the end of the period which is EQUAL to total petty cash payments during the period (P).

(N4)
The posting of these accounting entries to the respective accounts in the General Ledger will only be made at the end of each period. This practice will help to reduce the volume of accounting entries that will otherwise appear in those accounts.

i.e.

Travelling Expenses Account 01

		RM		RM
Petty Cash	PCB1	X	Balance c/d	X
Balance b/d		X		

Staff Welfare Account 02

		RM		RM
Petty Cash	PCB1	Y	Balance c/d	Y
Balance b/d		Y		

Donation Account 03

		RM		RM
Petty Cash	PCB1	Z1	Balance c/d	Z1
Balance b/d		Z1		

Hint ►

Do you realise that these bookkeeping processes are similar to that of Cash Book with analysis of receipts and payments as discussed in **Chapter 6**?

(N5)
This petty cash balance will be included in the Trial Balance and appear under Current Asset in the Statement of Financial Position as shown in the accounting cycle in item 1.

Example 1

Tent Enterprise has the following petty cash payments for the month ended on 30 April Year 7:

Petty cash payment transactions for April Year 7	Type of source documents for bookkeeping	Supporting documents (Refer to **Chapter 3** for samples)
Day 7: Pay RM33 cash for taxi fare for staff's business travelling	**Petty Cash Payment Voucher (N6)** (PPV No.12)	Simplified invoice and receipt
Day 11: Pay RM68 cash for staff's meal	**Petty Cash Payment Voucher** (PPV No.13)	Simplified invoice and receipt
Day 20: Pay RM6 cash for postage	**Petty Cash Payment Voucher** (PPV No.14)	Simplified invoice and receipt
Day 24: Pay RM24 cash for staff's petrol and parking	**Petty Cash Payment Voucher** (PPV No.15)	Simplified invoice and receipt

(N6) Sample of Petty Cash Payment Voucher

<table>
<tr><td colspan="3" align="center">Petty Cash Payment Voucher
PPV No. XXX</td></tr>
<tr><td colspan="3">Payable to: Date:</td></tr>
<tr><td colspan="3">Amount (RM):</td></tr>
<tr><td colspan="3">Amount in word:</td></tr>
<tr><td colspan="3">Mode of payment: Cash / Cheque / Online transfer (Ref. No.: XXX)</td></tr>
<tr><td colspan="3">Being:</td></tr>
<tr><td>Prepared by:</td><td>Approved by:</td><td>Received by:</td></tr>
<tr><td></td><td></td><td></td></tr>
</table>

Tent Enterprise practises an imprest system where petty cash balance will be reimbursed by cashing out from the business's Bank Account at the end of each week to ensure the opening balance of subsequent month remain at the float of RM 300.

You are required to record the above transactions in the Petty Cash Book of Tent Enterprise and balance off as at 30 April Year 7.

The analysis of petty cash payments should be based on the following headings:

- Travelling Expenses (TE)
- Staff Welfare (SW)
- Postage (PT)
- Others (Oth)

Ignore:

- Folio (F)

Solution to example 1

PCB-1

Petty Cash Book

Receipts (RM)	F	Date	Item	Ref. No. (PPV No.)	Payments (RM)	Travelling Expenses (TE) (RM)	Staff Welfare (SW) (RM)	Postage (PT) (RM)	Others (OTH) (RM)	F
		Year 7								
300.00		Apr 1	Balance b/d							
		7	Taxi fares	12	33.00	33.00				
		11	Staff meal	13	68.00		68.00			
		20	Postage	14	6.00			6.00		
		24	Petrol & parking	15	24.00	24.00				
					131.00	57.00	68.00	6.00		
131.00		30	Bank							
			Balance c/d		300.00					
431.00					431.00					
300.00		May 1	Balance b/d							

Input

- Despite that the reimbursement are mostly made at the END of the period, it is equally acceptable that reimbursement can also be made at the BEGINNING of the following period. What remain important is to apply the practice in a consistent manner.
- Even though the Petty Cash Book is mainly used for recording of all petty cash payments, there may be some petty cash receipts on some occasions like sale of old newspaper and magazine at office, etc that arise. These items can either be recorded (debited) in the Petty Cash Book or keep out from any accounting entries (i.e. no double entry is made and such cash may just spend for some office use which is also no double entry is made).
  Most businesses will prefer to latter (i.e. no accounting entry is made) due to immaterial and less business related in nature.

Example 2

(continue from Example 1)

Tent Enterprise has the following petty cash payments for the month ended on 31 May Year 7:

May	2	Carriage of RM 37 for delivery of free samples to customer.
	6	Staff's vaccination fees of RM120.
	10	Lunch for office staffs of RM68.40.
	16	Taxi fares for outstation business travel of RM150.
	17	Postage fee of RM8.
	20	Courier fees of RM16 (classified as postage).
	23	Staff claim on petrol and parking fees of RM49.80.
	27	Hand sanitizer for staffs of RM 54.50.
	29	Purchase of stationery of RM88.

Tent Enterprise has continued to practice the imprest system and reimbursement will still be made at the end of each month except that the float in the opening balance of the subsequent month will be increased to RM 500.

You are required to record the above transactions in the Petty Cash Book of Tent Enterprise and balance off as at 31 May Year 7. (Please use the same layout of Petty Cash Book as in Example 1)

Ignore:
- Reference number for each of the above transaction.
- Folio (F)

Solution to example 2

PCB-2

Petty Cash Book

Receipts (RM)	F	Date	Item	Ref. No.	Payments (RM)	Travelling Expenses (TE) (RM)	Staff Welfare (SW) (RM)	Postage (PT) (RM)	Others (RM)	F
		Year 7								
300.00		May 1	Balance b/d							
		2	Carriage		37.00				37.00	
		6	Staff's vaccine		120.00		120.00			
		10	Staff's lunch		68.40		68.40			
		16	Taxi fares		150.00	150.00				
		17	Postage		8.00			8.00		
		20	Courier fees		16.00			16.00		
		23	Petrol & parking		49.80	49.80				
		27	Hand sanitizer		54.50		54.50			
		29	Stationery		88.00				88.00	
					591.70	199.80	242.90	24.00	125.00	
791.70		31	Bank							
		31	Balance c/d		500.00					
1091.70					1091.70					
500.00		Jun 1	Balance b/d							

Practice 1

Tango Trading has the following petty cash payments for the month ended on 31 October Year 5:

Oct	3	Petrol and toll fees of RM63.
	8	Postage of RM 11.
	9	Courier charges of RM15 (classified as postage).
	12	Taxi fares of RM31.30.
	18	Garbage bags for office use of RM10.
	21	Car hailing fees of RM25.20.
	24	Coloured photocopying charge of RM16.
	26	Taxi fares of RM 18.
	29	Poslaju charge of RM21.
	30	Postage of RM6.10.

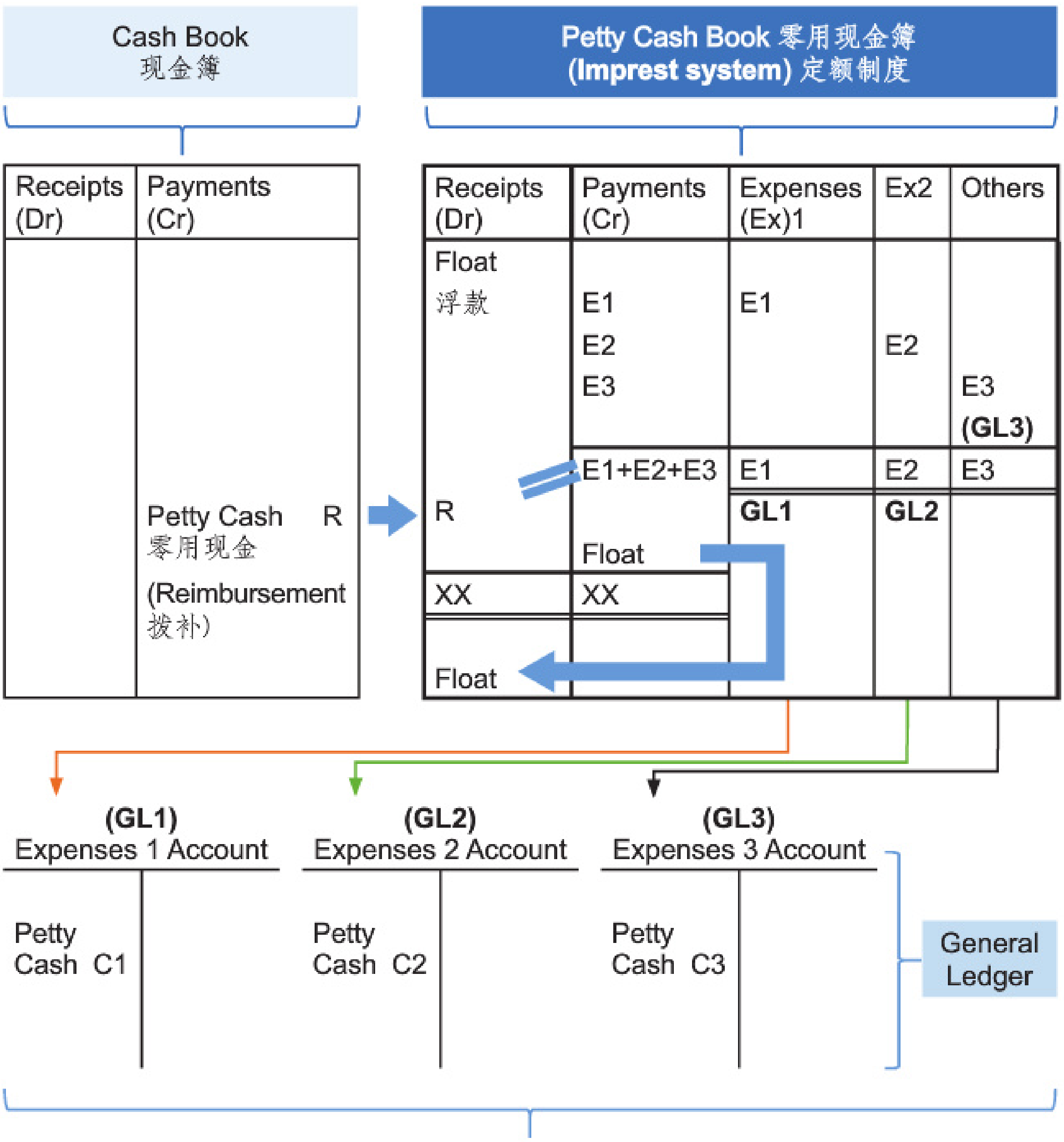
Tango Trading is practicing the imprest system where the float is currently set at RM400 and reimbursement will be made at the end of each month with cash withdrawn from the business's bank account.

You are required to record the above transactions in the Petty Cash Book of Tango Trading and balance off as at 31 October Year 5.

Reminder:

- The Petty Cash Book should have only 3 analysis columns for payments as appropriate where 1 of the column is labelled as 'Others'.
- Please include:
  - Self-created folio with 'CB' – Cash Book, 'GL' – General Ledger as prefix, and
  - Reference number with 'PPV' – Petty cash payment voucher as prefix for each transaction as appropriate

Chapter Summary



Other petty cash payments that PAID OFF with the petty cash receipts WILL NOT be shown in Petty Cash Book and General Ledger.

Quiz

1 Which of the following is NOT the purpose of writing up a Petty Cash Book?

A To reduce lengthy accounting entries in the Cash Book and General Ledger
B To facilitate segregation of duty of bookkeeping
C To comply with government regulation
D To facilitate the management of petty cash transactions

2 Which of the following transaction will NOT be recorded in a Petty Cash Book?

A Purchase desktop computer for office use by cash
B Purchase of washroom amenities for office use by cash
C Payment for courier fees for dispatch of office documents
D Payment for school's charity donation

3 Which of the following description on writing up a Petty Cash Book with imprest system is CORRECT?

A The reimbursement can only be made once a month
B The petty cash float amount may change when needs arise
C Imprest system means reimbursement is made after every petty cash payment
D Petty Cash Book is used to record significant cash payment transactions

The following relate to Quiz 4 and 5:

The following information were extracted from the Petty Cash Book of Ace Trading for the month of June Year 9:

	RM
Payment for taxi fares	33.20
Payment for staff medical bills	60.00
Payment for staff lunch	24.00
Payment for postage	11.60
Payment for petrol claimed by staffs	45.00

Ace Trading currently maintains a petty cash float at the beginning of each month at RM500.

4 What is the reimbursement amount on 30 June Year 9?

A RM500.00
B RM326.20
C RM673.80
D RM173.80

5 What is the closing balance in the Petty Cash Book that to be carried forward to July Year 9?

A RM500.00
B RM326.20
C RM673.80
D RM173.80

Answer guide to Quiz

1 C **2** A **3** B **4** D **5** A

Chapter 8

Irrecoverable debts and allowance for receivables

Learning Outcome

Upon completing this chapter, you should be able to:

- Understand the nature of irrecoverable debts and irrecoverable debts recovered.
- Understand the needs of allowance for receivables.
- Record accounting entries for irrecoverable debts, allowance for receivables and irrecoverable debts recovered.
- Demonstrate the disclosure of irrecoverable debts, allowance for receivable and its changes, irrecoverable debts recovered in the financial statements.

Synopsis

- Some of the clients' debts might be uncollectible due to certain reasons, the debts refers to 'Irrecoverable Debts' or 'Bad Debts'.
- There is a possibility that a debt which written off in the past has subsequently recovered. The recovery is known as 'Irrecoverable Debts Recovered'.
- It is usual for business to predict some of the credit customers (debtors) may not pay up their accounts in the following year. Hence, Allowance for Receivables is created to comply with Prudence Concept (refer to **Chapter 12**).

8.1 Irrecoverable debts

1. It is common for a business to sell goods on credit nowadays. However, some of debts owed by credit client might not be collectible (fully or partially) due to death, bankruptcy and other reasons.

2. Such amount will have to be written off from Trade Receivables Account as irrecoverable / bad debts. Thus, Irrecoverable Debts are treated as an expense for a business and to be recorded in Statement of Profit or Loss.

3. When a client's debt has become uncollectible after all necessary efforts taken by the seller, the accounting entries in the General Ledger of seller will be as follow:

   Dr Irrecoverable Debts (Statement of Profit or Loss)
   Cr Trade / Accounts Receivable

4. For businesses that adopt Type 3 bookkeeping system as discussed in **Chapter 5**, the accounting entries for irrecoverable debts will first be recorded in the General Journal followed by a credit entry under the specific customer's account in the Receivables Ledger. Finally, it then be posted in the General Ledger as mentioned above.

Hint ►

It is common that the above bookkeeping process will be carried out at the same time upon confirmation of creation of irrecoverable debts.

Example 1

On 1 October Year 1, Joe Trading sold goods of RM850 to Ken. At the end of the year, Ken could only repay RM700 to Joe Trading and the remaining debts considered as irrecoverable.

You are required to prepare the following for the year ended 31 December Year 1 in the books of Joe Trading:

a. Trade Receivables Account – Ken (General Ledger)
b. Irrecoverable Debts Account (General Ledger)
c. Statement of Profit or Loss (Extract)

Solution to example 1

(a) Trade Receivables - Ken

Year 1		RM	Year 1		RM
Oct 1	Sales	850	Dec 31	Bank	700
			31	Irrecoverable Debts	150
		850			850

(b) Irrecoverable Debts

Year 1		RM	Year 1		RM
Dec 31	Trade Receivables - Ken	150	Dec 31	Profit or Loss (P/L)	150

(c) Statement of Profit or Loss (Extract) for the year ended 31 December Year 1

	RM
Less: Expenses	
Irrecoverable Debts	150

Practice 1

The following were balances extracted from Kedai Chew's books of account on 1 January Year 1:

	RM
Lim	1,000
Tan	800

On 1 February Year 1, Kedai Chew sold additional goods worth RM500 to Tan. At the end of the accounting year, Kedai Chew found that both Lim and Tan were unable to settle their debts due to bankruptcy. Thus, the firm decided to write off the debts owing as irrecoverable debts.

You are required to prepare the following for the year ended 31 December Year 1 in the books of Kedai Chew:

a. Trade Receivables Account – Lim (General Ledger)
b. Trade Receivables Account – Tan (General Ledger)
c. Irrecoverable Debts Account (General Ledger)
d. Statement of Profit or Loss (Extract)

8.2 Irrecoverable debts recovered

1. When a debt which written off previously has subsequently recovered (fully or partially), this is an unexpected gain for a business and will be treated as an income (to be recorded in Statement of Profit or Loss) in the year of recovery.

2. The accounting entries for the Irrecoverable Debts Recovered for current financial year will be as follow:

   Dr Bank / Cash
   Cr Irrecoverable Debts Recovered (Statement of Profit or Loss)

Input

If the value of irrecoverable debts recovered is insignificant, a simpler accounting entry can be applied without setting up the "Irrecoverable Debts Recovered Account". The accounting entries will be as follow:

Dr Bank / Cash
Cr Irrecoverable Debts

Hint ►

1. For academic discussion, we assume the value of irrecoverable debts recovered is significant in common, unless stated otherwise.

2. Accounting for irrecoverable debts recovered in any circumstances will be of no impact to Trade Receivables Account.

Example 2

A debt of RM350 from John Trading that brought down from previous year had been written off as irrecoverable / bad in Year 2 and it was subsequently recovered on 1 March Year 3.

You are required to prepare the following for the year ended 31 December Year 2 and Year 3:

a. Trade Receivables Account - John Trading (General Ledger)
b. Irrecoverable Debts Account (General Ledger)
c. Irrecoverable Debts Recovered Account (General Ledger)
d. Statement of Profit or Loss (Extract)

Solution to example 2

(a) Trade Receivables - John Trading

Year 2		RM	Year 2		RM
Jan 1	Balance b/d	350	Dec 31	Irrecoverable Debts	350

(b) Irrecoverable Debts

Year 2		RM	Year 2		RM
Dec 31	Trade Receivables - John Trading	350	Dec 31	Profit or Loss (P/L)	350

(c) Irrecoverable Debts Recovered

Year 3		RM	Year 3		RM
Dec 31	Profit or Loss (P/L)	350	Mar 1	Bank	350

(d) Statement of Profit or Loss (Extract) for the year ended 31 December Year 2

	RM
Less: Expenses	
Irrecoverable Debts	350

Statement of Profit or Loss (Extract) for the year ended 31 December Year 3

	RM
Other Income	
Irrecoverable Debts Recovered	350

Practice 2

Johnson Enterprise's financial year ends on 31 December annually. On 1 January Year 2, the business had credit sales of RM3,000 to its credit customers. During the year, RM2,300 was collected from these customers and Johnson Enterprise decided to write off the remaining debts as irrecoverable / bad at the end of the year.

On 31 December Year 2, Johnson received a cheque of RM500 from Zoey, a settlement of debt which was written off two years ago.

You are required to prepare the following for the year ended 31 December Year 2:

a. Trade Receivables Account (General Ledger)
b. Irrecoverable Debts Account (General Ledger)
c. Irrecoverable Debts Recovered Account (General Ledger)
d. Statement of Profit or Loss (Extract)

8.3 Allowance for receivables

1. At the end of the accounting year, most of the business anticipates some of debts will be uncollectible in upcoming financial year. In the other words, there are risks for certain amount owed by credit customers may turn into irrecoverable / bad in the future. In order to show a realistic receivable value in the Statement of Financial Position, Allowance for Receivables is created which is also known as Allowance for Doubtful Debts.

2. Allowance for Receivables is an estimation of possible loss and not an actual loss. Hence, it does not credit to Trade Receivables Account but act as a deduction of Trade Receivable Account in the Statement of Financial Position. A business usually provides the estimation at the end of accounting year based on experience and past trend of its customer's payment pattern.

3. The following are some common methods used to estimate the Allowance for Receivables:

   a. A percentage on balance of Accounts Receivable at the end of accounting period
   b. A percentage of total credit sales for the accounting year
   c. Scrutinise each debtor
   d. Aging report analysis (refer to demonstration as below)

Estimation of Allowance for Receivables:

Extract based on aging report analysis		Percentage estimated to be irrecoverable	Allowance to be provided (RM)
Period of debts owing	Amount (RM)		
Less than 30 days	10,000	1	100
31 - 60 days	6,000	2	120
61 - 90 days	3,500	3	105
91 - 180 days	2,000	5	100
Over 180 days	1,000	10	100
	22,500		525

Hint ►

Accounting entries for Allowance for Receivables remain the same regardless of method adopted for estimation.

4. Accounting entries of Allowance for Receivables when it is first created and adjustment made in each subsequent years on the changes in the allowance are of <u>different</u> which stated as follow:

   a. When an allowance **<u>FIRST</u>** created, the allowance is charged as an expense in the Statement of Profit or Loss

      Dr Profit or Loss (Statement of Profit or Loss)
      Cr Allowance for Receivables (Statement of Financial Position)

   b. When an allowance already created in the previous year, but the amount of current year allowance is estimated to be **<u>HIGHER</u>** than the past, the <u>increase</u> in amount will be charged as an expense in the current year Statement of Profit or Loss

      Dr Profit or Loss (Statement of Profit or Loss)
      Cr Allowance for Receivables (Statement of Financial Position)

   c. Whereas, when an allowance already created in the previous year, but the amount of current year allowance is estimated to be **<u>LOWER</u>** than the past, the <u>decrease</u> in amount will be credited as an income in the current year Statement of Profit or Loss

      Dr Allowance for Receivables (Statement of Financial Position)
      Cr Profit or Loss (Statement of Profit or Loss)

Example 3

The balances of Trade Receivables in the books of Jerry Company for three years ended on 30 June were as follow:

Year 1: RM23,000
Year 2: RM30,000
Year 3: RM28,000

The accountant of the company suggested making an allowance for receivables of 10% on the trade receivables' balance for each year.

You are required to prepare the following for the year ended 30 June Year 1, Year 2 and Year 3:

a. Allowance for Receivables Account (General Ledger)
b. Statement of Profit or Loss (Extract)
c. Statement of Financial Position (Extract)

Solution to example 3

Workings for Allowance for Receivables:

Year 1: RM 23,000 × 10% = RM 2,300
Year 2: RM 30,000 × 10% = RM 3,000
Year 3: RM 28,000 × 10% = RM 2,800

(a) Allowance for Receivables

			RM				RM
Year 1			RM	Year 1			RM
Jun	30	Balance c/d	2,300	Jun	30	Profit or Loss (P/L)	2,300
Year 2				Year 1			
Jun	30	Balance c/d	3,000	Jul	1	Balance b/d	2,300
				Year 2			
				Jun	30	Profit or Loss (P/L)	700
			3,000				3,000
Year 3				Year 2			
Jun	30	Profit or Loss (P/L)	200	Jul	1	Balance b/d	3,000
	30	Balance c/d	2,800				
			3,000				3,000
				Year 3			
				Jul	1	Balance b/d	2,800

(b) Statement of Profit or Loss (Extract) for the year ended 30 June Year 1

	RM
Less: <u>Expenses</u>	
Allowance for Receivables	2,300

Statement of Profit or Loss (Extract) for the year ended 30 June Year 2

	RM
Less: <u>Expenses</u>	
Increase in Allowance for Receivables	700

Statement of Profit or Loss (Extract) for the year ended 30 June Year 3

	RM
<u>Other Income</u>	
Decrease in Allowance for Receivables	200

(c) Statement of Financial Position (Extract) as at 30 June Year 1

	RM	RM
<u>Current Assets</u>		
Trade Receivables	23,000	
Less: Allowance for Receivables	(2,300)	20,700

Statement of Financial Position (Extract) as at 30 June Year 2

	RM	RM
<u>Current Assets</u>		
Trade Receivables	30,000	
Less: Allowance for Receivables	(3,000)	27,000

Statement of Financial Position (Extract) as at 30 June Year 3

	RM	RM
<u>Current Assets</u>		
Trade Receivables	28,000	
Less: Allowance for Receivables	(2,800)	25,200

Practice 3

Yong was a sole trader for stationery shop, YY Stationery. Below is the extract of the Trial Balance as at 31 December for Year 1, Year 2 and Year 3:

	Irrecoverable Debts during the year	**Trade Receivables**
	RM	RM
Year 1	-	3,300
Year 2	100	2,600
Year 3	220	6,500

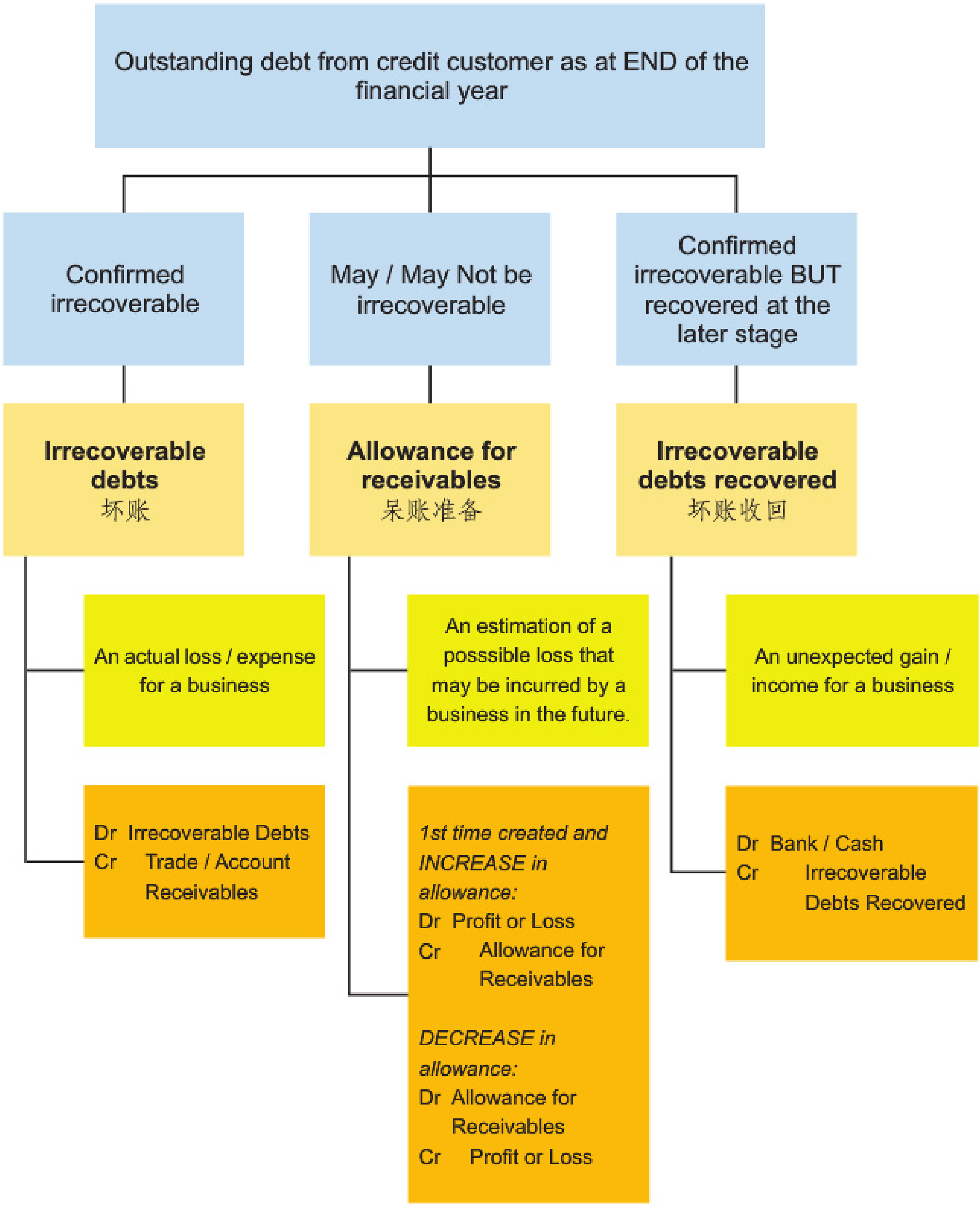
The allowance for receivables for the three years were to be made at the end of year as follows:

Year 1 : RM165 Year 2 : RM130 Year 3 : RM325

You are required to prepare the following for the year ended 31 December Year 1, Year 2 and Year 3:

a. Irrecoverable Debts Account (General Ledger)
b. Allowance for Receivables Account (General Ledger)
c. Statement of Profit or Loss (Extract)
d. Statement of Financial Position (Extract)

Chapter Summary



Quiz

1 Irrecoverable debts are the amount which is ____________________.

A an actual loss for a business
B an income for a business
C an estimation of possible loss for a business
D a contra account against receivables

2 When irrecoverable debts take place, which of the following account should be debited?

A Irrecoverable Debts
B Accounts Receivable
C Allowance for Receivables
D Irrecoverable Debts Recovered

3 Allowance for Receivables is created ______________________.

A when credit customer's business has gone bankrupt
B when customer repays their debt
C to provide a realistic trade receivables value
D to cancel irrecoverable debts which written off previously

The following relate to Quiz 4 and 5:

Below is an extract of Statement of Financial Position as at 31 December Year 1:

	RM	RM
Trade Receivables	10,000	
Less: Allowance for Receivables	(500)	9,500

4 On 31 December Year 2, if business decided to increase the Allowance for Receivables to RM800, which of the following entry is correct?

A Debit RM300 to Statement of Profit or Loss
B Debit RM800 to Statement of Profit or Loss
C Credit RM300 to Statement of Profit or Loss
D Credit RM800 to Statement of Profit or Loss

5 Upon completion of adjustment stated in Quiz 4, what is the amount of Allowance for Receivables that to be reflected in the Statement of Financial Position as at 31 December Year 2?

A RM300
B RM500
C RM800
D Allowance for Receivables will not appear in the Statement of Financial Position

Answer guide to Quiz

1 A **2** A **3** C **4** A **5** C

Chapter 9

Control accounts

Learning Outcome

Upon completing this chapter, you should be able to:

- Understand the purpose of control accounts.
- Prepare receivables and payables control accounts, including contra entry.
- Identify the errors detected by performing a control account reconciliation.
- Understand the disclosure of information from control accounts in the financial statements.

Synopsis

- When a business has large volume of credit transactions with its customers (credit sales) and suppliers (credit purchases), the preparation of control accounts served the role of reflecting the aggregate value of all transactions which are of similar in nature with these parties to facilitate the preparation of financial statements.
- Control account is kept in the General Ledger that represent the summary of all personal accounts in the Receivables Ledger and Payables Ledger.
- Preparation of control accounts also served to detect possible errors in recording through verifying the completeness and accuracy of recording in Receivables Ledger and Payables Ledger respectively.
- Should control accounts balance is not agreed with the total of all personal accounts in the Receivables Ledger and Payables Ledger, reconciliation of these two items is required to detect possible errors in recording followed by necessary corrections before preparing the financial statements.

9.1 What is control account?

1. As discussed in **Chapter 4**, all transactions with credit customers and credit suppliers will first be recorded in the books of prime entry—Sales Journal, Purchases Journal, Sales Returns / Returns Inwards Journal, Purchase Returns / Returns Outwards Journal, General Journal and Cash Book.

2. At the end of every business day or week, most businesses will post the individual transaction from the journals to individual personal accounts in the Receivables Ledger and Payables Ledger.

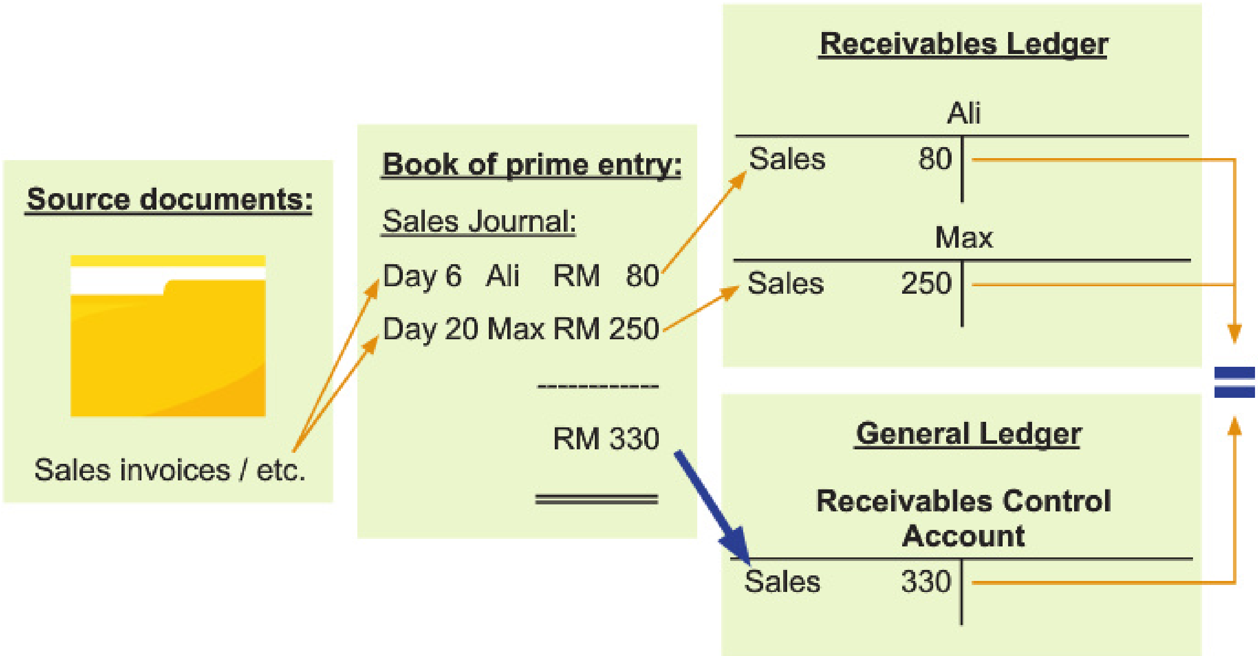
3. By the end of every month, most businesses will then extract the **TOTAL** transaction values pertaining to credit customers and suppliers from all the journals as mentioned above, together with settlement transactions (receipt from customers / payment to suppliers) as shown in the Cash Book and posted to an account that created in the General Ledger called '**Receivables Control Account** and **Payables Control Account**'.

4. Hence, Receivables Control Account is an account in which represent the transactions of ALL trade receivables (credit customers) while a Payables Control Account is an account in which represent the transactions of ALL trade payables (credit suppliers).

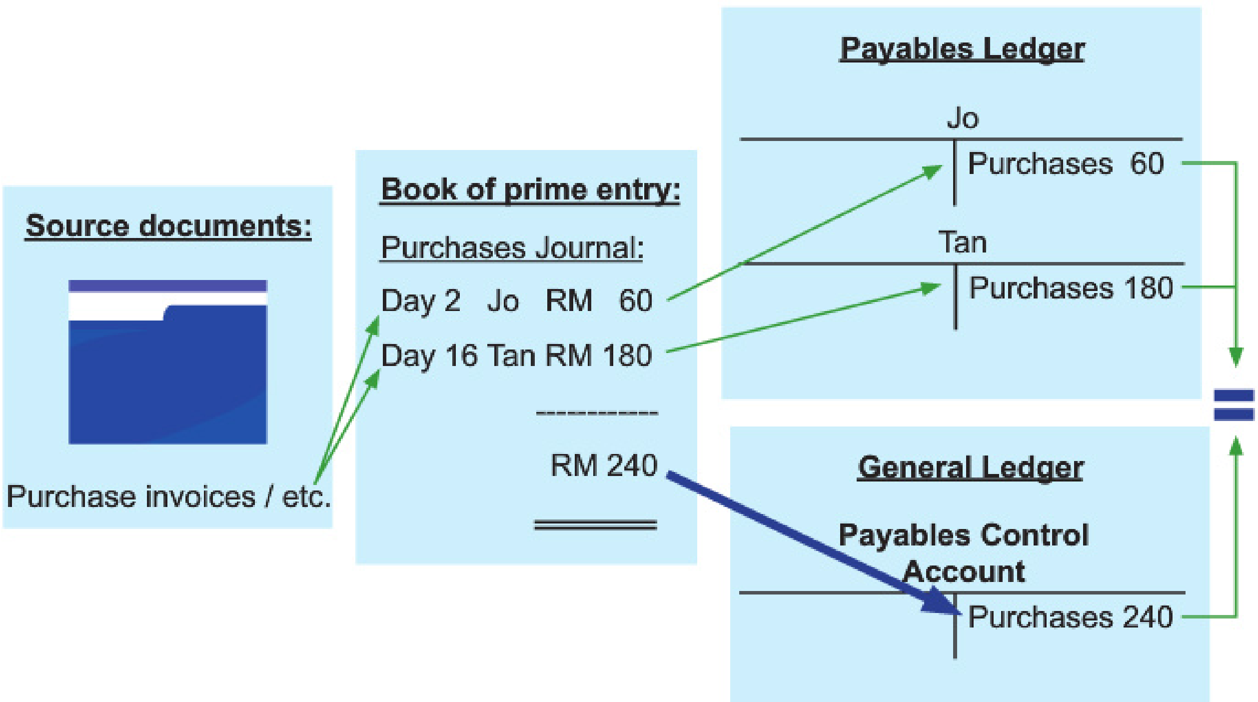
5. Theoretically, the total debit balance and credit balance of all personal accounts in the Receivables Ledger and Payables Ledger should ALWAYS be **EQUAL** to the debit and credit balance of Receivables and Payables Control Account respectively.

6. The flow of recording process that involved respective journals and ledger are summarised below:

a. Credit sales transactions



b. Credit purchases transactions



9.2 The purposes of control accounts

1. *Minimising the volume of accounting entries in the General Ledger*
   Imagine that every individual credit transaction is to be recorded directly into the General Ledger without the presence of Receivables and Payables Ledger, it may cause the problem of overloading of information in the General Ledger.

   With the use of control accounts, only the AGGREGATES of each individual transaction is to be shown in it which help to keep both the General Ledger and trial balance much comprehensive.

2. *Detection of errors*
   Given the large volume of different transactions with many different credit customers and suppliers over a period, it is likely that errors may arise in the recording process.

   With the use of control accounts as shown in 6(a) and 6(b) under Section 9.1, the cross check between the balances in Receivables / Payables Ledgers against the General Ledger may help to detect some human errors that will be discussed further later in this chapter.

   Such cross-checking process is of essential to ensure all information pertaining to transactions with credit customers and suppliers are fully and correctly reflected in the trial balance before preparing the financial statements.

9.3 Preparation of receivables control account

1. As information in Receivables Control Account represent the summary of all transactions with all credit customers, hence, the content of information in it will be of all that appear in all individual personal accounts in the Receivables Ledger with the following common features:

   a. Receivables Control Account will normally carry a **debit balance** because it is an asset to a business.

   b. However, Receivables Control Account may sometimes carry a minor **credit balance** (it is also called **minority balance**) when:
      - Returns inwards or sales returns took place from credit customers after all outstanding debts have settled, or
      - Customer has overpaid its debts, or
      - Receipt of advanced payments from credit customers

Input●

Should both '1a' and '1b' appear in the same accounting period, the minority balance SHOULD NOT off set against the debit balance; both balances must be shown separately in the control account to ensure the representativeness of all genuine transactions.

2. The format and content of transactions in a Receivables Control Account are shown below:

Receivables Control Account

Year X		RM	Year X		RM
	Balance b/d	XX		Balance b/d	XX
	Sales	XX		Sales Returns	XX
	Bank (*Dishonoured Cheque*)	XX		Bank Irrecoverable Debts	XX
	Interest Income (*Late payment from customers*)	XX		Payables Control - Contra	XX
	Balance c/d	XX		Balance c/d	XX
		XX			XX
Year Y			Year Y		
	Balance b/d	XX		Balance b/d (*Minority balance*)	XX

Hint ▶

Please refer to **Chapter 5** for the double entry principles in used for the above transactions.

Example 1

The following information relates to Apex Sdn Bhd for the year ended 31 December Year 2:

			RM	
Jan	1	Receivables Ledger balances	4,190	Dr
		Receivables Ledger balances	-	Cr
Dec	31	Sales invoices issued	8,800	
		Sales returns	500	
		Increase in allowance for receivables	850	
		Irrecoverable debts (Wilayah Sdn Bhd)	1,100	
		Receipts from customers	6,050	
		Customers' cheques dishonoured	1,050	
		Accounts settled by contra (Rex Sdn Bhd)	548	
		Receivables Ledger balance as at 31 December Year 2	-	Cr

You are required to prepare the Receivables Control Account as they would appear in the General Ledger for the year ended 31 December Year 2.

Solution to example 1

Receivables Control Account

Year 2			RM	Year 2			RM
Jan	1	Balance b/d	4,190	Jan	1	Balance b/d	-
Dec	31	Sales	8,800	Dec	31	Sales Returns	500
	31	Bank (*Dishonoured Cheque*)	1,050		31	Bank	6,050
	31	Balance c/d	-		31	Irrecoverable Debts - Wilayah Sdh Bhd	1,100
					31	Payables Control - Contra(Rex Sdn Bhd)	548
					31	Balance c/d	5,842
			14,040				14,040
Year 3				Year 3			
Jan	1	Balance b/d	5,842	Jan	1	Balance b/d	-

This value should be the SAME as with the total of all balances in all personal accounts under the Receivables Ledger.

I.e. **X + Y + Balances from other customers = RM 5,842.**

Receivables Ledger				
Customer 1 Account (E.g. Rex Sdn Bhd)		Customer 2 Account (E.g. Wilayah Sdn Bhd)		Other Customer
Balance b/d **X**	Balance c/d X	Balance b/d **Y**	Balance c/d Y	

Hint ▶

Why is the increase in allowance for receivables of RM 850 not appear in the Receivables Control Account?

9.4 Preparation of payables control account

1. As information in Payables Control Account represent the summary of all transactions with all credit suppliers, hence, the content of information in it will be of all that appear in all individual personal accounts in the Payables Ledger with the following common features:

   a. Payables Control Account will normally carry a **credit balance** because it is a **liability** to a business.
   b. However, Payables Control Account may sometimes carry a minor **debit balance** (it is also called **minority balance**) when:
      - Returns outwards or purchase returns took place to credit suppliers after all outstanding debts have settled, or
      - The business has overpaid its suppliers, or
      - Advanced payments to credit suppliers

   Input

   Should both 'a' and 'b' appear in the same accounting period, the minority balance SHOULD NOT off set against the credit balance; both balances must be shown separately in the control account to ensure the representativeness of all genuine transactions.

2. The format and content of transactions in a Payables Control Account are shown below:

Payables Control Account

Year X		RM	Year X		RM
	Balance b/d	XX		Balance b/d	XX
	Bank	XX		Purchases	XX
	Discounts Received	XX		Interest Expense (*Late payment to suppliers*)	XX
	Purchase Returns	XX		Balance c/d	XX
	Receivables Control -Contra	XX			
	Balance c/d	XX			
		XX			XX
Year Y			Year Y		
	Balance b/d (*Minority balance*)	XX		Balance b/d	XX

Hint ▶

Please refer to **Chapter 5** for the double entry principles in used for the above transactions.

Example 2

The following information relates to Apex Sdn Bhd for the year ended 31 December Year 2:

			RM	
Jan	1	Payables Ledger balances	6,300	Cr
		Payables Ledger balances	-	Dr
Dec	31	Purchases invoices received	7,620	
		Purchase returns	800	
		Payments to suppliers by cheques	9,000	
		Overpayments returned by suppliers (Tan & Co)	720	
		Accounts settled by contra (Rex Sdn Bhd)	548	
		Payables Ledger balances on 31 December Year 2	-	Dr

You are required to prepare the Payables Control Account as they would appear in the General Ledger for the year ended 31 December Year 2.

Solution to example 2

Payables Control Account

Year 2			RM	Year 2			RM
Jan	1	Purchase Returns	800	Jan	1	Balance b/d	6,300
Dec	31	Bank	9,000	Dec	31	Purchases	7,620
	31	Balance c/d	4,292		31	Bank - Refund (Tan & Co)	720
					31	Balance c/d	-
			14,640				14,640
Year 3				Year 3			
Jan	1	Balance b/d	-	Jan	1	Balance b/d	4,292

This value should be the SAME as with the total of all balances in all personal accounts under the Payables Ledger.

I.e. **X + Y + Balances from other suppliers = RM 4,292.**

Payables Ledger

Supplier 1 Account (E.g. Rex Sdn Bhd)		Supplier 2 Account (E.g. Tan & Co)		Other Supplier
Balance c/d X		Balance c/d Y		
	Balance b/d **X**		Balance b/d **Y**	

Input

In both Example 1 and 2, what is the 'Account settled by contra of RM 548' represent?

When the accounts receivable and accounts payable comprise of transactions with a party who is both a customer and a supplier at the same time, the smaller amount in the party's personal account from one ledger is transferred to the same party's personal account in the other ledger that has larger amount.

Hence, in the preparation of control accounts, such transfer of the smaller amount represents the '**Contra entry**' that appear in:

- **<u>Credit</u>** side of the Receivables Control Account (reduction in amount owed by credit customers), and

- **<u>Debit</u>** side of the Payables Control Account (reduction in amount owing to suppliers)

Referring to Example 1 and 2, during Year 2, Apex Sdn Bhd has clearly:

- Sold some goods to Rex Sdn Bhd (assumed a sales value of RM 1,000 which included in the sales invoices issued of RM 8,800)

  And

- Purchase some goods from Rex Sdn Bhd (assumed a purchases value of RM 548 which included in the purchases invoices received of RM7,620)

In order to minimize the administrative work, both Apex Sdn Bhd and Rex Sdn Bhd have agreed to net off / contra off the two transactions. Hence, in the books of Apex Sdn Bhd:

Receivables Ledger				
Customer 1 Account (E.g. Rex Sdn Bhd)		Customer 2 Account (E.g. Wilayah Sdn Bhd)		Other Customer
Sales 1,000	Contra 548			
	Balance c/d X		Balance c/d Y	
XX	XX			
Balance b/d **X**		Balance b/d **Y**		

Payables Ledger				
Supplier 1 Account (E.g. Rex Sdn Bhd)		Supplier 2 Account (E.g. Tan & Co)		Other Supplier
Contra 548	Purchases 548			
Balance c/d X		Balance c/d Y		
XX	XX			
	Balance b/d **X**		Balance b/d **Y**	
Note: "**X**"could be RM 0 if there is no further amount owing to Rex Sdn Bhd.				

Hint ▶

Do you realise that the contra transaction of RM 548 in both subsidiary ledgers above are also appear in both the Receivables and Payables Control Account?

Example 3

The following information relates to Bestar Enterprise for the quarter ended 31 March Year 3:

		RM	
Jan 1	Payables Ledger balances	16,535	Cr
	Payables Ledger balances	123	Dr
	Receivables Ledger balances	20,188	Dr
	Receivables Ledger balances	14	Cr
Mar 31	Purchases invoices received	310,457	
	Sales invoices issued	426,695	
	Sales returns	3,321	
	Decrease in allowance for receivables	850	
	Purchase returns	2,972	
	Payments to suppliers by cheques	183,878	
	Overpayment returned by suppliers	555	
	Irrecoverable debts	2,784	
	Receipts of cheques from customers	234,538	
	Customers' cheques dishonoured	248	
	Accounts settled by contra	650	
	Payables Ledger balances on 31 March Year 3	114	Dr
	Receivables Ledger balances on 31 March Year 3	226	Cr

You are required to prepare the following:

a. Payables Control Account
b. Receivables Control Account

As they would appear in the General Ledger for the quarter ended 31 March Year 3.

Solution to example 3

Step 1:

Post related transactions into the Payables and Receivables Control Account:

Payables Control Account

Year 3			RM	Year 3			RM
Jan	1	Balance b/d	123	Jan	1	Balance b/d	16,535
Mar	31	Bank	183,878	Mar	31	Purchases	310,457
	31	Purchase Returns	2,972		31	Bank - Overpayment	555
	31	Receivables Control - Contra	650				

Receivables Control Account

Year 3			RM	Year 3			RM
Jan	1	Balance b/d	20,188	Jan	1	Balance b/d	14
Mar	31	Sales	426,695	Mar	31	Sales Returns	3,321
	31	Bank - Dishonoured Cheque	248		31	Bank	234,538
					31	Irrecoverable Debts	2,784
					31	Payables Control - Contra	650

Step 2:

Post the closing balance figure into the control account and determine the balance which need to be brought forward:

Payables Control Account

Year 3			RM	Year 3			RM
Jan	1	Balance b/d	123	Jan	1	Balance b/d	16,535
Mar	31	Bank	183,878	Mar	31	Purchases	310,457
	31	Purchase Returns	2,972		31	Bank - Overpayment	555
	31	Receivables Control - Contra	650		31	Balance c/d	114
	31	Balance b/d	140,038				
			327,661				327,661
Year 3				Year 3			
Apr	1	Balance b/d	114	Apr	1	Balance b/d	140,038

Step 2a

Step 2b

Receivables Control Account

Year 3			RM	Year 3			RM
Jan	1	Balance b/d	20,188	Jan	1	Balance b/d	14
Mar	31	Sales	426,695	Mar	31	Sales Returns	3,321
	31	Bank - Dishonoured Cheque	248		31	Bank	234,538
	31	Balance c/d	226		31	Irrecoverable Debts	2,784
					31	Payables Control - Contra	650
					31	Balance c/d	206,050
			447,357				447,357
Year 3				Year 3			
Apr	1	Balance b/d	206,050	Apr	1	Balance b/d	226

Step 2b

Step 2a

Practice 1

The following information was extracted from the books of Ace Printing Enterprise:

Year 1			RM
Apr	1	Receivables Ledger - Debit balances	15,245
		- Credit balances	252
		Payables Legder - Debit balances	260
		- Credit balances	21,810
Year 2			
Mar	31	Sales - Cash	174,790
		- Credit	288,280
		Purchases - Cash	13,580
		- Credit	826,310
		Total cheques received from customers (including RM 600 irrecoverable debts recovered)	286,060
		Total cheques paid to suppliers	510,702
		Credit notes for goods returned received from suppliers	1,210
		Credit notes for goods returned issued to customers	1,392
		Refunds received from suppliers (due to overpayment error)	1,196
		Irrecoverable debts	553
		Balances in Receivables Ledger set off against balances in Payables Ledger	700
		Interest charged by suppliers for late payment	180
		Interest charged to customers on overdue accounts	396
		Customers' cheques dishonoured	2,550
		Receivables Ledger – Credit balances	280
		Payables Ledger – Debit balances	436

You are required to draw up the following:

a. Receivables Control Account
b. Payables Control Account

For the year ended 31 March Year 2.

9.5 Reconciliation of balances in subsidiary ledgers and control accounts

1. As discussed in Section 9.1, the total debit balance and credit balance of all personal accounts in the Receivables Ledger and Payables Ledger should ALWAYS be **EQUAL** to the debit and credit balance of receivables and payables control account respectively.

2. However, given the high volume and fast moving business transaction, it is common that both sources of value MAY NOT be EQUAL at times. Such discrepancies are usually caused by:

   a. Errors of casting
   Either the total of balances from the subsidiary ledger (Receivables / Payables Ledger) or aggregates that extracted from respective journals (Sales / Sales Returns / Purchases / Purchase Returns Journals and Cash Book) have miscasted.

   b. Errors of omission
   A transaction may have omitted from either individual personal account or control accounts.

   c. Errors of posting
   A transaction may have posted on the wrong side in either individual personal account or control accounts.

   d. Errors of original entry (Transposition error)
   Incorrect amount of transactions were recorded in either a personal account in subsidiary ledger or control account

Input

The above errors formed parts of the errors as discussed in **Chapter 5** and **13**.

3. As these errors that causes the discrepancies are EITHER detected in individual personal accounts OR control accounts, hence, appropriate adjustments will have to be made on both balances in order to rectify on the errors and get reconciled.

Example 4

For the year ended 31 December Year 3, Apex Sdn Bhd realised that the total of all balances in the Receivables Ledger failed to tally with that of the Receivables Control Account.

Total of balances as per Receivables Ledger:	RM 63,600 (Dr)
Balance as per Receivables Control Account:	RM 64,500 (Dr)

After further investigation, the following additional information relates to Apex Sdn Bhd for the year ended 31 December Year 3 were discovered as below:

Types of errors	In the Receivables Ledger:
d	i. Cheque received from one customer of RM 2,000 has incorrectly posted onto the personal account as RM 200.
b	ii. A sales returns of RM 500 has yet to be recorded in the personal account of that customer.
c	iii. A customer's dishonoured cheque of RM 2,400 had been wrongly credited to a personal account.
	Receivables Control Account in the General Ledger:
b	iv. An irrecoverable debt amounting to RM 3,200 had not been accounted for.
d	v. A contra item amounting to RM 400 had been recorded as RM 4,000.
a	vi. The aggregate credit sales extracted from the Sales Journal had been undercasted by RM 1,200.

You are required to:

a. prepare the corrected Receivables Control Account as they should appear in the General Ledger for the year ended 31 December Year 3.
b. reconcile the corrected total balances in the Receivables Ledger with that of (a).

Solution to example 4

(a) Receivables Control Account

Year 3		RM	Year 3		RM
Dec 31	Uncorrected balance b/d	64,500	Dec 31	Balance b/d	-
31	Overstatement of contra (v)	3,600	31	Irrecoverable debt omitted (iv)	3,200
31	Sales undercasted (vi)	1,200	31	Corrected balance c/d	66,100
		69,300			69,300
Year 4			Year 4		
Jan 1	Corrected balance b/d	66,100	Jan 1	Balance b/d	-

This value should be the SAME as with the total of all balances in all personal under the Receivables Ledger AFTER all the corrections.

I.e. **X + Y + Balances from other customers = RM 66,100.**

(b)

	RM	
Uncorrected total balance from Receivables Ledger	63,600	Dr
Add:		Ref.
Dishonoured cheque wrongly credited to personal account (RM2,400 x 2)	4,800	(iii)
Less:		
Understatement of cheque received	(1,800)	(i)
Sales returns omitted	(500)	(ii)
Corrected total balance from Receivables Ledger	66,100	**(X + Y + Balances from other customers)**
Corrected balance as per corrected Receivables Control Account	66,100	

Input

Item i – vi will require necessary correction in each respective account.

9.6 Disclosure of receivables and payables control accounts

1. To summarise all the above recording process, you will notice that, upon completion of preparing the control accounts, reconciliation with the information from the subsidiary ledgers will be carried out and correction of errors will be made, if necessary.

2. Once all information in the control accounts has confirmed complete and accurate, the next step will be preparing a list of summary for balances from all accounts in the General Ledger (trial balance) before financial statements are drawn as discussed in **Chapter 5**.

3. Finally, the debit balance in Receivables Control Account (combine with the minor debit balance from Payables Control Account) will be shown as **current asset**, whereas, the credit balance in Payables Control Account (combine with the minor credit balance from Receivables Control Account) will be shown as **current liabilities** in the Statement of Financial Position.

4. The full recording and disclosure process based on Example 3 will be shown as below:

General ledger (RM) → **Trial balance as at 31 March Year 3** → **Statement of Financial Position as at 31 March Year 3 (RM)**

General ledger (RM)

Receivables Control Account

Bal. b/d	206,050	Bal. b/d	226

Payables Control Account

Bal. b/d	114	Bal. b/d	140,038

Trial balance as at 31 March Year 3

	Dr (RM)	Cr (RM)
Trade / Accounts receivables	206,050	226
Trade / Accounts payables	114	140,038

Statement of Financial Position as at 31 March Year 3 (RM)

Current Assets

Trade Receivables (206,050+114)	206,164

Current Liabilities

Trade Payables (140,038+226)	140,264

Chapter Summary

Subsidiary ledgers

Receivables ledgers
Total of list of balances in all credit customer accounts

Payables ledgers
Total of list of balances in all credit supplier accounts

=

General ledger

应收账款统制账户
Receivables control account
Debit balance

应付账款统制账户
Payables control account
Credit balance

Roles / purposes of control account

- Minimising the volume of ledger accounting entries in the General Ledger
- Detection of errors

Types of errors detected using control account

- Errors of casting
- Errors of omission
- Errors of posting
- Errors of original entry (transposition error)

Correction and reconciliation of balances in subsidiary ledgers and control account:

Step 1: Correct the receivables / payables control account

Step 2: Correct the respective personal account in receivables / payables ledger

Step 3: Reconcile the balance in Step 1 and 2

Quiz

1 The following information relates to Wilayah Enterprises for the year ended 31 December Year 1:

Year 1		RM	
Jan 1	Payables Ledger balances	36,135	Cr
	Payables Ledger balances	113	Dr
	Receivables Ledger balances	50,183	Dr
	Receivables Ledger balances	554	Cr
Dec 31	Credit sales	?	
	Credit purchases	?	
	Sales returns	1,381	
	Increases in allowance for receivables	920	
	Purchase returns	1,982	
	Payments to suppliers	118,878	
	Irrecoverable debts	1,384	
	Receipts from customers by cheques	134,128	
	Customers' cheques dishonoured	221	
	Accounts settled by contra	1,148	
	Payables Ledger balances	250	Dr
	Payables Ledger balances	12,872	Cr
	Receivables Ledger balances	23,222	Dr
	Receivables Ledger balances	714	Cr

You are required to prepare the following:

a. Payables Control Account
b. Receivables Control Account

As they would appear in the General Ledger for Year 1 using the template given.

Payables Control Account

Year 1		RM	Year 1		RM
Jan 1	Balance b/d		Jan 1	Balance b/d	
Dec 31	Bank		Dec 31	Purchases	
31	Purchase Returns		31	Balance c/d	
31	Receivables Control - Contra				
31	Balance c/d				
Year 2			Year 2		
Jan 1	Balance b/d		Jan 1	Balance b/d	

Receivables Control Account

Year 1			RM	Year 1			RM
Jan	1	Balance b/d		Jan	1	Balance b/d	
Dec	31	Sales		Dec	31	Sales Returns	
	31	Bank - Dishonoured Cheques			31	Bank	
	31	Balance c/d			31	Irrecoverable Debts	
					31	Payables Control - Contra	
					31	Balance c/d	
Year 2				Year 2			
Jan	1	Balance b/d		Jan	1	Balance b/d	

Answer guide to Quiz

Payables Control Account

Year 1			RM	Year 1			RM
Jan	1	Balance b/d	113	Jan	1	Balance b/d	36,135
Dec	31	Bank	118,878	Dec	31	Purchases	98,608
	31	Purchase Returns	1,982		31	Balance c/d	250
	31	Receivables Control - Contra	1,148				
	31	Balance c/d	12,872				
			134,993				134,993
Year 2				Year 2			
Jan	1	Balance b/d	250	Jan	1	Balance b/d	12,872

Receivables Control Account

Year 1			RM	Year 1			RM
Jan	1	Balance b/d	50,183	Jan	1	Balance b/d	554
Dec	31	Sales	110,699	Dec	31	Sales Returns	1,381
	31	Bank - Dishonoured Cheques	221		31	Bank	134,128
	31	Balance c/d	714		31	Irrecoverable Debts	1,384
					31	Payables Control - Contra	1,148
					31	Balance c/d	23,222
			161,817				161,817
Year 2				Year 2			
Jan	1	Balance b/d	23,222	Jan	1	Balance b/d	714

Chapter 10

Tangible non-current assets and Depreciation

Learning Outcome

Upon completing this chapter, you should be able to:

- Understand the nature and types of tangible non-current asset as stipulated in IAS 16 Property, Plant and Equipment.
- Understand and differentiate between capital expenditure versus revenue expenditure.
- Understand and explain the needs of depreciation.
- Understand and calculate the charge for depreciation based on:
  a. Straight line method
  b. Reducing balance method
  in accordance with IAS 16.
- Understand the application of charge for depreciation based on Revaluation method.
- Prepare ledger entries for acquisition and disposal of non-current assets.
- Calculate and record the gain or loss on the disposal of non-current assets into financial statements.
- Record depreciation expenses and accumulated depreciation in ledger accounts.
- Disclosure of depreciation of non-current assets in the financial statements.

Synopsis

- All business operations required utilisation of tangible resources such as space, infrastructures, facilities, equipment and others that generate economic benefits for more than a year (long term), i.e. Non-current assets.

- Any costs incurred in bringing such assets into its current condition and ready to operate will be considered as capital expenditure. Whereas costs incurred in the course of business activity will be classified as revenue expenditure.
- In accordance to matching concept, if non-current assets are expected to generate long term benefits, the full amount of capital expenditure (including the cost of non-current asset) should spread (depreciate) over the period of its useful life where benefits (revenue) is generated.
- The amount of depreciation can be estimated using ranges of recognised methods by IAS 16.
- Not only that the amount of depreciation, but also all relevant transaction values relating purchases and disposal of non-current assets should also be duly recorded and presented in the financial statements.

10.1 Tangible non-current assets

1. There are several types of assets (resources) owned by a business for different purposes:

Types of assets	Examples	Purposes and features
Non-current assets		
a. Tangible	- Land and Building - Plant and Machinery - Motor vehicles - Office furnitures - Office equipment - Others	These are physical assets that has significant value and meant to be USED (usually more than 12 months) to generate operating income for all businesses through: - providing infrastructure for performing all business activities (e.g. land, building, office furnitures). - production of goods (e.g. plant, machinery). - providing services or delivery of products to customers (e.g. equipment, motor vehicle)

Types of assets	Examples	Purposes and features
b. Intangible	- Goodwill - Patent - Research and Development (R&D) costs	These assets are not in any physical form (i.e. it cannot be seen and touched). It reflect the value created (value of the assets) as a result of: - past efforts of carrying out business in a reputable manner (e.g. goodwill). It will only be quantified when there is a change in business's ownership. - a piece of creative work, know-how or invention (e.g. patent) - investing in R&D for new products (e.g. R&D costs).
Current assets	- Inventory - Trade / Accounts Receivables - Other Receivables - Cash at bank / in hand	These assets arise during the course of business operations and it will transform from one to another form in the pursuance of business activities. Hence, each item of these assets will usually be held for a short period (less than 12 months). E.g. a trading business will first purchase goods for resale (inventory) from suppliers, the goods will subsequently sold to customers on credit (trade receivables) and finally cash / cheques received from customers (cash at bank / in hand).

2. For tangible non-current assets, except those with indefinite useful life like freehold land, all of it will usually carry a limited economic useful life which form one of the main reasons that give rise to accounting for depreciation.

10.2 Capital expenditure and revenue expenditure

1. As what was covered in **Chapter 5**, both transactions on the purchase of a tangible non-current asset (e.g. purchase of machinery) and commitment of an operating expenses incurred (e.g. staff salaries) will be debited to the respective account.

2. However, there is a different between the accounts for recording both transactions. The former is a non-current asset account (Motor Vehicles Account) whereas the latter is an expenses account (Salaries Account).

3. The above matters give rise to the needs to differentiate types of transactions which considered as non-current assets, especially tangible assets which is called **capital expenditures** as compared to operating expenses which is called **revenue expenditures**.

4. The concepts and understanding of capital expenditure and revenue expenditure are summarised below:

	Capital expenditure	Revenue expenditure
What does it mean?	These are the spending that include ALL expenditures to: - acquire the tangible non-current assets, - deliver the item to the owner's venue, and - preparing the assets to be in operational condition.	These are the costs arising from the conduct of business activities / operation (e.g. production of finished goods, selling of product, customer service, etc.)
Example	If a manufacturing business is to acquire a large size machine that need to deliver from the machine manufacturer's site with installation and setting up process required, the **capital expenditure** will include: - purchase price of the machine - carriage / delivery charge - installation and setting up fees	If a manufacturing business is producing the finished goods with the machine acquired, the **revenue expenditure** will include: - purchases of raw material - production workers' wages - maintenance cost of the machine - rental of factory - etc.

	Capital expenditure	Revenue expenditure
Types of accounts for accounting entries	The FULL amount of this capital expenditure will be classified as **non-current asset** with the following double entry: Dr Non-current Asset Account (e.g. Machinery Account) Cr Bank / Other Payables Account	The amount of each of this revenue expenditure (which is commonly called **expenses**) will be accounted for with the following double entry: Dr Expenses Account (e.g. Purchases Account, etc.) Cr Bank / Trade / Other Payables Account
Reminders	Capital expenditures will increase or expand the earnings capacity of the business.	Revenue expenditures will NOT increase or expand the earnings capacity of the business.

Practice 1

The following are selected transactions of Becon Enterprise for the year ended 31 December Year 1:

List of selected transactions	Capital expenditure	Revenue expenditure	Disclosure in:	
			Statement of Profit or Loss	Statement of Financial Position
a. Repair cost of machine		✓	✓	
b. Salesmen commission				
c. Purchase of motor vehicle for delivery of goods				
d. Custom duties paid for the imported motor vehicles purchased				
e. Finance charges (interest expense) of bank loan for purchase of motor vehicle				
f. Annual road tax and insurance of motor vehicle				
g. Purchase of office stationery (e.g. correction pen)				

You are required to insert (✓) on items 'b' to 'g' based on the above classification.

10.3 Introduction to depreciation

1. With exception of assets that carry indefinite life like freehold land, most of other tangible non-current assets will experience decline / fall in its value with the passage of time while physical deterioration took place (wear and tear) while utilising the assets.

2. The decline in value of these assets over its estimated economic useful life is called '**Depreciation**'.

3. In accordance with the **accrual / matching concept** (It will be further discussed in **Chapter 12**), depreciation can also be seen as a cost (expenses) incurred on a resource (assets) that used to generate business income. Hence depreciation expenses for a period will need to be matched with the business income to determine the profit earned.

4. While depreciation expenses for the period is reported in the Statement of Profit or Loss to derive profit reported for the period, the accumulated depreciation from the point of acquisition to date will be presented in the Statement of Financial Position to net off against the cost of the non-current asset. Hence, only the **carrying amount / value** (i.e. Cost – Accumulated Depreciation) of the non-current asset will be shown in the Statement of Financial Position.

5. Depreciation is a non-monetary expense as it does not involve an outflow of cash nor does it provide a cash fund to use for the replacement of a non-current asset.

10.4 Methods of depreciation

1. There are several methods that can be used in estimating depreciation expenses based on the following information of the non-current asset:
   - **cost of asset:** It include the purchase price of the asset and all incidental costs for bringing the assets to its desired location and preparing the asset to be ready for use (Refer to Section 10.2, item 4).
   - **residual value / scrap value:** It is the estimated disposal value of the asset at the end of its economic useful life.
   - **estimated economic useful life / useful life:** It is the estimated number of years over which the asset is expected to be in used by the business in a commercially viable manner.

2. Whichever method in used is much depends on types of non-current assets as well as the business's accounting policies.

3. Unless there is a valid justification, else, once a method of depreciation has been selected for a particular non-current asset, it should be applied consistently throughout the economic useful life of the asset. Such practice is an application of the **concept of consistency** (It will be further discussed in **Chapter 12**).

4. Out of all the several methods for estimating depreciation, the most common used are two methods as shown below:

Method A - Straight Line Method

It is also known as the Fixed Instalment Method. Under this method:
- an equal amount of depreciation will be charged, and
- the carrying amount / value of non-current assets will decline at a constant rate throughout the economic useful life of the non-current asset.

There are two approaches to determine the depreciation for the year under this method:

Approach 1

$$\textbf{Depreciation for the year} = \frac{\text{Cost of asset - Residual value}}{\text{Estimated useful life (years)}}$$

If the non-current asset DOES NOT carry any residual value:

$$\textbf{Depreciation for the year} = \frac{\text{Cost of asset}}{\text{Estimated useful life (years)}}$$

Approach 2

Depreciation for the year ##
= Rate of Depreciation (%) # x Cost of asset

OR

= Rate of Depreciation (%) # x (Cost of asset - Residual value (if any)

#

Depreciation rate (%) is determined based on the estimated useful life of the asset.

e.g. If,	Then,
<u>estimated useful life is:</u>	<u>the rate of depreciation (%) will be:</u>
2 years	100% / 2 years = 50%
4 years	100% / 4 years = 25%
5 years	100% / 5 years = 20%

100% = Depreciable value of the asset which can be either:
= Cost of asset OR
= Cost of asset - Residual value (if any)

##

Under Straight Line Method, Approach 2, it is described as "the asset is depreciated at **% on COST** or **COST - Residual Value (if any)**'.

Example 1

JS Sdn Bhd acquired a machine costing RM60,000 by cheque on 1 January Year 1. The company estimated that the machine has residual value of RM5,000 and useful life of 5 years. The company has a financial year ended on 31 December.

Based on Straight Line Method, you are required to calculate:

a. the annual depreciation charge for the year ended
b. the carrying amount of the machine as at 31 December Year 1 to Year 5.

Solution to example 1

(a) Annual depreciation (RM)

$$= \frac{\text{RM } 60{,}000 - \text{RM } 5{,}000}{5 \text{ years}} = \text{RM } 11{,}000$$

(b)

Date	Depreciation (RM)	Carrying amount (RM)
1 January Year 1	-	60,000
Financial year ended (FYE) 31 December Year 1	11,000	49,000
FYE 31 December Year 2	11,000	38,000
FYE 31 December Year 3	11,000	27,000
FYE 31 December Year 4	11,000	16,000
FYE 31 December Year 5	11,000	5,000 (Carrying amount = Residual value)

Example 2

JS Sdn Bhd also acquired a motor vehicle costing RM80,000 by cheque on 1 January Year 1 with nil residual value. The company depreciates the motor vehicle at 20% per annum (p.a.) on cost and has a financial year ended on 31 December.

You are required to estimate:

a. the depreciation charge for the year ended
b. the carrying amount of the motor vehicle as at 31 December Year 3.

Solution to example 2

a. Depreciation charge for the year ended 31 December Year 3
= RM80,000 x 20% = RM16,000

b. Carrying amount as at 31 December Year 3
= Cost of asset – Accumulated depreciation as at 31 December Year 3
= RM80,000 – (RM16,000/year x 3 years)
= RM32,000

Method B - Reducing Balance Method

It is also known as the Diminishing Balance Method. Under this method:

- a declining / diminishing amount of depreciation will be charged, and
- the carrying amount / value of non-current assets will decline at a descending rate throughout the economic useful life of the non-current asset.

The main approach to determine the depreciation of a year under this method is:

Depreciation for the year ##
= Rate of depreciation (%) # x Carrying amount at the BEGINNING of the current year
(Which is equal to carrying amount at the END of the previous year)

#
Rate of depreciation (%)

$$= 1- \sqrt[n]{\frac{\textit{Residual value}}{\textit{Cost of asset}}}$$

n: Estimated useful life of the non-current asset (years)

##
Under Reducing Balance Method, it is described as 'the asset is depreciated at **% on CARRYING AMOUNT**".

The rationale of this method being in the early year of the asset's useful life, the non-current asset is new and more efficient, so the asset is believed to generate higher income for the business. Therefore, it is considered fair to allocate a relatively large amount of depreciation in the early years of the asset's life and less amount at the later years due to the declining efficiency.

Example 3

JS Sdn Bhd acquired a machine costing RM60,000 by cheque on 1 January Year 1. The company estimated that the machine has residual value of RM5,000 and useful life of 5 years. The company has a financial year ended on 31 December.

Based on Reducing Balance Method, you are required to calculate:

a. rate of depreciation charge,
b. depreciation for the year ended and carrying amount of the machine as at 31 December Year 1 to Year 5.

Solution to example 3

(a) Rate of depreciation (%)

$$= 1- \sqrt[n]{\frac{\text{Residual value}}{\text{Cost of asset}}}$$

$$= 1- \sqrt[5]{\frac{RM5{,}000}{RM60{,}000}} = 39\% \text{ (Approximately)}$$

(b)

Date	Depreciation (RM)	Carrying amount (RM)
1 January Year 1	-	60,000
Financial Year Ended (FYE) 31 December Year 1	60,000 x 39%= 23,400	60,000 – 23,400 = 36,600
FYE 31 December Year 2	36,600 x 39%= 14,274	36,600 – 14,274 = 22,326
FYE 31 December Year 3	22,326 x 39%= 8,707	22,326 – 8,707 = 13,619
FYE 31 December Year 4	13,619 x 39%= 5,311	13,619 – 5,311 = 8,308
FYE 31 December Year 5	8,308 x 39%= 3,240	8,308 – 3,240 = 5,068 (Subject to rounding error, Carrying amount = Residual value)

5. Apart from two main methods for estimating depreciation as discussed above, for non-current assets which are less practical or difficult to keep a detailed records (e.g. loose tools, loose items of small equipment like shredder machine), a simpler method for estimating depreciation may be used: **Revaluation Method**.

Cost of asset at the beginning of the year	X
Less:	
Assigned value of asset at the end of the year	(Y) #
Depreciation for the year	Z

#
It is an estimated value that set via subjective judgement and such value (Y) will always be LESSER than that of 'X' to reflect a decline in value throughout the asset's useful life (i.e. Depreciation).

Example 4

JS Sdn Bhd acquired 5 units of automated paper cutter machine for office use with a total cost of RM5,000 by cheque on 1 January Year 1. The company estimated that these machines have value of RM2,000 by the end of Year 1. The company has a financial year ended on 31 December.

Based on Revaluation Method, you are required to calculate the depreciation for the year ended and carrying amount of the machine as at 31 December Year 1.

Solution to example 4

Cost of asset as at 1 January Year 1	RM5,000
Less:	
Assigned value of asset as at 31 December Year 1	(RM2,000) #
Depreciation for the year ended 31 December Year 1	RM3,000

#
The assigned value of RM2,000 will become the carrying amount of the machine as at 31 December Year 1.

10.5 Partial year depreciation

1. In Section 10.4, all methods of estimating depreciation are assuming that non-current assets are bought on the FIRST day of the financial year and kept for use until the LAST day of the financial year before it is disposed, hence, a FULL YEAR depreciation will be accounted for since the first year until the year of disposal or end of estimated useful life of the non-current assets.

2. This may not be the case for all non-current assets that bought in by businesses. It is possible that, a non-current asset was bought at any point DURING the year. Similarly, it also may dispose of at any point before the end of the estimated useful life.

3. The partial period (year) of purchases and disposal of non-current asset has given rise to two common alternatives in recognising the amount of depreciation during the year of purchase and disposal:

   Alternative 1
   Depreciation will be charged proportionately according to the partial period that owned and used by the business.

   Depreciation for the year of **purchase** or **disposal**

   $$= \text{Depreciation for the year} \times \frac{\text{No.of months owned and used (partial period)}}{\text{12 months}}$$

   Alternative 2
   FULL depreciation will be charged in the year of purchase, but NO depreciation will be charged in the year of disposal.

   Hint ►

   When a non-current asset is purchased or disposed during the year, it will be based on the business's accounting policies to decide whether alternative 1 or 2 is applied. For examination purpose, question will always state the preferred treatment.

   It is important to be reminded that, whichever alternative adopted, it must be applied CONSISTENTLY for all types of non-current asset of a business.

10.6 Accounting for depreciation

1. There are two approaches of accounting for depreciation for the year in the general ledger which applicable for ALL methods of depreciation:

   a. TWO accounts approach

   Step 1: Posting of depreciation for the year to Depreciation (Expenses) Account and accumulate in the Accumulated Depreciation Account

   Dr Depreciation

   Cr Accumulated Depreciation (Statement of Financial Position)

   Step 2: Posting of depreciation for the year from Depreciation (Expenses) Account to Statement of Profit or Loss

   Dr Statement of Profit or Loss

   Cr Depreciation

   b. ONE account approach

   Step 1: Posting of depreciation for the year **directly** to Statement of Profit or Loss and accumulate in the Accumulated Depreciation Account

   Dr Statement of Profit or Loss - Depreciation

   Cr Accumulated Depreciation (Statement of Financial Position)

Hint ▶

Do you realise that, under ONE account approach, it combined 2 steps of accounting entries into 1 step?

For examination purpose, question will always state the preferred approach.

Input●

When there is more than 1 types of non-current assets which need to account for depreciation, the title of each Depreciation Account and Accumulated Depreciation Account will then need to specify with the types of assets.

Example 5

Refer to Example 1:

JS Sdn Bhd acquired a machine costing RM60,000 by cheque on 1 January Year 1. The company estimated that the machine has residual value of RM5,000 and useful life of 5 years. The company has a financial year ended on 31 December.

Using TWO account approach, you are required to prepare the following for the year ended 31 December Year 1 to Year 5:

a. Machinery Account
b. Depreciation Account
c. Accumulated Depreciation Account
d. Statement of Profit or Loss (Extract)
e. Statement of Financial Position (Extract)

Solution to example 5

(a)

Machinery

			RM				RM
Year 1			RM	Year 1			RM
Jan	1	Bank	60,000	Dec	31	Balance c/d	60,000
Year 2				Year 2			
Jan	1	Balance b/d	60,000	Dec	31	Balance c/d	60,000
Year 3				Year 3			
Jan	1	Balance b/d	60,000	Dec	31	Balance c/d	60,000
Year 4				Year 4			
Jan	1	Balance b/d	60,000	Dec	31	Balance c/d	60,000
Year 5				Year 5			
Jan	1	Balance b/d	60,000	Dec	31	Balance c/d	60,000
Year 6							
Jan	1	Balance b/d	60,000				

(b)

Depreciation

Year 1		RM	Year 1		RM
Dec 31	Accumulated Depreciation	11,000	Dec 31	Profit or Loss	11,000
Year 2			Year 2		
Dec 31	Accumulated Depreciation	11,000	Dec 31	Profit or Loss	11,000
Year 3			Year 3		
Dec 31	Accumulated Depreciation	11,000	Dec 31	Profit or Loss	11,000
Year 4			Year 4		
Dec 31	Accumulated Depreciation	11,000	Dec 31	Profit or Loss	11,000
Year 5			Year 5		
Dec 31	Accumulated Depreciation	11,000	Dec 31	Profit or Loss	11,000

(c)

Accumulated Depreciation

Year 1		RM	Year 1		RM
Dec 31	Balance c/d	11,000	Dec 31	Depreciation	11,000
Year 2			Year 2		
Dec 31	Balance c/d	22,000	Jan 1	Balance b/d	11,000
			Dec 31	Depreciation	11,000
		22,000			22,000
Year 3			Year 3		
Dec 31	Balance c/d	33,000	Jan 1	Balance b/d	22,000
			Dec 31	Depreciation	11,000
		33,000			33,000
Year 4			Year 4		
Dec 31	Balance c/d	44,000	Jan 1	Balance b/d	33,000
			Dec 31	Depreciation	11,000
		44,000			44,000
Year 5			Year 5		
Dec 31	Balance c/d	55,000	Jan 1	Balance b/d	44,000
			Dec 31	Depreciation	11,000
		55,000			55,000
			Year 6		
			Jan 1	Balance b/d	55,000

(d)

Statement of Profit or Loss (Extract) for the year ended 31 December …

	RM
Year 1	
Less: Expenses	
Depreciation	11,000
Year 2	
Less: Expenses	
Depreciation	11,000
Year 3	
Less: Expenses	
Depreciation	11,000
Year 4	
Less: Expenses	
Depreciation	11,000
Year 5	
Less: Expenses	
Depreciation	11,000

(e)

Statement of Financial Position (Extract) as at 31 December …(N1)

	Cost RM	Accumulated Depreciation RM	Carrying Amount RM
Year 1			
Non-current Assets			
Machinery	60,000	(11,000)	49,000
Year 2			
Non-current Assets			
Machinery	60,000	(22,000)	38,000
Year 3			
Non-current Assets			
Machinery	60,000	(33,000)	27,000
Year 4			
Non-current Assets			
Machinery	60,000	(44,000)	16,000
Year 5			
Non-current Assets			
Machinery	60,000	(55,000)	5,000

(N1)
An alternative presentation would be:

	RM
Non-current assets	
Machinery at cost	X
Less: Accumulated Depreciation	(X)
	X

Both the above presentations are only applicable for sole proprietorship and partnership. The presentation and disclosure of all types of non-current assets in the Statement of Financial Position for **limited company** will be based on the guidelines stipulated in IAS 16 which will further discussed in **Chapter 25**.

Input

If Depreciation Account is NOT created (1 Account approach), the Accumulated Depreciation Account will be shown as below:

Accumulated Depreciation

Year 1		RM	Year 1		RM
Dec 31	Balance c/d	11,000	Dec 31	~~Depreciation~~ Profit or Loss	11,000
Year 2			Year 2		
Dec 31	Balance c/d	22,000	Jan 1	Balance b/d	11,000
			Dec 31	~~Depreciation~~ Profit or Loss	11,000
		22,000			22,000
Year 3			Year 3		
Dec 31	Balance c/d	33,000	Jan 1	Balance b/d	22,000
			Dec 31	~~Depreciation~~ Profit or Loss	11,000
		33,000			33,000
Year 4			Year 4		
Dec 31	Balance c/d	44,000	Jan 1	Balance b/d	33,000
			Dec 31	~~Depreciation~~ Profit or Loss	11,000
		44,000			44,000
Year 5			Year 5		
Dec 31	Balance c/d	55,000	Jan 1	Balance b/d	44,000
			Dec 31	~~Depreciation~~ Profit or Loss	11,000
		55,000			55,000
			Year 6		
			Jan 1	Balance c/d	55,000

Disclosure in both Statement of Profit or Loss and Statement of Financial Position will remain unchanged.

Hint ▶

Assume that the machinery remains in used after Year 5,

a. what will be the amount to be shown in:
   - Depreciation Account,
   - Accumulated Depreciation Account

   after Year 5?

b. what will be the amount of:
   - Depreciation that to be disclosed in the Statement of Profit or Loss
   - Carrying amount of machinery that to be disclosed in Statement of Financial Position

   after Year 5?

Practice 2

Refer to Example 2:
JS Sdn Bhd also acquired a motor vehicle costing RM80,000 by cheque on 1 January Year 1 with nil residual value. The company depreciates the motor vehicle at 20% per annum (p.a.) on cost and has a financial year ended on 31 December.

Using TWO account approach, you are required to prepare the following for the year ended 31 December Year 1 to Year 2:

a. Motor Vehicle Account
b. Depreciation Account
c. Accumulated Depreciation Account
d. Statement of Profit or Loss (Extract)
e. Statement of Financial Position (Extract)

10.7 Accounting for disposal of non-current assets

1. When there is a capital expenditure such as, purchase of non-current asset, it is recorded in the non-current asset account rather than in the purchases account. Similarly, when the non-current asset is sold, it is a **capital receipt** and will be recorded in a specially created account known as **Disposal of Non-current Asset (Disposal) Account** rather than in the sales account.

2. When a non-current asset is sold or disposed of, its costs and accumulated depreciation to date must be removed from the non-current asset account and accumulated depreciation account respectively.

3. Both the above items will then be transferred to the Disposal Account.

4. The proceeds of sale (it may be EQUAL to its scrap / residual value if the asset is sold at the END of the estimated useful life) will also be recorded into this account for calculating the profit or loss arising from the disposal.

5. The difference arising in the Disposal Account represent either a:

   a. **profit / gain** on disposal (when proceed > carrying amount) or
   b. **loss** on disposal (when proceed < carrying amount)

6. The process of accounting for disposal of non-current asset in the General Ledger are made up of 3 main steps:

   Step 1: Transfer out the cost and accumulated depreciation of the non-current asset disposed onto Disposal Account
   Dr **Disposal**
   Cr Non-current Asset

   Dr Accumulated Depreciation
   Cr **Disposal**

   Step 2: Recording the proceed from the sale of non-current asset onto Disposal Account

   Scenario A:
   If NO new non-current asset is bought with the disposal of existing non-current asset (i.e. WITHOUT trade in)

	RM	RM
Dr Other Receivables / Bank	**Proceed**	
Cr **Disposal**		**Proceed**

Scenario B:

If new non-current asset is bought with the disposal of existing non-current asset and its proceed is used for part payment or trade in value (i.e. WITH trade in)

		RM	RM
Dr	Non-current Asset (NEW asset acquired)	**Cost of new asset**	
Cr	**Disposal**		**Proceed**
Cr	Other Payables / Bank		**Outstanding** - balance of cost of new asset

OR

		RM	RM
Dr	Non-current Asset (NEW asset acquired)	**Cost of new asset**	
Dr	Other Receivables / Bank	**Excess** - balance of proceed	
Cr	**Disposal**		**Proceed**

Step 3: Determine and recording the profit or loss on disposal onto Disposal Account

If:

Profit / Gain on disposal

		RM	RM
Dr	**Disposal**	**Gain #**	
Cr	Profit or Loss (Statement of Profit or Loss)		**Gain**

Loss on disposal

		RM	RM
Dr	Profit or Loss (Statement of Profit or Loss)	**Loss**	
Cr	**Disposal**		**Loss #**

#

Profit / Loss on disposal:

	RM
Cost of non-current asset	X
Less: Accumulated Depreciation to date of disposal	(X)
Carrying amount	A
Proceed or Trade in value	B

If A > B: The difference represents 'Loss on disposal'

If A < B: The difference represents 'Profit / Gain on disposal'

Example 6

On 30 June Year 4, Super Sdn Bhd disposed of a truck that acquired on 1 April Year 2 at a cost of RM200,000 for a proceed of RM120,000. At the time of acquisition, it was estimated to carry a scrap value of RM40,000 at the end of its estimated useful life of 5 years. All transactions are settled by cheques.

The company adopt a depreciation policy of 16% p.a. on cost and will be accounted for proportionately in the year of acquisition and disposal.

You are required to prepare the following for the year ended 31 December Year 2 to Year 4:

a. Truck Account
b. Accumulated Depreciation Account
c. Disposal Account
d. Statement of Profit or Loss (Extract)
e. Statement of Financial Position (Extract)

Solution to example 6

(a)

Truck

Year	2		RM	Year	2		RM
Apr	1	Bank	200,000	Dec	31	Balance c/d	200,000
Year	3			Year	3		
Jan	1	Balance b/d	200,000	Dec	31	Balance c/d	200,000
Year	4			Year	4		
Jan	1	Balance b/d	200,000	Jun	30	Disposal	200,000

(b)

Accumulated Depreciation

Year 2		RM	Year 2		RM
Dec 31	Balance c/d	24,000	Dec 31	Profit or Loss (W1)	24,000
Year 3			Year 3		
Dec 31	Balance c/d	56,000	Jan 1	Balance b/d	24,000
			Dec 31	Profit or Loss (W2)	32,000
		56,000			56,000
Year 4			Year 4		
Dec 31		72,000*	Jan 1	Balance b/d	56,000
			Dec 31	Profit or Loss (W3)	16,000*
		72,000			72,000

(c)

Disposal

Year 4		RM	Year 4		RM
Jun 30	Truck	200,000	Jun 30	Bank	120,000
			Dec 31	Accumulated Depreciation	72,000*
			Dec 31	Profit or Loss -Loss on disposal (**Balancing figure**)	8,000*
		200,000			200,000

Workings:

(1) RM200,000 x 16% x 9 months / 12 months

(2) RM200,000 x 16%

(3) RM200,000 x 16% x 6 months / 12 months

Input

Do you notice that, eventhough the disposal of asset took place on 30 June Year 4, the transactions with ‘ * ’ were only accounted for in the general ledger on 31 December Year 4?

The reason being:
As the Depreciation Account is NOT created, the annual depreciation expenses were directly credited to Accumulated Depreciation and debited to Statement of Profit or Loss which the latter only prepared at the end of the financial year, i.e. 31 December Year 4, hence, such transactions will only be posted when the financial statements is prepared at the end of the financial year end.

(d)

Statement of Profit or Loss (Extract) for the year ended 31 December …

		RM
Year 2		
Less:	Expenses	
	Depreciation	24,000
Year 3		
Less:	Expenses	
	Depreciation	32,000
Year 4		
Less:	Expenses	
	Depreciation	16,000
	Disposal - Loss on disposal	8,000

(e)

Statement of Financial Position (Extract) as at 31 December …(N1)

	Cost RM	Accumulated Depreciation RM	Carrying Amount RM
Year 2			
Non-current Assets			
Truck	200,000	(24,000)	176,000
Year 3			
Non-current Assets			
Truck	200,000	(56,000)	144,000
Year 4			
Non-current Assets			
Truck	0	(0)	0

Practice 3

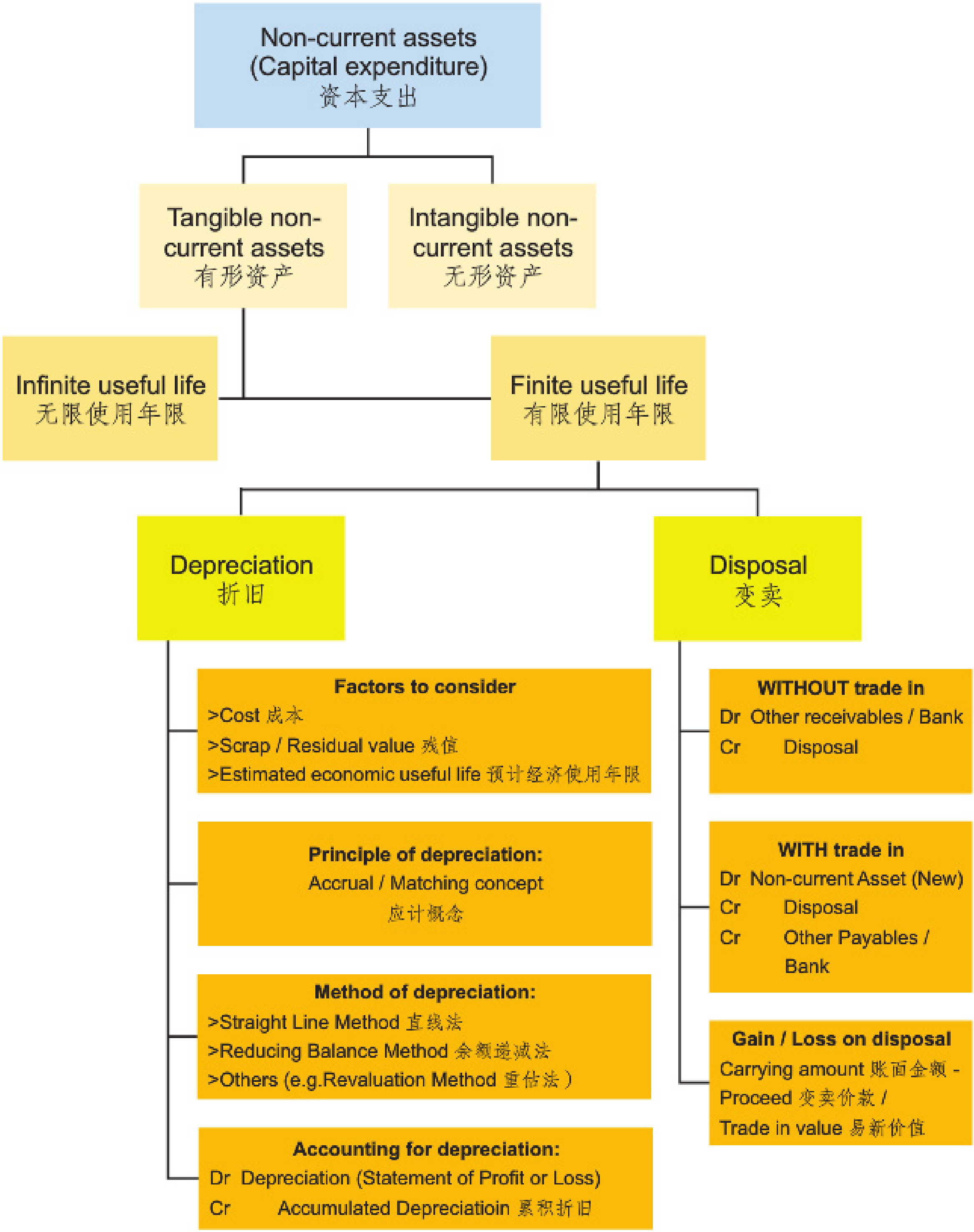
On 1 October Year 5, Max Sdn Bhd trade in a new version of photocopier (XD 1) with the existing one, AD 2 which cost RM150,000 when it was acquired on 30 April Year 2. From the quotation provided by the supplier of XD 1, it priced at RM 250,000 and the seller has agreed to accept AD 2 at a trade in value of RM 70,000. Max Sdn Bhd settled the remaining balance by cheque on the trade in date.

The company adopt a depreciation policy of 20% p.a. on cost and full year depreciation were charged in the year of acquisition, but no depreciation charge in the year of disposal.

You are required to prepare the following for the year ended 31 December Year 5:

a. Photocopier Account
b. Depreciation Account
c. Accumulated Depreciation Account
d. Disposal Account
e. Statement of Profit or Loss (Extract)
f. Statement of Financial Position (Extract)

Chapter Summary



Quiz

1 Which of the following item of cost pertaining to an aircraft of an airline company belong to a capital expenditure?

A Cleaning cost of the aircraft body
B Fuel cost of the aircraft
C Upgrading cost on aircraft to meet the new aviation regulation
D Regular replacement cost of the aircraft tyre

2 What is the MOST suitable method of depreciation for 100 pieces of stainless steel food containers of a medium sized restaurant?

A Straight line method
B Revaluation method
C Reducing balance method
D No depreciation is accounted for but charge the full cost to Statement of Profit or Loss

3 What is the amount of depreciation charge for second year of the asset's useful life if:

Cost of asset:	RM100,000
Scrap value:	RM15,000
Estimated useful life:	4 years
Method of depreciation:	38% p.a. on carrying amount

A RM20,026
B RM23,560
C RM32,300
D RM38,000

4 What is the amount of gain / loss on disposal of an asset if it is disposed of at the end of third year of its useful life:

Cost of asset:	RM125,000
Scrap value:	RM10,000 in Year 4
Proceed:	RM40,000
Estimated useful life:	4 years
Method of depreciation:	25% p.a. on cost

A Gain on disposal of RM1,250
B Loss on disposal of RM1,250
C Gain on disposal of RM28,750
D Loss on disposal of RM28,750

5 Which of the statement below about the trade in value of an existing asset for a new asset is correct?

A It will always be the same as the scrap value of the existing asset
B It will reduce the depreciation charge of the new asset
C It will not affect the amount of outstanding payment to the seller of new asset
D It will reduce the amount of outstanding payment to the seller of new asset

Answer guide to Quiz

1 C **2** B **3** B (RM100,000 – (RM100,000 x 38%)) x 38% **4** A (RM125,000 – (RM125,000 x 25% x 3 years)) – RM40,000 **5** D

Chapter 11 Accruals and prepayments

Learning Outcome

Upon completing this chapter, you should be able to:

- Understand the purposes of accruals and prepayments in accordance with matching concept.
- Calculate the:
  a. Accrued Expenses
  b. Prepaid Expenses
  c. Accrued Income
  d. Prepaid / Unearned Income
- Prepare journal entries and ledger entries for accruals and prepayments.
- Understand and reflect the impact of accruals and prepayments on financial statements.

Synopsis

- Income generated / earned from business activities during an accounting period should be matched with the expenses incurred in the same period in order to determine the 'true' (actual) financial performance (net profit or net loss) for that accounting period.
- In any accounting period, if expenses paid / income received are different from expenses incurred / income earned, the difference will be referred as end of period adjustments which can be Accrued Expenses, Prepaid Expenses, Accrued Income and Prepaid / Unearned Income.

11.1 Purpose of accruals and prepayments adjustments

1. In accordance to matching concept (refer to **Chapter 12**), the actual value of net profit or loss is the difference between 'income earned' and 'expenses incurred' during the accounting period, irrespective of whether the amount is received or paid.

2. This form the fundamentals of recognition of income and expenses that to be included in Statement of Profit or Loss.

11.2 Accrued expenses (Accruals)

1. An accrued expenses / expenses in arrears refer to expenses incurred in an accounting period, which remain unpaid at the end of the year.

2. It will need to be included in the expenses incurred in an accounting period and shown in the Statement of Financial Position as an item under Current Liabilities.

3. The double entry of the accrued expenses will first be recorded in the General Journal followed by General Ledger with the following entries:

   Dr Expenses (Statement of Profit or Loss)
   Cr   Accrued Expenses (Statement of Financial Position)

Example 1

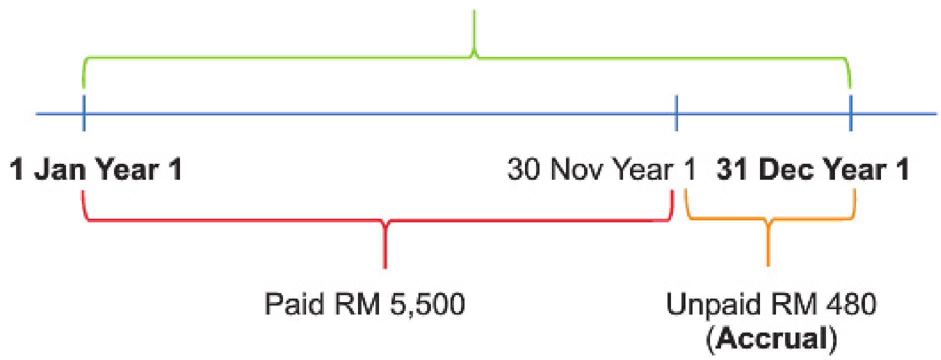
Ahmad Trading has a financial year ended on 31 December Year 1. It has paid the water and electricity bills for January to November amounting to RM 5,500 by cheques. However, the bills for December that amounting to RM 480 has just received and yet to be paid until 4 January Year 2.

You are required to:

a. calculate the amount of water and electricity expenses incurred for Year 1
b. prepare the Water and Electricity Expenses Account for Year 1
c. prepare extracts of the Statement of Profit or Loss and Statement of Financial Position for Year 1

Solution to example 1

Water and Electricity expenses **incurred** for the year
RM 5,500 + RM 480 = RM 5,980



(a) Actual amount of water and electricity expenses for Year 1 = RM 5,500 + RM 480
= RM 5,980

(b) **Approach 1 : When Accrued Expenses Account is created**

Water and Electricity Expenses

Year 1		RM	Year 1		RM
Nov 30	Bank	5,500	Dec 31	Profit or Loss (P/L)	5,980
Dec 31	Accrued Water and Electricity	480			
		5,980			5,980

Accrued Water and Electricity Expenses

Year 1		RM	Year 1		RM
Dec 31	Balance c/d	480	Dec 31	Water and Electricity	480
			Year 2		
			Jan 1	Balance b/d	480

Approach 2 : When Accrued Expenses account is NOT created

Water and Electricity Expenses

Year 1		RM	Year 1		RM
Nov 30	Bank	5,500	Dec 31	Profit or Loss	5,980
Dec 31	Balance c/d	480			
		5,980			5,980
			Year 2		
			Jan 1	Balance b/d	480

(c)

Ahmad Trading
Statement of Profit or Loss (Extract) for the year ended 31 December Year 1

	RM
Less: Expenses	
Water and Electricity Expenses	5,980

Ahmad Trading
Statement of Financial Position (Extract) as at 31 December Year 1

	RM
Current Liabilities	
Accrued Water and Electricity Expenses	480

Practice 1

Jim Co. had paid RM1,330 telephone expenses during financial year ended 31 December Year 1. However, a telephone bill of RM120 for December Year 1 was only received on 4 January Year 2.

You are required to:

a. calculate the amount of telephone expenses incurred for Year 1
b. prepare the Telephone Expenses Account for Year 1
c. prepare extracts of the Statement of Profit or Loss and Statement of Financial Position for Year 1

11.3 Prepaid expenses

1. An expense prepayment / expenses paid in advance refers to payment of expenses in advance in an accounting period.

2. The amount paid does not relate to the current year. Hence, it will need to be excluded from the expenses in the accounting period and shown in the Statement of Financial Position as an item under Current Assets.

3. The double entry of the expenses prepayment will first be recorded in the General Journal followed by General Ledger with the following entries:

   Dr Prepaid Expenses (Statement of Financial Position)
   Cr Expenses (Statement of Profit or Loss)

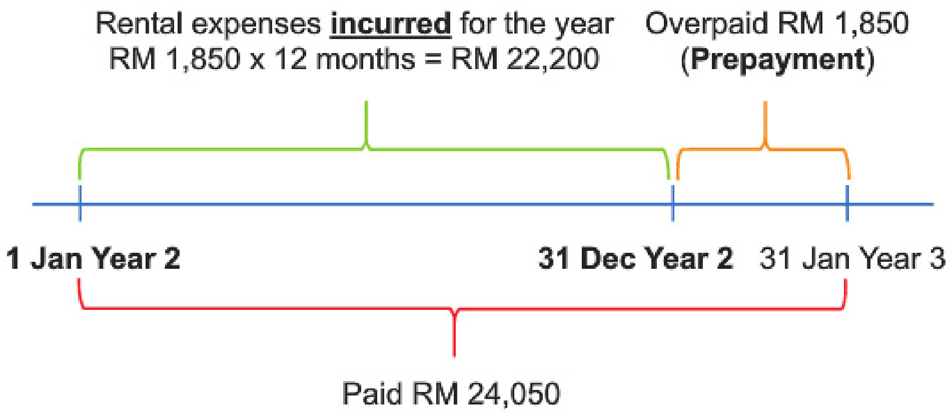
Example 2

Sally Enterprise paid rental amounting to RM24,050 by cheque during the year ended 31 December Year 2 where the tenancy agreement starts from 1 January Year 2 with an agreed monthly rental of RM1,850 for the premises occupied.

You are required to:

a. calculate the amount of rental expenses incurred for Year 2
b. prepare the Rental Expenses Account for Year 2
c. prepare extracts of the Statement of Profit or Loss and Statement of Financial Position for Year 2

Solution to example 2



(a) Amount of rental expenses incurred for Year 2 = RM 1,850 / month x 12 months
= RM 22,200

(b) **Approach 1 : When Prepaid Expenses account is created**

Rental Expenses

Year 2		RM	Year 2		RM
Dec 31	Bank	24,050	Dec 31	Prepaid Rental Expenses	1,850
			31	Profit or Loss	22,200
		24,050			24,050

Prepaid Rental Expenses

Year 2		RM	Year 2		RM
Dec 31	Rental Expenses	1,850	Dec 31	Balance c/d	1,850
Year 3					
Jan 1	Balance b/d	1,850			

Approach 2 : When Prepaid Expenses account is NOT created

Rental Expenses

Year 2		RM	Year 2		RM
Dec 31	Bank	24,050	Dec 31	Profit or Loss	22,200
			31	Balance c/d	1,850
		24,050			24,050
Year 3					
Jan 1	Balance b/d	1,850			

(c)

Sally Enterprise
Statement of Profit or Loss (Extract) for the year ended 31 December Year 2

	RM
Less: Expenses	
Rental Expenses	22,200

Sally Enterprise
Statement of Financial Position (Extract) as at 31 December Year 2

	RM
Current Assets	
Prepaid Rental Expenses	1,850

Practice 2

Kedai Muthu paid RM1,320 for 3 months insurance premium on 1 December Year 2 for coverage of natural disaster up to 28 February Year 3. Financial year of Kedai Muthu ended on 31 December annually.

You are required to:

a. calculate the amount of insurance expenses incurred for Year 2
b. prepare the Insurance Expenses Account for Year 2
c. prepare extracts of the Statement of Profit or Loss and Statement of Financial Position for Year 2

Input

It is a common practice that the payment date of the premium will usually represent the commencement of the protection coverage.

11.4 Accrued income

1. An accrued income / income in arrears refers to income earned in an accounting period, which has not received at the end of the year.

2. It will be included in the income earned in an accounting period and shown in the Statement of Financial Position as an item under Current Assets.

3. The double entry of the accrued income will first be recorded in the General Journal followed by General Ledger with the following entries:

   Dr Accrued Income (Statement of Financial Position)
   Cr Income (Statement of Profit or Loss)

Example 3

Kee Trading, an established trading business opened a twelve-months fixed deposit account with an amount of RM20,000 on 1 March Year 3 with an agreed interest rate of 3% per annum. The bank paid interest quarterly on 1 June, 1 September, 1 December Year 3 and 1 March Year 4.

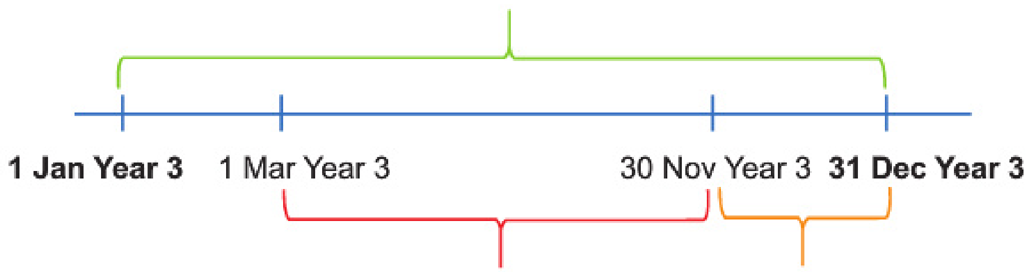
Kee Trading closed its account on 31 December annually.

You are required to:

a. calculate the amount of interest income earned for Year 3
b. prepare the Interest Income Account for Year 3
c. prepare extracts of the Statement of Profit or Loss and Statement of Financial Position for Year 3

Solution to example 3

Interest income **earned** for the year
RM 20,000 x 3% x 10 months / 12 months = RM 500



RM 450
Interest received for current year
1 Mar - 31 May:
Received RM 150 on 1 Jun
1 Jun - 31 Aug:
Received RM 150 on 1 Sep
1 Sep - 30 Nov:
Received RM 150 on 1 Dec

Not yet received RM 50
(**Accrual**)

(a) Amount of Interest Income earned for Year 3
= RM 20,000 x 3% x 10 months / 12 months
= RM 500

(b) **Approach 1 : When Accrued Income account is created**

Interest Income

Year 3		RM	Year 3		RM
Dec 31	Profit or Loss	500	Jun 1	Bank	150
			Sep 1	Bank	150
			Dec 1	Bank	150
			Dec 31	Accrued Interest Income	50
		500			500

Accrued Interest Income

Year 3		RM	Year 3		RM
Dec 31	Interest Income	50	Dec 31	Balance c/d	50
Year 4					
Jan 1	Balance b/d	50			

Approach 2 : When Accrued Income account is NOT created

Interest Income

Year 3		RM	Year 3		RM
Dec 31	Profit or Loss	500	Jun 1	Bank	150
			Sep 1	Bank	150
			Dec 1	Bank	150
			Dec 31	Balance c/d	50
		500			500
Year 4					
Jan 1	Balance b/d	50			

(c)

Kee Trading
Statement of Profit or Loss (Extract) for the year ended 31 December Year 3

	RM
<u>Other Income</u>	
Interest Income	500

Kee Trading
Statement of Financial Position (Extract) as at 31 December Year 3

	RM
<u>Current Assets</u>	
Accrued Interest Income	50

Practice 3

Johnson Trading was given a 10% commission as an incentive from the manufacturer based on its total sales. On 31 December Year 3, he received a cheque of RM7,500 for commission of the sales from January to November of Year 3. For the financial year ended 31 December Year 3, he has yet to receive the commission for the month of December for sales totalling RM12,000.

You are required to:

a. calculate the amount of commission income earned for Year 3
b. prepare the Commission Income Account for Year 3
c. prepare extracts of the Statement of Profit or Loss and Statement of Financial Position for Year 3

11.5 Prepaid / Unearned income

1. An Unearned Income is also known as 'Prepaid Income' or 'Income Received in Advance'. It refers to an income received during the year which relate to the future financial year.

2. Since the income received does not relate to current financial year, it will be excluded from the income in the accounting period and shown in the Statement of Financial Position as an item under Current Liabilities.

3. The double entry of the unearned income will first be recorded in the General Ledger with the following entries:

   Dr Income (Statement of Profit or Loss)
   Cr   Unearned Income (Statement of Financial Position)

Example 4

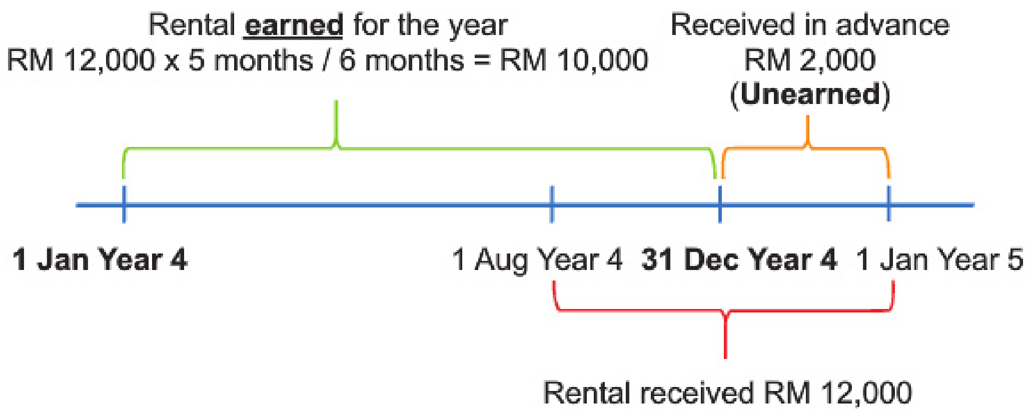
Dextor Trading sublet one of its shop lot to Gary Trading on 1 August Year 4. On the same day, it has received 6-months rental by cheque of RM12,000.

Dextor Trading closed its account on 31 December annually.

You are required to:

a. Calculate the actual amount of rental income earned for Year 4
b. Prepare the Rental Income Account for Year 4
c. Prepare extracts of the Statement of Profit or Loss and Statement of Financial Position for Year 4

Solution to example 4



(a) Amount of Rental Income earned for Year 4 = RM 12,000 x 5 months / 6 months
= RM 10,000

(b) **Approach 1 : When Unearned Income account is created**

Rental Income

Year 4		RM	Year 4		RM
Dec 31	Unearned Rental Income	2,000	Aug 1	Bank	12,000
31	Profit or Loss	10,000			
		12,000			12,000

Unearned Rental Income

Year 4		RM	Year 4		RM
Dec 31	Balance c/d	2,000	Dec 31	Rental Income	2,000
			Year 5		
			Jan 1	Balance b/d	2,000

Approach 2 : When Unearned Income account is NOT created

Rental Income

Year 4		RM	Year 4		RM
Dec 31	Profit or Loss	10,000	Dec 31	Bank	12,000
31	Balance c/d	2,000			
		12,000			12,000
			Year 5		
			Jan 1	Balance b/d	2,000

(c)

Dextor Trading
Statement of Profit or Loss (Extract) for the year ended 31 December Year 4

	RM
Other Income	
Rental Income	10,000

Dextor Trading
Statement of Financial Position (Extract) as at 31 December Year 4

	RM
Current Liabilities	
Unearned Rental Income	2,000

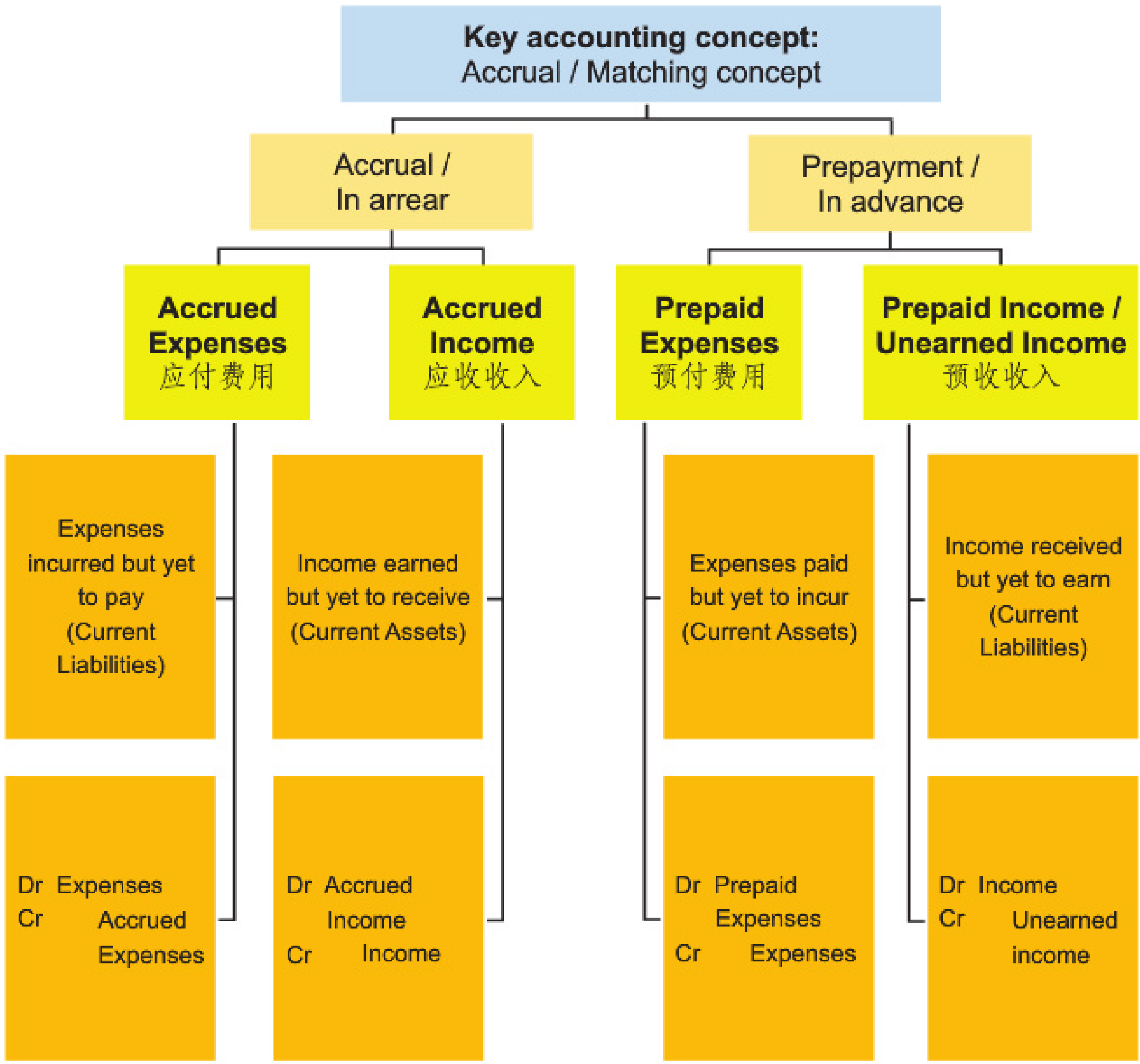
Practice 4

On 1 May Year 4, Mary Publisher who had 100 customers paid for the annual subscription for Beauty Magazine commencing immediately at RM120 each. Its financial year ended on 31 December.

You are required to:

a. calculate the amount of subscription income earned for Year 4
b. prepare the Subscription Income Account for Year 4
c. prepare extracts of the Statement of Profit or Loss and Statement of Financial Position for Year 4

Chapter Summary



Quiz

1 What will be the effect if prepayment of expenses is not adjusted at end of financial year?

A Assets and Net Profit will be undercast
B Assets and Net Profit will be overcast
C Liabilities and Net Profit will be undercast
D Liabilities and Net Profit will be overcast

2 Which side will the balance of an unearned income be appeared in ledger account and where should it be disclosed in the Statement of Financial Position?

A Debit balance, disclose under Current Assets
B Credit balance, disclose under Current Assets
C Debit balance, disclose under Current Liabilities
D Credit balance, disclose under Current Liabilities

3 Which of the following can be considered as Accrued Salaries?

A A debit balance in the Salaries Account
B A credit balance in the Salaries Account
C A current asset in the Statement of Financial Position
D A non-current asset in the Statement of Financial Position

4 After notifying by bank that, interest received from the fixed deposit account for the accounting year was RM500, the proprietor who is the account holder discovered that there was a RM100 interest has yet to be credited by the bank by its accounting year end. Which of the below accounting entry for the above transaction is correct?

A Dr Interest Income RM100 ; Cr Accrued Interest Income RM100
B Dr Interest Income RM400 ; Cr Accrued Interest Income RM400
C Dr Accrued Interest Income RM100 ; Cr Interest Income RM100
D Dr Accrued Interest Income RM400 ; Cr Interest Income RM400

5 Which of the following accounting concept that adjustments for accrual and prepayment reflect?

A Prudence
B Consistency
C Matching
D Going Concern

Answer guide to Quiz

1 A 2 D 3 B 4 C 5 C

Chapter 12

Fundamental accounting principles and concepts

Learning Outcome

Upon completing this chapter, you should be able to:

- Understand and apply the fundamental accounting principles and concepts:
  a. Business entity
  b. Accounting period / Time interval / Periodic
  c. Money measurement
  d. Going concern / Continuity of activity
  e. Objectivity
  f. Historical cost
  g. Materiality
  h. Substance over form
  i. Consistency
  j. Prudence / Conservatism
  k. Accruals / Matching

Synopsis

- A business transaction may be recorded and reflected in the financial statements of different businesses in different amount and manner.

- The importance to ensure the comparability of financial information in these financial statements have given rise to the needs of preparing financial records in accordance with a generally accepted accounting principles and concepts.

12.1 Importance of accounting principles and concepts

1. Imagine, if each business has its own or different methods of preparing financial statements which all other users of the financial statements are not familiar with, the statements will not be of understandable and comparable.

2. These inconsistencies will cause the users like shareholders, creditors, regulators and other stakeholders unable to judge the performance of the business accurately.

3. In order to ensure the reliability, understandability and comparability of the financial statements, a set of generally accepted fundamental accounting principles and concepts had been developed and adopted in accounting practice.

4. These principles and concepts provide guidelines for recording various types of business transactions and basis of preparing the financial statements.

12.2 Fundamental accounting principles and concepts

1. There are various key accounting principles and concepts which have been developed over the years by internationally recognised accounting standards setting body, such as the International Accounting Standards Board (IASB).

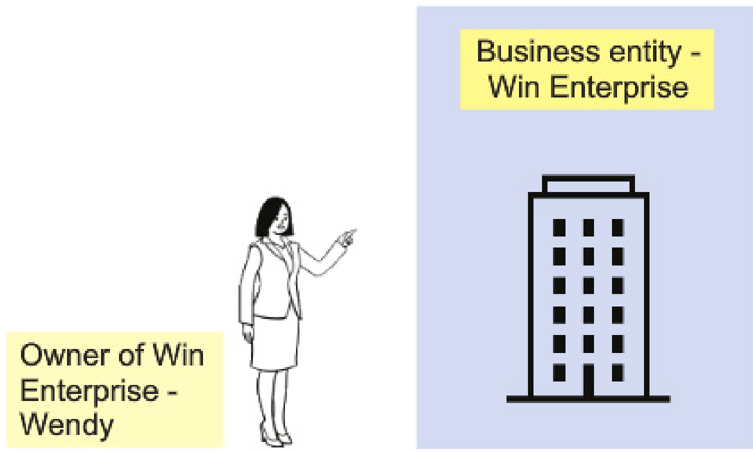
2. These principles and concepts are widely recognised by the financial institution and statutory bodies in many countries, like the stock exchange, tax authority, etc as one of the requirements where all businesses should adopt in the preparation of the financial statements.

3. The key accounting principles and concepts are listed below:

   a. Business entity
   b. Accounting period / Time interval / Periodic
   c. Money measurement
   d. Going concern / Continuity of activity
   e. Objectivity
   f. Historical cost
   g. Materiality

h. Substance over form
i. Consistency
j. Prudence / Conservatism
k. Accruals / Matching

12.3 Business entity concept



1. This concept emphasises the importance and needs of perceiving a business as a separate entity from the business owner.

2. Hence, in the preparation of financial statement for a business, it should only include all business transactions and any personal transactions that belong to the owner shall not be included.

3. Application:

   Case 1
   When the business owner injects cash into his / her business for start-up, the amount of cash should be recorded as capital (equity) in the books of account of the business.

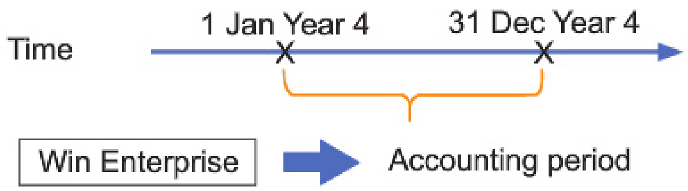
   Case 2
   When the business owner of a sole proprietorship withdraws goods or cash from the business for personal use, such transaction will be recorded as drawings in the books of account of the business.

4. The above accounting entries are to ensure that, despite the involvement of the business owner in both the transactions, the financial statements of the business are reflecting the true financial performance of the business.

Hint ▶

If cash were withdrawn from the business by the owner as partial repayment of his personal loan to the business, how should this transaction be treated in the books of the business based on the business entity concept?

12.4 Accounting period / Time interval / Periodic concept



i.e.

- Statement of Profit or Loss for the year ended **31 December Year 4**
- Statement of Financial Position as at **31 December Year 4**

1. As business operations are carried out at on-going basis, its operational performance needs to be reported to various stakeholders (e.g. owners, lenders, regulators, etc) at various stage of time.

2. This gives rise to the needs of accounting period concept that requires the business to define a time period where performance during that period is to be reported.

3. This concept hence also serves as a basis to decide the time where all accounts in the books of all ledgers to be closed and balanced off. All the totals and balances in these accounts will hence lead to the preparation of trial balance and financial statements.

4. A business has at least one accounting period in one calendar year which is called the financial year end (FYE). In addition to that, it may also have other intervals of accounting period during the FYE like, monthly or quarterly for interim performance review.

5. Application:

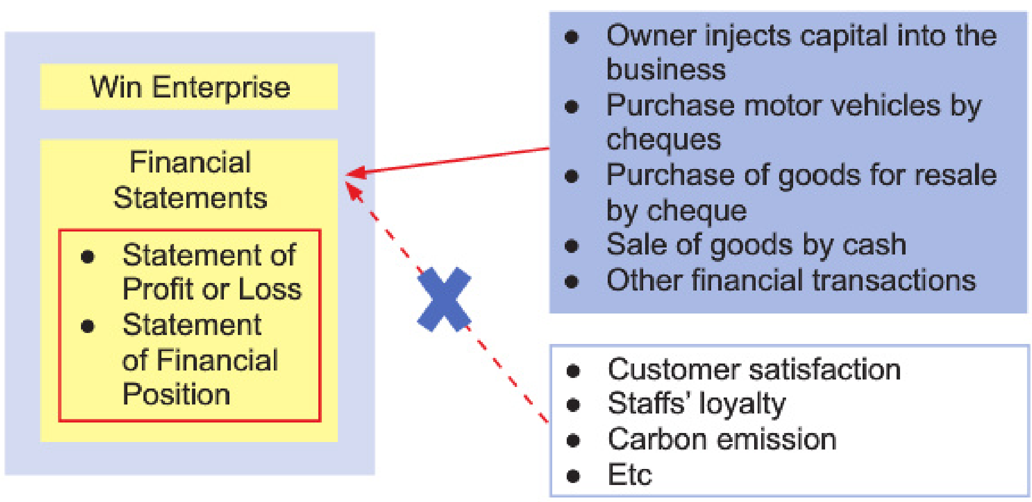
Case 1
Zen Sdn Bhd is preparing its financial statement for the year ended 31 December Year 5.

Case 2
Max Trading is preparing its financial statement for the year ended 31 October Year 6.

Input

Even though most businesses will set its FYE based on calendar year (i..e financial year ended 31 December Year x), some may prefer to set its FYE which is not based on calendar year due to some other reasons. Hence, the setting of FYE of a business is entirely at management's discretion.

12.5 Money measurement Concept



1. This concept requires business activities and transactions that can be measured in monetary terms to be recorded in the books of accounts and hence reflected in the financial statement by expressing in the underlying currency of the country where a business is located (e.g. Ringgit Malaysia (RM) for businesses that carried out in Malaysia).

2. Application:

Case 1

Purchases and sale of goods, payment of salaries and rental etc are all recorded in the respective books of accounts as it can be measured in monetary terms.

Case 2

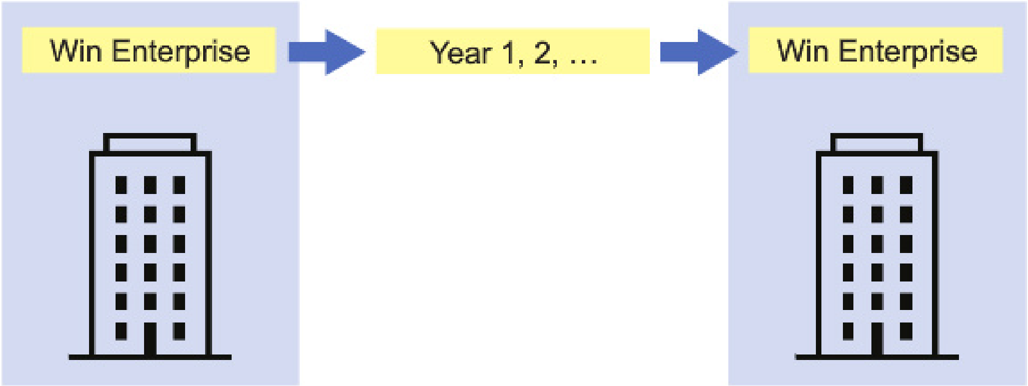
Purchases of machinery, accounting for depreciation etc is also reflected in the respective books of accounts as it is part of the financial transactions of a business.

3. The purpose of this concept is to provide guidelines in standardising items that need to be accounted for by all business to ensure the comparability of its financial statements.

4. However, there is a main limitation of such accounting concept, i.e. it does not mention how would other business activities and transactions which are not possible to measure in monetary terms (i.e. non-financial / qualitative) be accounted for.

5. Hence, factors such as employees' loyalty, customer' loyalty, business ethics and environmental responsibility and etc are important to all businesses as these can be considered as an 'asset' which is as precious as all that appear in the books of accounts and not reflected in the financial statement of the business at all.

12.6 Going concern / Continuity of activity concept



1. When a business is incorporated, there will be no intention at all that it only be operated for a limited time period. Instead, business owner has to ensure that the business will be operated and carried on viably as long as it lasts.

2. This gives rise to the needs of the going concern concept to guide all businesses to prepare their financial statements on the assumptions that the businesses are carried on for a foreseeable future.

3. When a business is considered as an entity that is a going concern, it is generally expected that the business will be able to operate continuously in a profitable manner and to repay all its outstanding debts when they fall due.

4. Application:

   Case 1

   Non-current assets such as plant and machinery are to be recorded in the books of accounts at the price (cost) paid by the business BUT NOT at the value where the assets can be disposed at breakup value / scrap value in the financial year end.

   These assets will be depreciated over its estimated useful life as the cost of this assets is matched with the future generated income.

   The accounting of the cost and depreciation of the assets is hence assumed that the business will continue to exist for a foreseeable future.

   Case 2

   Expenses paid in the year but related to future years (prepayment of expenses) will be recognised as current asset for the current year and only be charged to the Statement of profit or loss in the future year.

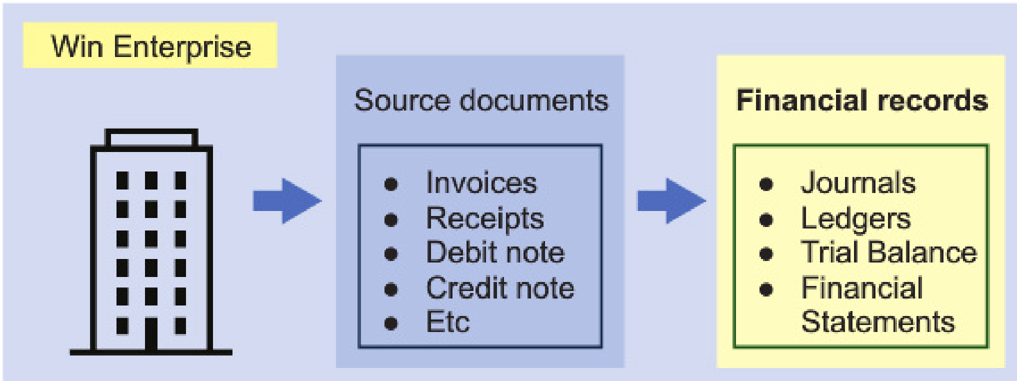
   The accounting of this transaction is assumed that the business will be continuing to generate future income to set off such expenses.

Input

The going concern concept is one of the key accounting concepts that not only provides guidance in the preparation of financial statements but also serving as the rationale of forming some other key accounting principles and concepts, such as historical cost, accruals / matching and prudence / conservatism concept.

5. The practice of going concern concept in the preparation of financial statements will be stated clearly as part of the notes to financial statements. However, should such concept not be applied, the underlying reason will need to be shown in the notes.

12.7 Objectivity concept



1. This concept emphasises that all business transactions should be accounted for based on valid and genuine supporting and source documents to ensure the objectivity of the financial information reported in the financial statements.

2. Such practice serves as a justification to the importance of understanding the business and accounting cycle that involves with ranges of business documentations as covered in **Chapter 3** and **4**.

3. Application:

   Case 1
   The value of land acquired by a business should be accounted for based on the sale and purchase agreement (SPA) signed between the buyer and the seller.

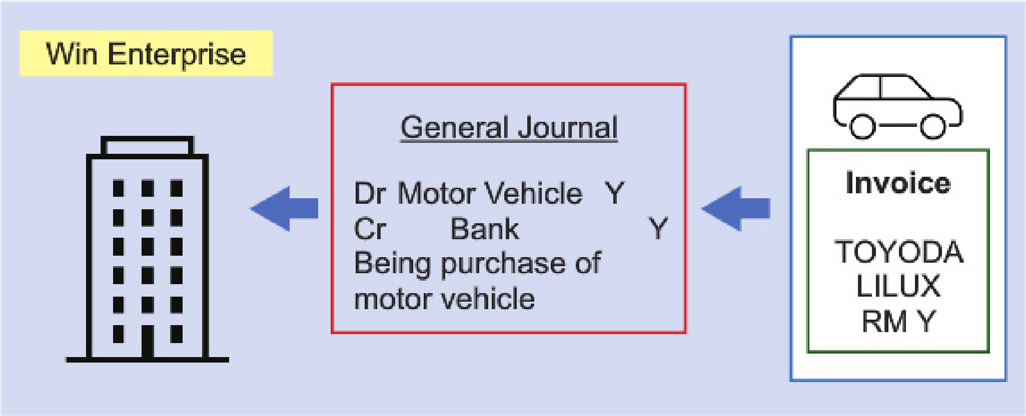
   Case 2
   All payments of expenses made by a business should be accounted for based on all supporting payment vouchers which are created or attached with the supporting invoices by the vendors.

Input

The objectivity concept explains one of the key tasks in the external audit of the financial statements for all limited companies.

This concept is also one of the key accounting concepts that explains the rationale of some other key accounting principles and concepts such as historical cost.

12.8 Historical cost concept



1. This concept mainly emphasises on all assets and liabilities which are reflected in the Statement of financial position should be recorded at historical cost (i.e. Assets: the original cost which the buyer has agreed to pay (refer to **Chapter 10**) despite that the market value of such asset may be different from the original cost, Liabilities: the amount borrowed).

2. This is to ensure that financial statements of all businesses are prepared under a generally agreed basis of valuation which promotes comparability, verifiability and reliability of financial information.

3. Application:

   Case 1
   The value of a cargo vessel that owned by a shipping company will be recognised as a non-current asset in the Statement of financial position at its cost.

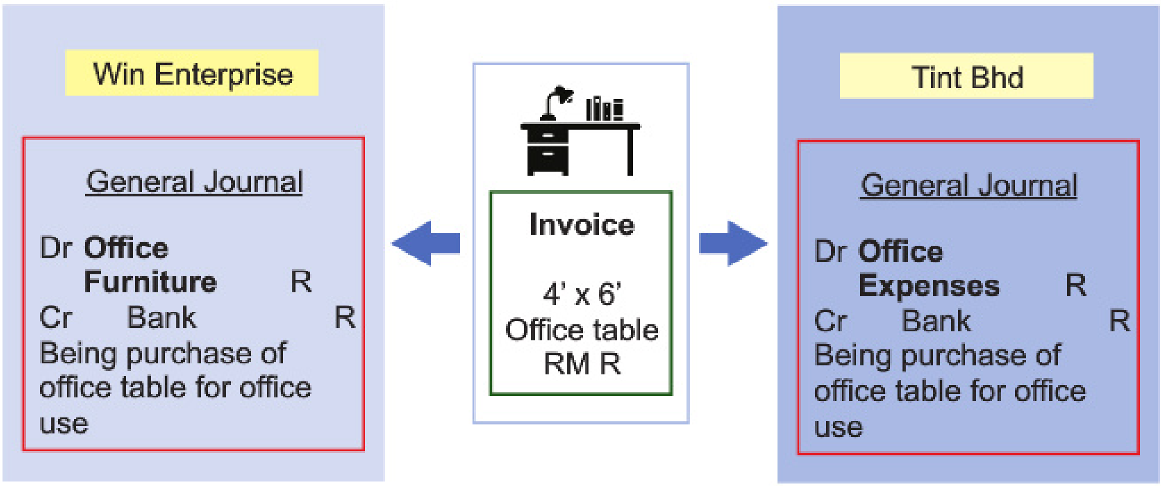
   However, with the accounting of depreciation for most non-current assets, it will be the carrying value (i.e. Cost – Accumulated depreciation) that will finally appear in the financial statements.

   Case 2
   The amount of bank loan taken by a business will be recognised as a non-current liabilitiy in the Statement of financial position at the amount of loan shown in the loan agreement.

Input

Despite of the abovementioned importance of historical cost concept, it subject to some criticisms and hence exception of its application for some of the non-current assets (e.g. assets for trade, assets with permanent decline in value) which is not covered in the current syllabus.

12.9 Materiality concept



1. There are many business transactions that can be recorded in the books of accounts of a business in more than one way. One of the keys determining factor that justify the most suitable way of accounting to ensure the relevance of such information is the **materiality** of the value of transaction.

2. Information of a business transaction is considered as material (i.e. high value / significant) if omission or mis-statement on such item may influence the understanding, and hence affect the decision made by the key users of the financial statements.

3. Hence, materiality concept emphasises that business transaction that considered as material item should be:

   - disclosed in the manner that in accordance with ALL the accounting principles and concepts in order to best reflect the 'truth' of the transaction, and/or
   - disclosed and reported separately from other items in the financial statements so that it is 'not covered up'.

4. Whereas transactions that are considered as immaterial (i.e. low value / insignificant) can be:

   - disclosed in the manner that may not need to strictly abide with some accounting principles and concepts in order to minimise time and efforts spent on reporting it, and/or
   - disclosed and reported in a combined manner in the financial statements with other items which are also immaterial in nature.

5. Application:

Case 1

Purchase of an office table for business use is considered as a non-current asset to a sole proprietorship, hence it should account for depreciation (*i.e. Office table will be disclosed separately as a non-current asset in the Statement of Financial Position*).

This is due to the value of the office table is considered relatively large (material) as compare to the total value of assets that owned by the sole proprietorship.

Case 2

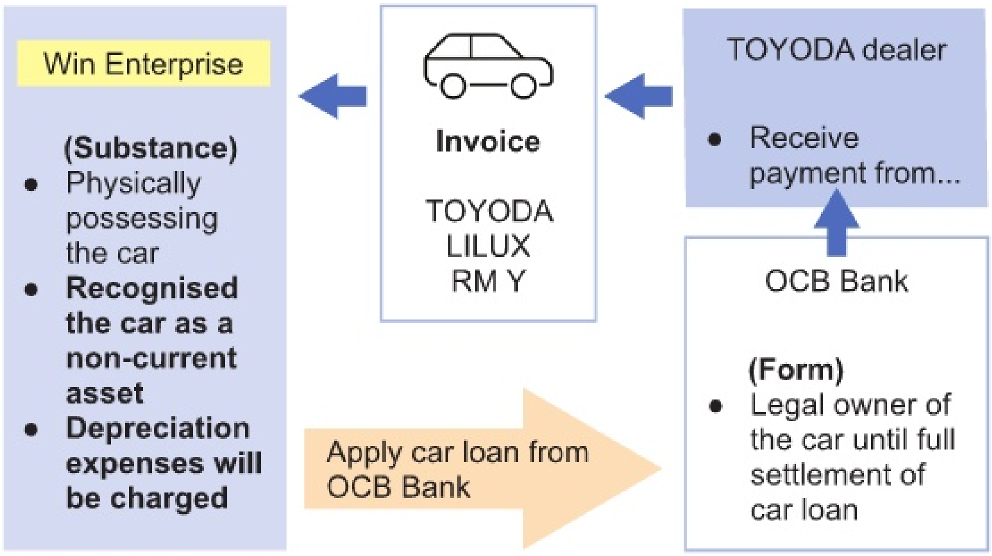
For a large company, like listed company, even though, purchase of an office table for business use is also a non-current asset item, it may be more practical to combine under the 'Office Expenses Account' (*i.e. Office table will not be disclosed separately as a non-current asset, but, rather an expenses in the Statement of Profit or Loss*).

This is due to the value of the office table is considered less significant (immaterial) as compare to the total value of assets that owned by the company, hence it might not be significant enough to cause any misstatement in the financial statements that may influence decision made by the key users of the financial statements.

Input

There is no straight forward way to judge if a business transaction is considered as material. Instead, the judgement of materiality is rather subjective and it is normally based on a policy that set by the business that applied consistently.
(e.g. A business may define an item is of material if its value is at least 5% of the revenue for the period)

12.10 Substance over form concept



1. There are many business transactions that can be recorded in the books of accounts of a business in more than one way. However, it is important to ensure that the financial statements should represent the 'real' performance of the business faithfully.

2. According to this concept, accounting treatment of a business transaction should be mainly driven by the importance of reflecting the economic substance (i.e. what is the 'truth'?) rather than restricted by the legal form of it (i.e. what is being legally bound?).

3. Application:

   Case 1

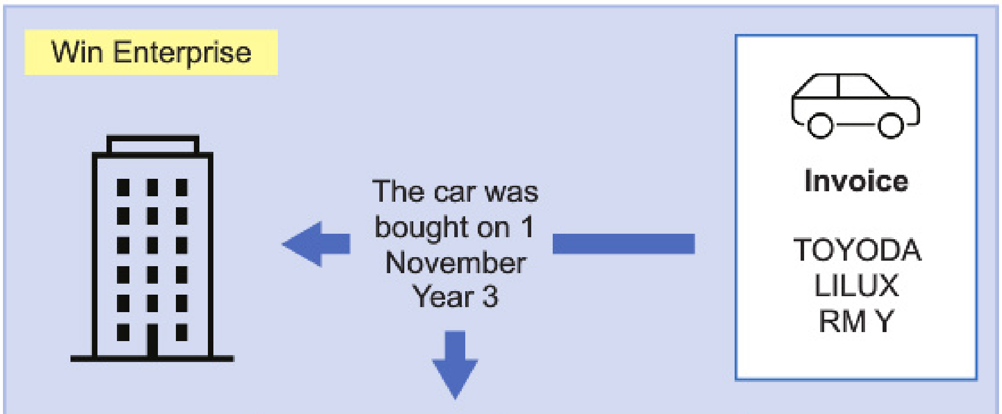
   Purchase of motor vehicles for business use that financed by bank loan or hire purchase will be recognised as a non-current asset commencing from the year of purchase in the books of accounts of the business, even though, the legal ownership of the asset will only be transferred over to the business when the final repayment is made.

   This is due to the asset is with the business (physical possession) for most of its useful life, and the business will also be responsible to maintain and upkeep the asset throughout the useful life. Hence, the economic substance / the 'truth' of this transaction is: the business actually 'owned' the asset.

Case 2
A listed company lease / rent a plot of 99 years leasehold commercial land from the landlord (lessor) for 90 years. This land should be recognised by the listed company (lessee) as its non-current asset despite that the land is under the lease agreement.

The reason of the accounting treatment is similar to that of Case 1.

12.11 Consistency concept



FYE 31 October:	Year 4	Year 5	Year 6
Depreciation policy adopted:	**Straight line method**	**Straight line method**	**Straight line method**

1. This accounting concept requires a same business transaction should be accounted for in the books of accounts of the business in the SAME manner since it first arose from one financial year to another financial year.

2. The consistency concept is applied not only on the accounting entry of a business transaction, but also on the basis, methods of estimation or valuation in use which should remain the same over the ranges of financial years.

3. Application:

   Case 1
   When straight line method is used to estimate the depreciation of the furniture and fittings, it should be applied consistently throughout its estimated useful life.

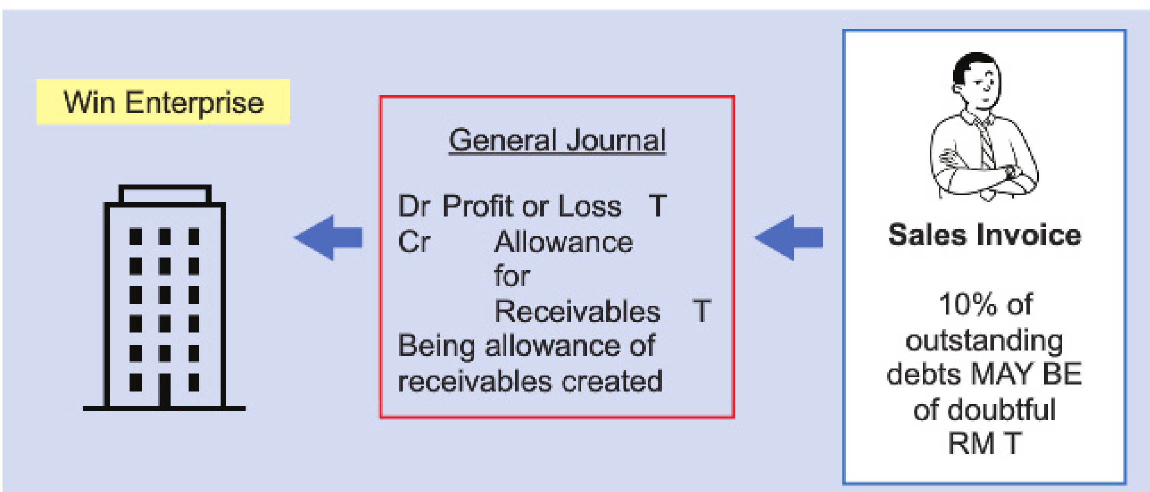
Case 2

When full year depreciation is accounted for newly acquired assets in the year of purchase and no depreciation is accounted in the year of disposal, such policy should be applied consistently for all types of non-current assets.

Input

Despite the importance of the concept, should needs arise (e.g. significant change in the nature or condition of business operation) to maintain the relevance and faithful representation of the financial statements, businesses are allowed to change the accounting treatments and basis of estimation on the business transaction.
Any non-compliance to the consistency concept will then be disclosed clearly in the notes to financial statements.

12.12 Prudence / Conservatism concept



1. This concept is aimed to ensure the financial statements of a business to always reflect the realistic / faithful financial performance and position.

2. The assurance of providing a reliable and trustworthy financial information of a business is one of the main reasons that makes prudence concept so important especially in dealing with recognition of value of assets, liabilities, revenues and expenses.

3. The prudence or conservatism concept requires a cautious approach to be applied when it comes to recognition of transactions that may take place in the future (e.g. accountings for allowance, provisions and contingencies).

4. In the event of determining the value of transactions that carry some degree of uncertainty, the basic rules under this concept require:

   The value of:
   - Assets
   - Revenue

   Are **NOT** supposed to be OVERSTATED.

   Whereas the value of:
   - Liabilities
   - Expenses

   Are **NOT** supposed to be UNDERSTATED.

5. Application:

   Case 1

   Despite that all assets should be recorded in the books of accounts at cost (Historical cost concept), should the proceed of disposal (net realisable value) of such asset at the point of preparing the financial statements is LOWER than its cost value, the net realisable value should be recognised as the value of such asset. (i.e. inventory should be valued at the lower of cost and net realisable value)

   The above example is very commonly found on one of the current asset items; inventory.

   Case 2

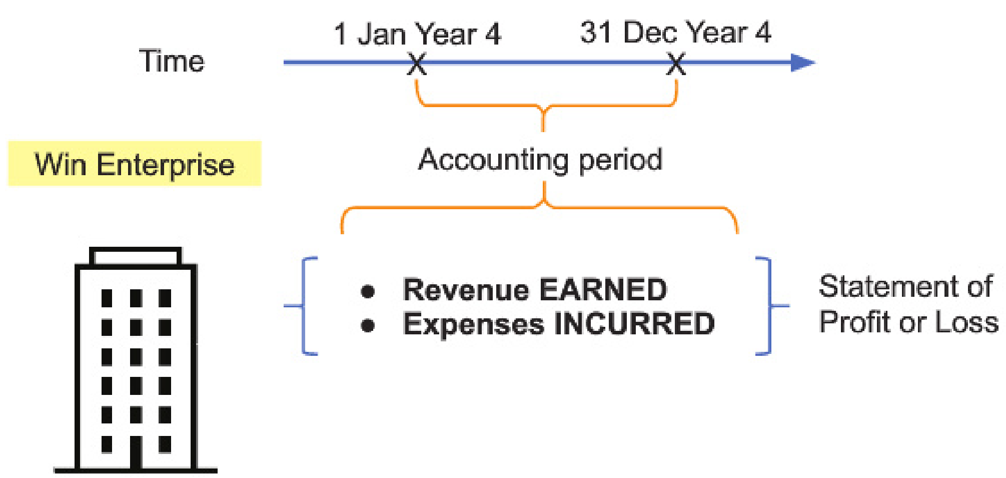
   The accounting of allowance for receivables is to ensure the value of the current asset (Receivables) are not overstated should there is an uncertainty or doubt that the amount owing from customer can be fully recovered.

   Hence, only the net amounts of receivables (i.e. Receivables – Allowance for receivables) is to be disclosed in the Statement of Financial Position.

Input

When the application of prudence concept is contradicting with other accounting principles and concepts, the accounting treatment based on prudence concept prevails (e.g. refer to Case 1).

12.13 Accruals / matching concept



1. This concept is also seen as a principle / rule / basis / assumption that all businesses should apply in the preparation of its financial statements.

2. In order to ensure a faithful representation of financial performance of a business, its financial statements should capture all:

   - revenues that EARNED which may or may not be received in order to MATCH with
   - expenses that INCURRED (i.e. resources consumed in the generation of revenue / income) which may or may not be paid in the same accounting period.

3. This concept hence gives a clear understanding of '**profit / loss** for the period is the difference of revenue earned and expenses incurred which leads to the explanation of information that reflected in the Statement of Profit or Loss.'

4. Application:

   Case 1
   The amount remains unpaid by customers (i.e. Receivables) for financial year ended 31 December Year 1 on the credit sales that took place in Year 1 is to be included in the value of revenue / sales when preparing the financial statements for that year.

   Case 2
   Advance rental paid on the last day of current financial year ended on 30 April Year 2 for next 6 months is not included as rental expenses when preparing the financial statements for the current financial year.

Input

The practice of accruals concept / principle / rule / basis / assumption clearly gives rise to a fundamental understanding of:

Profit for the period	≠	**Net cash received for the period**

Such differences explains the needs of preparation of:
- Statement of Profit or Loss (**Chapter 16, 17, 25**) and
- Statement of Cash Flows (**Chapter 26**)

As part of the financial statements, especially for limited liability company.

Chapter Summary

Guides in preparing and presenting financial statements that carry the characteristics of…

- Relevance 相关性
- Faithful representation 真实代表性
- Comparability 可比性
- Verifiability 可证实性
- Timeliness 及时性
- Understandability 易懂性

When to prepare financial statements?

- Accounting period concept / Time interval / Periodic concept 会计期间概念

How to determine the way to disclose a transaction in the financial statements?

- Materiality concept 重要性概念
- Substance over form concept 实质重于形式概念

How to determine what transactions that need to be included in the financial statements?

- Business entity concept 企业个体概念
- Money measurement concept 货币衡量概念
- Objectivity concept 客观性概念

How to determine the value of transactions that appeared in the financial statements?

- Going concern / Continuity of activity concept 继续经营概念
- Historical cost concept 历史成本概念
- Consistency concept 一致性概念
- Prudence / Conservatism concept 谨慎概念
- Accruals / Matching concept 应计概念

Fundamental Accounting Principles and Concepts
基本会计原则与概念

Quiz

1 Which of the following accounting concept best describes the needs to account for depreciation expenses in every financial year?

A Going concern
B Prudence
C Accrual
D Consistency

2 According to money measurement concept, which of the following item will not be recorded in the books of accounts?

A Credit sales
B Purchases of office equipment
C Allowance for receivables
D Customer complaint

3 If a business is expected to close down within the next 12 months, which of the following value should the non-current asset be recorded in the Statement of Financial Position as at the current financial year end based on the going concern concept?

A Cost of the asset
B Breakup value / net realisable value
C Carrying value
D No value (zero)

4 ATX Sdn Bhd has bought a photocopier machine under a hire purchase arrangement on 1 April Year 2. Whose books of accounts should such machine be recognised as a non-current asset for financial year ended 31 December Year 2 according to substance over form concept?

A The seller of the photocopier machine
B The bank who provided the hire purchase financing scheme
C ATX Sdn Bhd
D None of the above

5 Which of the following statement about application of prudence concept is correct in the preparation of financial statements of a business?

A Value of building that owned by a business should not be overvalued
B Value of furniture that owned by a business should not be undervalued
C Value of rental expenses should be undervalued
D Value of credit sales should be overvalued

6 Which of the following accounting concept is being applied when a low value of loose tool that bought by a business was recorded in the general expenses account?

A Accounting period
B Materiality
C Business entity
D Objectivity

7 Which of the following item should not be recorded in the books of accounts of Lex Trading based on business entity concept?

A Drawings of goods from Lex Trading for owner's personal use
B Short term loan to Lex Trading from the owner
C Air fares for the owner's family holiday
D Air fares for the owner to travel to overseas for signing of business contract with an oversea customer of Lex Trading

Answer guide to Quiz

1 C **2** D **3** B **4** C **5** A **6** B **7** C

Glossary（中英文常用词汇对照表）

English	中文
Assets	资产
Account	账户
Balance Brought Down / Balanced b/d	上期结转
Balance Carried Down / Balanced c/d	结转下期
Bank	银行
Bank / Mortgage Loan	银行 / 抵押贷款
Bank Overdraft	银行透支
Capital	资本
Cost of Sales	销货成本
Current Assets	流动资产
Current Liabilities	流动负债
Cash	现金
Cash / Early Settlement Discount	现金折扣
Chart of Account	账户一览表
Costs	成本
Credit	贷项
Creditors	债权人
Contra	对消
Debit	借项
Debtors	债务人
Discounts Allowed	销货折扣
Discounts Received	购货折扣
Double Entry Bookkeeping	复式记录
Drawings	提取 / 提用
Duality Principle	双重性法则
Equity	权益
Expenses	费用
Electricity Expenses	电费
Entertainment Expenses	应酬费
Equipment	设备

Glossary（中英文常用词汇对照表）

English	中文
Folio	账页
Furniture, Fittings	家具，装置
Gross Profit	毛利
General / Sundry Expenses	杂费
Inventory	存货
Liabilities	负债
Land, Property	土地，产业
Loan Note / Loan Stock / Bond / Debenture	债券
Net Profit	净利
Non-current Assets	非流动资产
Non-current Liabilities	非流动负债
Nominal Accounts	虚账户
Motor Vehicles	车辆
Other Payables	其他应付账款
Other Receivables	其他应收账款
Particular / Item	摘要 / 项目
Plant, Machinery	厂房，机器
Payment Voucher	支付凭单
Payments	支付
Real Accounts	实账户
Rent, Rates	租金
Retained Profit	保留盈利
Receipts	收入
Salary, Wages	薪金，工资
Telephone, Wifi Expenses	电话，无线上网费用
Trade / Bulk Discount	商业折扣
Trade Payables / Accounts Payable	购货应付账款
Trade Receivables / Accounts Receivable	销货应付账款
Travelling Expenses	旅差费