Bookkeeping And Accounts Reference Book 3

（修订本）

簿记与会计参考书 3

董教总独中工委会统一课程委员会编纂

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高中适用

《簿记与会计参考书3》（修订本）
(Bookkeeping And Accounts Reference Book 3)

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编辑说明

1. 这套参考书是根据董教总独中工委会统一课程委员会所拟定的《簿记与会计课程标准》编写，并参照我国与各国簿记与会计课程/考试纲要和教材编写而成。

2. 全套参考书共三册，供高中三年参考采用。第一册以会计的基础知识与技能为主，其中包括基本原理、会计程序以及各类账簿的设置。第二和第三册则以各商业组织的会计记录和财务报表的编制为主要学习内容。

3. 编写这套参考书主要的目的有：
   - 提供符合一般独中生英文水平的参考书，进而提升学生学习的兴趣；
   - 引导学生掌握记账的基础知识与基本应用技能，作为将来参与社会实践或继续学习的根基；
   - 引导学生从“做”中“学”，从“学”中“做”，培养独立完成记账的能力。

4. 这套参考书为了让学生能把握学习重点、启发思考、延伸学习、培养自学能力和增进学习效果，设有“Learning Objectives 学习目标”、“Example 示例”、“Think 想一想”、“Hint 小提示”、“Input补充资料”、“Practice练习”、“Answer Guide 解答指南”、“Review复习”、“Appendix附录”等栏目。

5. 这套参考书如有错误、遗漏或欠妥之处，欢迎采用者予以指正。

6. 这套参考书的教学参考资源，请浏览董总设置的华文独中教学平台资源站moodle.dongzong.my，点选“簿记与会计/会计学”。

董教总独中工委会统一课程委员会
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董教总独中工委会统一课程委员会 启
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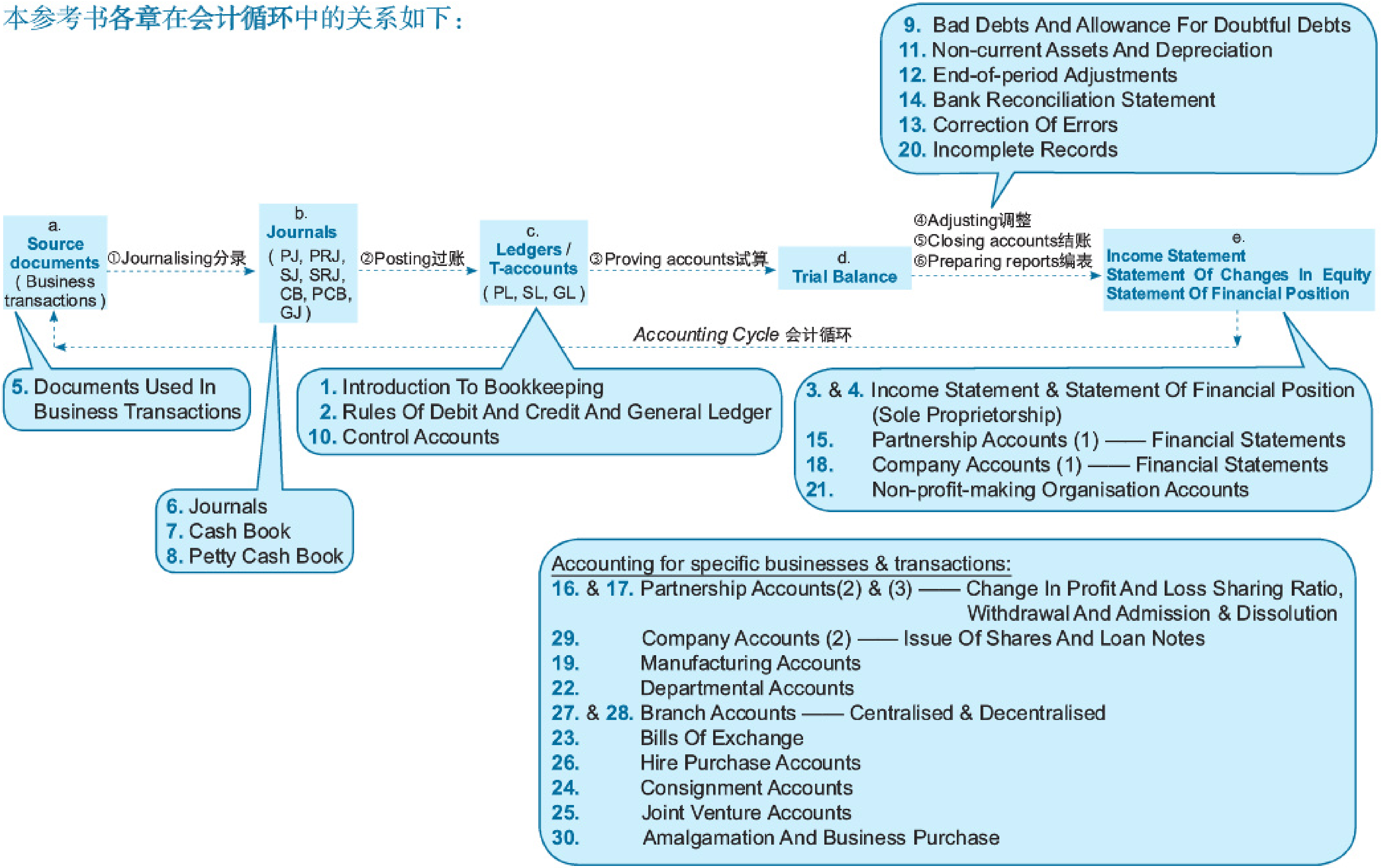
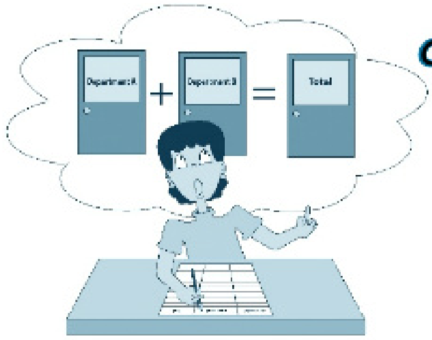
Chapter-based relationship diagram for Bookkeeping And Accounts Reference Books 1, 2 & 3
《簿记与会计参考书①、② & ③》的单元关系图

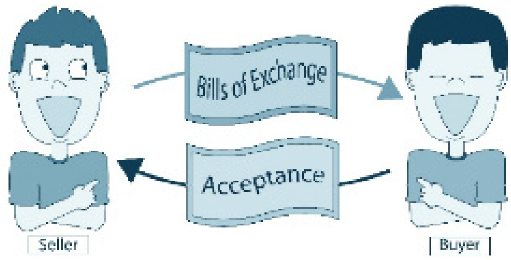
本参考书各章在会计循环中的关系如下：



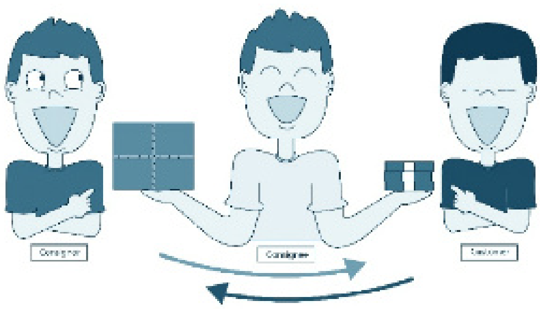
Contents



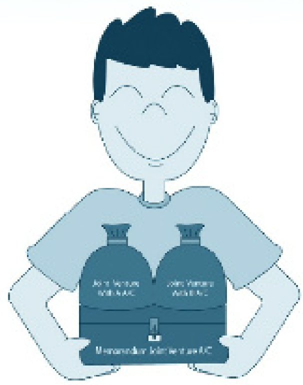
Chapter 22 Departmental Accounts



Chapter 23 Bills Of Exchange



Chapter 24 Consignment Accounts



Chapter 25
Joint Venture Accounts

Chapter 26
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Chapter 27
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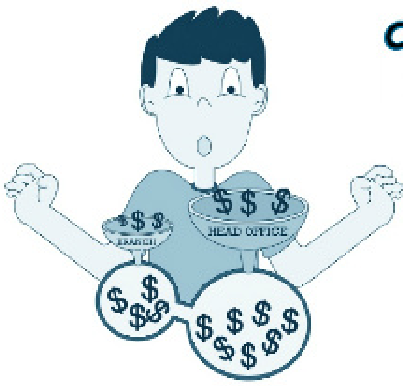

Chapter 28
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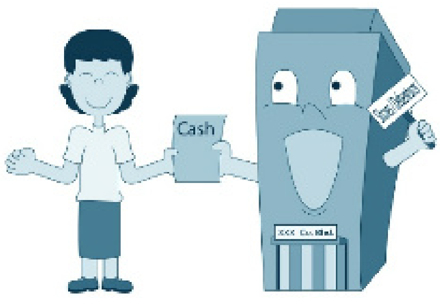


Chapter 29
Company Accounts (2) — Issue Of Shares And Loan Notes

Chapter 30
Amalgamation And Business Purchase

Chapter 22 Departmental Accounts

Learning Objectives

After studying this chapter, you should be able to:
- understand the need for departmental accounts;
- use appropriate bases for allocating expenses to departments;
- prepare departmental Income Statement in T or vertical format on the gross profit basis.

22.1 Purpose of Writing Up Departmental Accounts

1. Departmental accounts are prepared for a **business** such as hypermarket / departmental store which has several **departments** / **divisions** for different products. Where **income** and **expenses** / costs of each department are **identified** and **recorded separately** to enable the management to know the **profitability** and **efficiency** of each department.

2. The management usually makes decisions on pricing, costing, sales promotion, closure of department, etc. based on the **financial performance** of each department.

3. Each department can be considered as a **profit centre** where **income** and **expenses** of each center are calculated separately to determine its **profitability**.

22.2 Allocation of Expenses

1. In departmental accounts, all the **expenses** can be classified as **direct expenses** and **indirect expenses**.

2. **Direct expenses** 直接费用 are **directly attributable** to a **specific department**. Thus, they are **charged directly** to the **department incurring** the **cost**.

3. **Indirect expenses 间接费用 cannot** be **directly identified** with **any particular department** as they are **incurred** for the **entire business**. Thus, they are **shared among departments** and are **apportioned** to each department based on the most logical basis such as its nature and usage.

   The **appropriate bases** used are as follows:
   a. Revenue of each department;
   b. Number of employees working in each department;
   c. Floor area occupied by each department;
   d. Purchase of goods of each department, etc.

Think 1 *Give more **examples** of **direct expenses** and **indirect expenses**.*

Example 1

The table below shows the appropriate apportionment bases used to allocate the indirect expenses:

Indirect expenses	Apportionment bases
Advertising expenses Sales commissions Discounts allowed Carriage outwards	Sales / work-done revenue
Wages and salaries Group insurance Staff welfare Staff training costs	Number of employees
Rental Electricity Depreciation of building Repairs and maintenance of building	Floor area occupied
Carriage inwards Import duties Custom duties	Purchases

Practice 1

State the apportionment bases used for the following indirect expenses:

		Indirect expenses	Apportionment bases
e.g.	(a)	Salaries	Number of employees
	(b)	Salesmen allowances	
	(c)	Rent and rates	
	(d)	Packing materials	
	(e)	Fire insurance	
	(f)	Transport expenses	
	(g)	Marketing expenses	
	(h)	Water and electricity	

Practice 2

Calculate the expenses charged to each department by using sales value, assuming that the sales for Department A and Department B were RM 60,000 and RM 40,000 respectively:

		Expenses		Department A		Department B	
			RM	RM	RM	RM	RM
e.g.	(a)	Motor vehicle expenses	3,600	$3{,}600 \times \frac{6}{10} =$	2,160	$3{,}600 \times \frac{4}{10} =$	1,440
	(b)	Discounts allowed	2,400				
	(c)	Carriage outwards	1,040				
	(d)	Staff salaries	12,000				

Answer Guide

	Department A	Department B
	RM	RM
1. **Discounts allowed:**	1,440	960
2. **Carriage outwards:**	624	416
3. **Staff salaries:**	7,200	4,800

Practice 3

Think 2

*What **apportionment basis** was used to allocate these expenses?*

Calculate the expenses charged to each department, assuming that the apportionment of expenses was as follows:
70%: Toys
30%: Stationery

		Expenses		Toys		Stationery	
			RM	RM	RM	RM	RM
e.g.	(a)	Telephone expenses	300	$300 \times \frac{7}{10}$ =	210	$300 \times \frac{3}{10}$ =	90
	(b)	Administrative salaries	4,200				
	(c)	Office maintenance expenses	500				
	(d)	Salesmen commissions	900				

Answer Guide

	Toys	Stationery
	RM	*RM*
*1. **Administrative salaries:***	*2,940*	*1,260*
*2. **Office maintenance expenses:***	*350*	*150*
*3. **Salesmen commissions:***	*630*	*270*

Practice 4

Lee Bhd had incurred the following expenses:

		RM
(a)	Depreciation of building	3,000
(b)	Depreciation of equipment	1,200
(c)	Insurance of equipment	1,500
(d)	Canteen services	2,000
(e)	Wages and salaries	14,000
(f)	Maintenance of building	600
(g)	Air conditioning and lighting	4,800

Information relating to the two departments was as follows:

	Groceries	Beverages
Floor space (square metre)	2,000	1,000
Number of employees	30	20
Carrying amount of equipment	RM 40,000	RM 20,000

You are required to apportion the expenses between the two departments by using the given apportionment bases.

Answer Guide

	Groceries	*Beverages*
	RM	*RM*
1. ***Depreciation of building:***	*2,000*	*1,000*
2. ***Depreciation of equipment:***	*800*	*400*
3. ***Insurance of equipment:***	*1,000*	*500*
4. ***Canteen services:***	*1,200*	*800*
5. ***Wages and salaries:***	*8,400*	*5,600*
6. ***Maintenance of building:***	*400*	*200*
7. ***Air conditioning and lighting:***	*3,200*	*1,600*

22.3 Inter-departmental Transfer of Goods

When one department supplies goods to another department, the **cost** of the goods is **deducted** from the **purchases** of the **supplying department** 供应部门, and **added** to the **purchases** of the **receiving department** 接收部门.

22.4 Format of Financial Statements

1. **Income Statement** in departmental accounts can be presented in **T** format or **vertical** format as follows:

   a. **T** format:

Hint: *It is the **same** as any other **Income Statement**, except for that it is in **columnar form** for **each department**.*

Company X
Income Statement
For The Year Ended ......

	Department A	Department B	Total		Department A	Department B	Total
	RM	RM	RM		RM	RM	RM
Opening Inventory	xx	xx	xx	Sales	xx	xx	xx
Purchases	xx	xx	xx	Less: Sales Returns	(xx)	(xx)	(xx)
Transfer	(xx)	xx	-	**Net Sales**	**xx**	**xx**	**xx**
	xx	xx	xx				
Less: Closing Inventory	(xx)	(xx)	(xx)				
Cost Of Sales	**xx**	**xx**	**xx**				
Gross Profit/ (Gross Loss) c/d	**xx**	**xx**	**xx**				
	xx	xx	xx		xx	xx	xx
Salaries	xx	xx	xx	**Gross Profit**/ (Gross Loss) b/d	**xx**	**xx**	**xx**
Carriage Outwards	xx	xx	xx				
Rent	xx	xx	xx				
Water And Electricity	xx	xx	xx				
Motor Expenses	xx	xx	xx				
Advertising Charges	xx	xx	xx				
General Expenses	xx	xx	xx				
Administrative Expenses	xx	xx	xx				
	xx	xx	xx				
Net Profit / (Net Loss)	**xx**	**xx**	**xx**				
	xx	xx	xx		xx	xx	xx

Hint: *The **expenses** are **allocated** to each department by using appropriate **apportionment bases**.*

b. **Vertical** format:

Hint *It is on the **gross profit basis**.*

Company X
Income Statement
For The Year Ended ......

	Department A		Department B		Total	
	RM	RM	RM	RM	RM	RM
Sales		xx		xx		xx
Less: Sales Returns		(xx)		(xx)		(xx)
Net Sales		**xx**		**xx**		**xx**
Less: **Cost Of Sales**						
Opening Inventory	xx		xx		xx	
Purchases	xx		xx		xx	
Transfer	(xx)		xx		-	
	xx		xx		xx	
Less: Closing Inventory	(xx)	**(xx)**	(xx)	**(xx)**	(xx)	**(xx)**
Gross Profit / (Gross Loss)		**xx**		**xx**		**xx**
Less: **Expenses**						
Salaries	xx		xx		xx	
Carriage Outwards	xx		xx		xx	
Rent	xx		xx		xx	
Water And Electricity	xx		xx		xx	
Motor Expenses	xx		xx		xx	
Advertising Charges	xx		xx		xx	
General Expenses	xx		xx		xx	
Administrative Expenses	xx	**(xx)**	xx	**(xx)**	xx	**(xx)**
Net Profit / (Net Loss)		**xx**		**xx**		**xx**

Input

***Income Statement** on the **contribution basis**:*

Company X
Income Statement
For The Year Ended ......

	Department A		Department B		Total	
	RM	RM	RM	RM	RM	RM
Sales		xx		xx		xx
Less: Sales Returns		(xx)		(xx)		(xx)
Net Sales		***xx***		***xx***		***xx***
Less: ***Cost Of Sales***						
Opening Inventory	xx		xx		xx	
Purchases	xx		xx		xx	
Transfer	(xx)		xx		-	
	xx		xx		xx	
Less: Closing Inventory	(xx)	***(xx)***	(xx)	***(xx)***	(xx)	***(xx)***
Gross Profit / (Gross Loss)		***xx***		***xx***		***xx***
Less: ***Direct Expenses***						
Salaries	xx		xx		xx	
Carriage Outwards	xx	***(xx)***	xx	***(xx)***	xx	***(xx)***
Contribution 贡献		***xx***		***xx***		***xx***
Less: ***Indirect Expenses***						
Rent					xx	
Water And Electricity					xx	
Motor Expenses					xx	
Advertising Charges					xx	
General Expenses					xx	
Administrative Expenses					xx	***(xx)***
Net Profit / (Net Loss)						***xx***

The **direct expenses** would **not** be **paid** if the department is **closed down.**

The **indirect expenses** would **still** be **paid** even if the department is **closed down.**

2. **Statement Of Financial Position** in departmental accounts does **not** usually show assets and liabilities separately for each department. Commonly, the **closing inventory** of **each department** is valued and shown separately:

Company X
Statement Of Financial Position (Extract)
As At……

	RM	RM	RM
Current Assets			
Inventories : Department A	xx		
Department B	xx	xx	
Accounts Receivable		xx	
Prepaid Expenses		xx	
Accrued Income		xx	
Cash At Bank		xx	**xx**

22.5 Preparation of Financial Statements

Example 2

Yap owns a business with two separate departments: Woods and Plastics. The following balances were extracted from his books at 31 December Year 2:

	Woods	Plastics	Total
	RM	RM	RM
Sales	155,600	254,000	409,600
Opening Inventories	8,000	12,000	20,000
Purchases	93,000	112,500	205,500
Returns Outwards	3,000	2,500	5,500
Returns Inwards	5,600	4,000	9,600
Closing Inventories	6,300	15,900	22,200
Rent			12,000
Advertising Expenses			6,400
Electricity			3,500
Carriage Outwards			2,600
Salaries			24,000
Carriage Inwards			5,600

Hint *Any prepayment / accrual must be **adjusted** to the expenses **before** being **allocated** to each department.*

Additional information:

(a) The following adjustments had to be taken into account:
 (i) RM 1,000 for the rent had been prepaid;
 (ii) RM 2,000 was outstanding for the advertising expenses at the year end.

(b) Rent as well as electricity were to be apportioned according to the floor space occupied:
 Woods 200 square metres; Plastics 300 square metres.

(c) Advertising expenses and carriage outwards were to be divided in proportion to their net sales.
 Sales commissions were to be calculated for each department based on 5% of its net sales.

(d) Salaries were to be apportioned based on the number of employees:
 Woods 3 persons;
 Plastics 5 persons.

(e) Carriage inwards were to be divided in proportion to their net purchases.

You are required to prepare a Income Statement in columnar form for each department and the business as a whole for the year ended 31 December Year 2.

Solution:

Yap
Income Statement
For The Year Ended 31 December Year 2

		Woods	Plastics	Total		Woods	Plastics	Total
		RM	RM	RM		RM	RM	RM
Opening Inventory		8,000	12,000	20,000	Sales	155,600	254,000	409,600
Purchases		93,000	112,500	205,500	Less: Returns Inwards	(5,600)	(4,000)	(9,600)
Less: Returns Outwards		(3,000)	(2,500)	(5,500)	**Net Sales**	**150,000**	**250,000**	**400,000**
		98,000	122,000	220,000				
Carriage Inwards	**(W7)**	2,520	3,080	5,600				
		100,520	125,080	225,600				
Less: Closing Inventory		(6,300)	(15,900)	(22,200)				
Cost Of Sales		**94,220**	**109,180**	**203,400**				
Gross Profit c/d		**55,780**	**140,820**	**196,600**				
		150,000	250,000	400,000		150,000	250,000	400,000
Rent	**(W1)**	4,400	6,600	11,000	**Gross Profit** b/d	**55,780**	**140,820**	**196,600**
Advertising Expenses	**(W2)**	3,150	5,250	8,400				
Electricity	**(W3)**	1,400	2,100	3,500				
Carriage Outwards	**(W4)**	975	1,625	2,600				
Sales Commissions	**(W5)**	7,500	12,500	20,000				
Salaries	**(W6)**	9,000	15,000	24,000				
		26,425	43,075	69,500				
Net Profit		**29,355**	**97,745**	**127,100**				
		55,780	140,820	196,600		55,780	140,820	196,600

Workings:

		Total	Woods		Plastics	
		RM	RM	RM	RM	RM
(1)	Rent: RM(12,000 – 1,000) =	**11,000**	11,000 x $\frac{2}{5}$ =	**4,400**	11,000 x $\frac{3}{5}$ =	**6,600**
(2)	Advertising Expenses: RM(6,400 + 2,000) =	**8,400**	8,400 x $\frac{15}{40}$ =	**3,150**	8,400 x $\frac{25}{40}$ =	**5,250**
(3)	Electricity:	3,500	3,500 x $\frac{2}{5}$ =	**1,400**	3,500 x $\frac{3}{5}$ =	**2,100**
(4)	Carriage Outwards:	2,600	2,600 x $\frac{15}{40}$ =	**975**	2,600 x $\frac{25}{40}$ =	**1,625**
(5)	Sales Commissions:	**20,000**	150,000 x 5% =	**7,500**	250,000 x 5% =	**12,500**
(6)	Salaries:	24,000	24,000 x $\frac{3}{8}$ =	**9,000**	24,000 x $\frac{5}{8}$ =	**15,000**
(7)	Carriage Inwards:	5,600	5,600 x $\frac{9}{20}$ =	**2,520**	5,600 x $\frac{11}{20}$ =	**3,080**

Think 3

*What are the **factors** to be **considered** by a business in **adopting** its **apportionment bases**?*

Practice 5

Hamil runs his shop with two departments: Stationery and Books. He provided the information as follows:

	Stationery	Books	Total
	RM	RM	RM
Inventories, 1 September Year 4	1,000	7,000	8,000
Sales	15,000	85,000	100,000
Inventories, 31 August Year 5	2,000	8,000	10,000
Purchases	-	-	62,000
Carriage Inwards	-	-	2,500

The following had to be taken into account:
(a) 80% of the total purchases was attributable to Books Department;
(b) Carriage inwards were to be shared in the ratio of their purchases;
(c) During the year, the Books Department took goods of cost RM 400 from the Stationery Department.

You are required to prepare a departmental Income Statement (Trading account section only) for the year ended 31 August Year 5.

Answer Guide

	Stationery	*Books*
	RM	*RM*
*1. **Cost Of Sales**:*	*11,500*	*51,000*
*2. **Gross Profit**:*	*3,500*	*34,000*

Practice 6

Soong runs his shop with Shoes Department and Handbags Department. Below was the information extracted from his books at 30 June Year 6:

	Shoes	Handbags	Total
	RM	RM	RM
Sales	80,000	40,000	120,000
Gross Profit	31,200	28,800	60,000
Sales Staff Allowances			1,200
Sales Staff Salaries			10,000
Motor Expenses			1,500
Rent And Rates			2,400
General Expenses			3,600

Additional information was available as follows:

(a) The number of sales staff employed by the two departments were 3 and 2 respectively.

(b) The following bases were to be used for apportioning the expenses:

	Expenses	Bases of apportionment
(i)	Sales staff allowances	Sales
(ii)	Sales staff salaries and motor expenses	Number of sales staff
(iii)	Rent and rates	Equally
(iv)	General expenses	Equally

You are required to prepare a departmental Income Statement (Profit And Loss account section only) for the year ended 30 June Year 6.

Answer Guide

	Shoes	*Handbags*
	RM	*RM*
1. ***Expenses:***	*10,700*	*8,000*
2. ***Net Profit:***	*20,500*	*20,800*

Example 3

Kenny Enterprise is a retail store with two departments dealing in souvenirs and cameras respectively. The Trial Balance of the business as at 30 June Year 3 was as follows:

		Debit RM	Credit RM
Capital, 1 July Year 2			165,000
Fixtures And Fittings		30,000	
Motor Vehicle		50,000	
Drawings		63,160	
Inventories, 1 July Year 2:	Souvenirs	22,100	
	Cameras	48,000	
Sales:	Souvenirs		131,300
	Cameras		393,900
Purchases:	Souvenirs	106,000	
	Cameras	300,000	
Bad Debts:	Souvenirs	400	
	Cameras	600	
Rent		34,000	
Lighting Charges		4,500	
Cleaning Expenses		4,500	
Advertising Costs		13,000	
Cash At bank		6,000	
Accounts Receivable and Accounts Payable		15,000	7,060
		697,260	697,260

Additional information:

(a) Rent prepaid amounting to RM 400 and lighting charges owing was RM 500.

(b) To apportion rent and cleaning expenses according to floor space occupied. The floor space of the Souvenirs Department is twice that of the Cameras Department.

(c) Advertising costs were to be apportioned between the two departments based on their sales.

(d) It is the policy of the business to charge depreciation on non-current assets at the rate of 10% per annum on cost.

(e) Make an allowance for doubtful debts at 5% of accounts receivable and allocate it between the departments in proportion to their bad debts.

(f) Other expenses were to be charged $\frac{1}{4}$ to the Souvenirs Department and $\frac{3}{4}$ to the Cameras Department.

(g) The inventories valued at 30 June Year 3 were: Souvenirs RM 26,600; Cameras RM 54,000.

You are required to prepare:

(a) departmental Income Statement in columnar form for the year ended 30 June Year 3;

(b) Statement Of Financial Position for the whole business as at 30 June Year 3.

Solution:

(a)

Kenny Enterprise

Income Statement

For The Year Ended 30 June Year 3

		Souvenirs		Cameras		Total	
		RM	RM	RM	RM	RM	RM
Sales			131,300		393,900		525,200
Less: **Cost Of Sales**							
Opening Inventory		22,100		48,000		70,100	
Purchases		106,000		300,000		406,000	
		128,100		348,000		476,100	
Less: Closing Inventory		(26,600)	(101,500)	(54,000)	(294,000)	(80,600)	(395,500)
Gross Profit			29,800		99,900		129,700
Less: **Expenses**							
Bad Debts		400		600		1,000	
Rent	(W1)	22,400		11,200		33,600	
Lighting Charges	(W2)	1,250		3,750		5,000	
Cleaning Expenses	(W3)	3,000		1,500		4,500	
Advertising Costs	(W4)	3,250		9,750		13,000	
Depreciation Of Fixtures And Fittings	(W5)	750		2,250		3,000	
Depreciation Of Motor Vehicle	(W6)	1,250		3,750		5,000	
Allowance For Doubtful Debts	(W7)	300	(32,600)	450	(33,250)	750	(65,850)
Net Profit / (**Net Loss**)			(2,800)		66,650		63,850

*The enterprise might **not shut down** this **loss-making department**? **Why**?*

(b)

Kenny Enterprise

Statement Of Financial Position

As At 30 June Year 3

		RM Cost	RM Accumulated Depreciation	RM Carrying Amount
Non-current Assets				
Fixtures And Fittings	(**W5**)	30,000	(3,000)	27,000
Motor Vehicle	(**W6**)	50,000	(5,000)	45,000
		80,000	(8,000)	**72,000**
Current Assets				
Inventories: Souvenirs		26,600		
Cameras		54,000	80,600	
Accounts Receivable		15,000		
Less: Allowance For Doubtful Debts	(**W7**)	(750)	14,250	
Prepaid Rent			400	
Cash At Bank			6,000	**101,250**
				173,250
Owner's Equity				
Opening Capital				165,000
Add: Net Profit				63,850
				228,850
Less: Drawings				(63,160)
Closing Capital				**165,690**
Current Liabilities				
Accounts Payable			7,060	
Accrued Lighting Charges			500	**7,560**
				173,250

Workings:

		Total	Souvenirs		Cameras	
		RM	RM	RM	RM	RM
(1)	Rent: RM(34,000 – 400) =	**33,600**	$33{,}600 \times \frac{2}{3}$ =	**22,400**	$33{,}600 \times \frac{1}{3}$ =	**11,200**
(2)	Lighting Charges: RM(4,500 + 500) =	**5,000**	$5{,}000 \times \frac{1}{4}$ =	**1,250**	$5{,}000 \times \frac{3}{4}$ =	**3,750**
(3)	Cleaning Expenses:	4,500	$4{,}500 \times \frac{2}{3}$ =	**3,000**	$4{,}500 \times \frac{1}{3}$ =	**1,500**
(4)	Advertising Costs:	13,000	$13{,}000 \times \frac{1{,}313}{5{,}252}$ =	**3,250**	$13{,}000 \times \frac{3{,}939}{5{,}252}$ =	**9,750**
(5)	Depreciation Of Fixtures And Fittings: RM 30,000 x 10% =	**3,000**	$3{,}000 \times \frac{1}{4}$ =	**750**	$3{,}000 \times \frac{3}{4}$ =	**2,250**
(6)	Depreciation Of Motor Vehicle: RM 50,000 x 10% =	**5,000**	$5{,}000 \times \frac{1}{4}$ =	**1,250**	$5{,}000 \times \frac{3}{4}$ =	**3,750**
(7)	Allowance For Doubtful Debts: RM 15,000 x 5% =	**750**	$750 \times \frac{4}{10}$ =	**300**	$750 \times \frac{6}{10}$ =	**450**

Practice 7

Hock Guan runs a shop with two departments, one selling toys and the other selling books.

Trial Balance
As at 31 March Year 7

		Debit	Credit
		RM	RM
Inventories, 1 April Year 6:	Toys	5,800	
	Books	3,700	
Purchases:	Toys	34,800	
	Books	25,200	
Sales:	Toys		85,000
	Books		65,000
Sales Returns:	Toys	8,500	
	Books	6,500	
Commission Income:	Toys		6,400
	Books		3,200
Rental		3,500	
Salaries		18,000	
Water And Electricity		1,500	
Carriage Outwards		3,000	
Repairs And Maintenance		7,500	
Bad Debts		800	
Discounts Allowed		1,100	
Capital, 1 April Year 6			60,000
Accounts Receivable and Accounts Payable		23,100	13,500
Furniture And Fixtures		30,500	
Office Equipment		40,000	
Bank		13,170	
Cash		6,430	
		233,100	233,100

Additional information:

(i) Inventories at 31 March Year 7: Toys RM 1,200;
Books RM 2,200.

(ii) Accrued rental was RM 1,500.

(iii) All expenses were to be apportioned as: Toys $\frac{3}{5}$;
Books $\frac{2}{5}$.

(iv) During the year, the Toys Department took goods worth RM 3,000 from the Books Department.

You are required to prepare:

(a) departmental Income Statement for the year ended 31 March Year 7;

(b) Statement Of Financial Position for the business as a whole as at that date.

Answer Guide

	Toys	*Books*	
	RM	*RM*	*RM*
1. ***Cost Of Sales:***	*42,400*	*23,700*	
2. ***Gross Profit:***	*33,440*	*34,360*	
3. ***Expenses:***	*21,480*	*14,320*	
4. ***Net Profit:***	*18,360*	*23,240*	
5. ***Total Assets:***			*116,600*

Review

Vertical format of a departmental **Income Statement** 部门损益表:

Hint
*It enables a business to know the **profitability** & **efficiency** of **each department**.*

Company X
Income Statement
For The Year Ended ……

	Department A		Department B		Total	
	RM	RM	RM	RM	RM	RM
Net Sales		**xx**		**xx**		**xx**
Less: **Cost Of Sales**						
Opening Inventory	xx		xx		xx	
Purchases	xx		xx		xx	
Transfer *	(xx)		xx		-	
	xx		xx		xx	
Less: Closing Inventory	(xx)	(**xx**)	(xx)	(**xx**)	(xx)	(**xx**)
Gross Profit / (Gross Loss)		**xx**		**xx**		**xx**
Other Income						
▪		**xx**		**xx**		**xx**
		xx		xx		xx
Less: **Expenses**						
▪	xx		xx		xx	
▪	xx		xx		xx	
▪	xx		xx		xx	
▪	xx	(**xx**)	xx	(**xx**)	xx	(**xx**)
Net Profit / (Net Loss)		**xx**		**xx**		**xx**

Hint
*The **adjusted expenses** are **apportioned** 分配 to **individual departments** using appropriate **bases**.*

Remark:
* **Inter-departmental transfer of goods** 部门之间的货物转移

Chapter 23 Bills Of Exchange

Learning Objectives

After studying this chapter, you should be able to:

- understand the nature and usage of bills of exchange;
- know how bills of exchange function;
- make Journal and Ledger entries in the books of drawer at the time of acceptance and payment on maturity; discounting, negotiating and retiring; dishonour and renewal of bills receivable;
- make Journal and Ledger entries in the books of drawee at the time of acceptance and payment on maturity; retiring; dishonour and renewal of bills payable.

23.1 Introduction

1. A bill of exchange is a method of debt repayment, and it is governed by the Bills Of Exchange Act 1949.

2. A debtor may be unable or unwilling to settle his debt immediately. His creditor may allow him a certain period for payment, provided that he accepts a written record undertaking to pay the debt at the end of that period.

   The document which facilitates this arrangement is called a **bill of exchange**.

23.2 Nature and Usage of Bills Of Exchange

1. A bill of exchange is a document drawn by a **drawer** who requires his **debtor** to **accept** the bill agreeing to pay a specified sum to him on a specified date.

2. A bill payable on demand is called a **sight bill** 即期汇票 while a bill payable at a future date is called a **time bill** 远期汇票.

3. The following are the **advantages** of a bill of exchange:
   a. It is a legal evidence of debt.
   b. A creditor can sue on the bill itself.
   c. It can be cashed before due date by discounting.
   d. It is a negotiable instrument and can be transferred for settlement of a debt.
   e. A debtor enjoys the benefit of full period of credit.

4. **Parties** to a bill of exchange:
   a. **Drawer** : A person who draws or issues a bill. i.e. A **creditor** to whom the money is owing.
   b. **Drawee**: A person on whom a bill is drawn and is called an **acceptor** after he has accepted the bill.
   c. **Payee** : A person to whom the money is payable. He can be a drawer or bearer of a bill or any other person to whom the money is payable.

5. **Example** of a bill of exchange:
   Skymoon Company sold goods to KC Ho on credit for RM 50,000 and both parties agreed to use a bill of exchange at 30 days for payment of the debt.

   Skymoon Company drew a bill on KC Ho. In order to make the bill binding on KC Ho (debtor), the company then sent the bill to KC Ho for acceptance 承兑.

   KC Ho accepted the bill by writing the word 'accepted' across the face of the bill, adding his signature and returned it to Skymoon Company (drawer) on the same date.

   When the acceptance was made, the bill became a legal document as follows:

Kuala Lumpur

RM 50,000   5 January Year 1

At 30 days pay to the order of Skymoon Company

Amount: Ringgit Malaysia Fifty Thousand Only   Value received.

To: KC Ho
Hong Kong

Accepted
KCHO

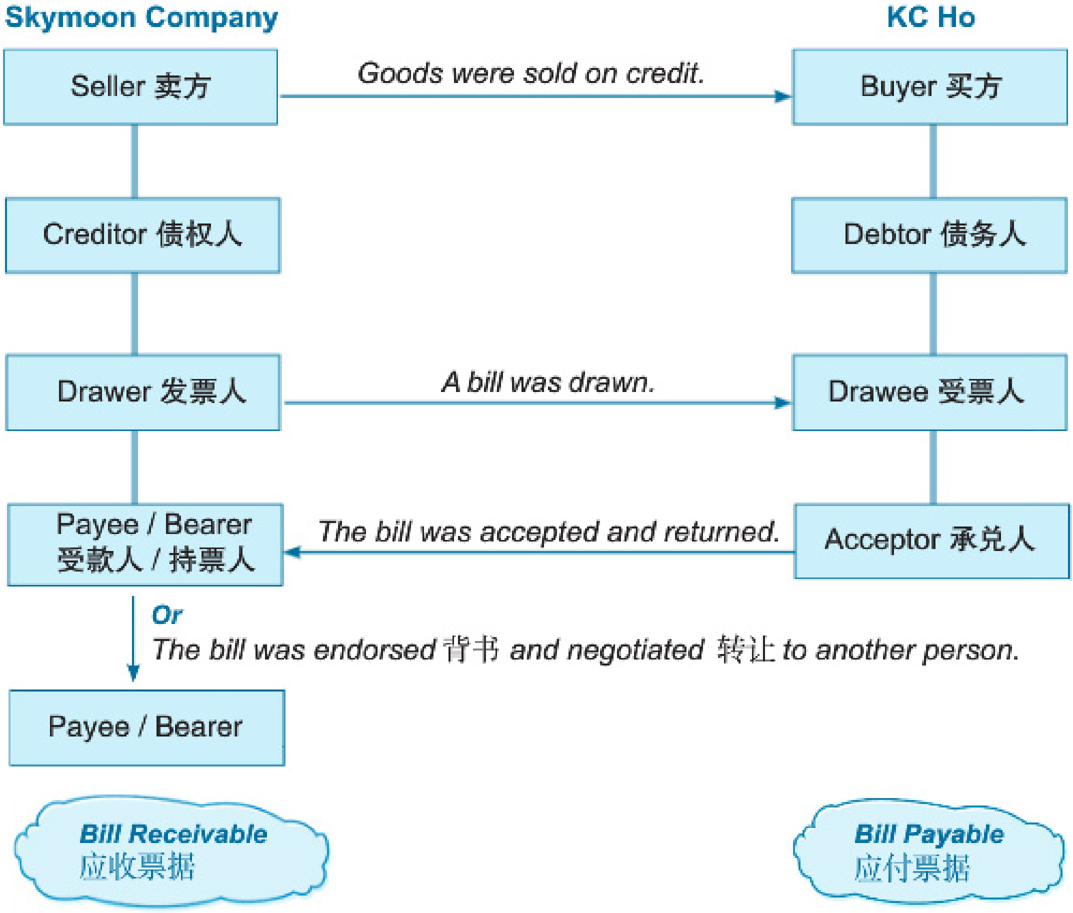
For and on behalf of
Skymoon Company

Moon

(Authorised signature)

6. **Transaction flow**:

e.g.



Based on the above transaction flow, fill in the following items:

a. ***Drawer:***

b. ***Drawee:***

c. ***Payee:***

d. ***Maturity date:***

23.3 Terms of Bills Of Exchange

1. **Draft** 汇票 and **Acceptance** 承兑汇票
   A **draft** is an unaccepted bill of exchange. After a drawee has signed a bill of exchange, the bill is called an **acceptance**.

2. **Due date / Maturity date** 到期日
   It is calculated from the **date** of **drawing** up to the **end** of a **specified period** plus **three days of grace**.

3. **Days of grace** 宽限期
   In calculating the due date of payment, it is customary to allow **three additional days** to the acceptor to meet the bill. The extra days are called **days of grace**.

   e.g.
   A three-month bill dated **15 March** $\xrightarrow{\textit{payable on}}$ **15 June** + **3 days** = **18 June**

   Date of acceptance (15 March) · *Days of grace* (3 days) · *Due date* (18 June)

4. **Dishonour a bill** 票据拒付
   A bill is said to be **dishonoured** if a drawee has **accepted** a bill but **refuses** to make **payment** on the **due date**.

5. **Noting a bill** 票据拒付证明
   When a **bill** is **dishonoured**, it is often handed to a lawyer acting as a **notary public** 公证人 who then represents 再提交 the bill to the **acceptor**.

   The noting is done by recording the fact, date and reason of dishonour. Thus, the notary public will charge fees known as **noting charges** 公证费 / 票据拒付手续费.

   The **noting charges** are **paid** by the **drawer** but will be **charged** against the defaulting **acceptor** / debtor.

6. **Renewing a bill** 票据续期
   When an acceptor is **unable** to **make payment** on the due date, he may request the drawer to **cancel** the **original bill** and **draw** on him a **new bill** for an **extended period**. This is known as renewing a bill.

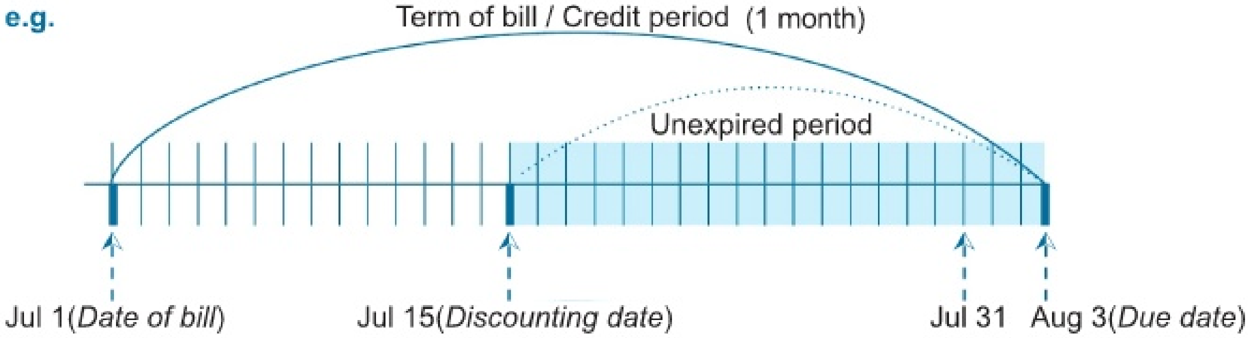
   The **acceptor** has to **pay interest** for the extension of time. Thus, the **new bill** includes the **amount** of the **original bill** and **interest**.

7. **Discounting a bill 票据贴现**

When a drawer **discounts** a bill with a bank, he will obtain cash before the maturity date. Thus, the bank will charge him the **interest** known as **discounting charges**贴现费 which are calculated from the **discounting date** to the **due date**:

$$\text{Face value of bill} \times \text{Rate of discount (\%)} \times \frac{\text{Unexpired period (Days)}}{365}$$

e.g.



The **discounting charges** are the **drawer's expenses** and it **cannot** be **charged** to the **drawee**.

8. **Negotiating a bill 票据转让**

When a **drawer endorses** 背书 (i.e. signs on the back of a bill) and **transfers** a bill to his **creditor** to settle part / full of his debt, this is known as negotiating a bill.

The drawee may not know the bill drawn on him has been negotiated from one person to another. However, the bill will be **finally presented for payment** on maturity by the **final bearer**.

9. **Retiring a bill 票据赎回**

When an acceptor makes **payment** of a bill **before** the **due date**, this is known as retiring a bill. The acceptor may receive a **discount** / rebate 扣减 from the drawer for the unexpired period of credit.

The **discount** is an **income** to the **acceptor** (i.e. the party making the payment), but an **expense** to the **drawer** (i.e. the party receiving the payment).

InPut

Inland** and **foreign bills

A bill of exchange may be inland or foreign:

*a. An **inland bill** is drawn and payable within a country;*

*b. A **foreign bill** is drawn in one country but payable in another country.*

23.4 Recording Transactions of Bills Of Exchange

1. For accounting purpose, a bill of exchange is classified as:
   a. **Bill receivable**
      A bill of exchange is treated as a bill receivable by one **who** is to **receive** the sum on **maturity**.
   b. **Bill payable**
      A bill of exchange is treated as a bill payable by one **who** has **accepted** the bill and will **pay** the sum on **maturity**.

   Thus, for a **same bill** it is a **bill receivable** to one party and a **bill payable** to the other.

2. **Bills receivable** kept by **drawer** are treated as **current assets** whereas **bills payable** are treated as **current liabilities** by **drawee**.

3. **Alternatives** available to a **drawer** of a bill of exchange:
   a. A drawer may **keep** a bill until maturity and present the bill for payment.
   b. A drawer may **discount** a bill with bank to receive cash before maturity.
   c. A drawer may **negotiate** a bill to creditor as payment of debt.

Input

Contingent liabilities *或有负债*
*If **discounted** or **negotiated** bills of exchange are **dishonoured** on maturity, the **drawer** has to make the **repayment**.*
*Thus, a **note** to **Statement Of Financial Position** is required to show the **amount** of **bills discounted** and **negotiated** as **contingent liabilities**.*

23.4.1 Accounting Entries for Bills Receivable (Drawer's Books)

1. **When a bill receivable is received and kept by drawer**

   When a bill is accepted and returned by drawee:
   Dr **Bills Receivable**
   Cr   **Account Receivable**

   1.1 A bill receivable is **kept by drawer** and **met / honoured on maturity** ☺

   Usually a drawer of a bill arranges with his bank to collect the money on his behalf on maturity:
   Dr **Bank**
   Cr   **Bills Receivable**

Example 1

Hint: *The bill was duly **accepted** & **returned** by **Melvin**.*

On 1 May Year 1, Kien Chung sold goods to Melvin on credit for RM 1,800 and received a bill at one month. The bill was met on maturity.

You are required to prepare Journal entries and Ledger accounts in the books of Kien Chung to record the above transactions.

Solution:
In the books of **Kien Chung** (drawer):

General Journal

Date	Particulars	Debit	Credit
Year 1		RM	RM
May 1	Melvin	1,800	
	Sales		1,800
	(Being goods sold on credit)		
1	Bills Receivable	1,800	
	Melvin		1,800
	(Being bill accepted)		
Jun 4	Bank	1,800	
	Bills Receivable		1,800
	(Being bill met on maturity)		

Ledger

Melvin

Year 1		RM	Year 1		RM
May 1	Sales	1,800	May 1	Bills Receivable	1,800

Bills Receivable

Year 1		RM	Year 1		RM
May 1	Melvin	1,800	Jun 4	Bank	1,800

Hint

Normally, debtor is allowed ***3 days of grace*** *to meet the bill (i.e. 1/5 ~1/6 + 3 days).*

Bank

Year 1		RM			
Jun 4	Bills Receivable	1,800			

1.2 A bill receivable is **kept by drawer** and **dishonoured on maturity** ☹

If an acceptor / a debtor dishonours a bill on maturity and the bill is noted, the bill must be written back to revive 恢复 the indebtedness including noting charges:

Dr **Account Receivable**
Cr **Bills Receivable**
Cr **Bank - Noting Charges**

Example 2 (Same information as in **Example 1**)

On 1 May Year 1, Kien Chung sold goods to Melvin on credit for RM 1,800 and received a bill at one month. The bill was dishonoured on maturity and noting charges of RM 100 were incurred.

You are required to prepare Journal entries and Ledger accounts in the books of Kien Chung to record the above transactions.

Think 2

What is the ***advantage*** *of* ***noting*** *a* ***bill***?

Solution:

In the books of **Kien Chung** (drawer):

General Journal

Date	Particulars	Debit	Credit
Year 1		RM	RM
May 1	Melvin	1,800	
	Sales		1,800
	(Being goods sold on credit)		
1	Bills Receivable	1,800	
	Melvin		1,800
	(Being bill accepted)		
Jun 4	Melvin	1,800	
	Bills Receivable		1,800
	(Being bill dishonoured and written back)		
4	Melvin	100	
	Bank - Noting Charges		100
	(Being noting charges charged to debtor due to bill dishonoured)		
	Or		
4	Melvin	1,900	
	Bills Receivable		1,800
	Bank - Noting Charges		100
	(Being bill dishonoured and noting charges charged to debtor)		

*To combine **2** entries into **1***

Hint *The **bill** was now **valueless**. Thus, it was **cancelled** & **debtor**'s account was **restored** 还原 with **noting charges**.*

Ledger

Melvin

Year 1		RM	Year 1		RM
May 1	Sales	1,800	May 1	Bills Receivable	1,800
Jun 4	Bills Receivable - Dishonoured	1,800			
4	Bank-Noting Charges	100			

Bills Receivable

Year 1		RM	Year 1		RM
May 1	Melvin	1,800	Jun 4	Melvin - Dishonoured	1,800

Bank

			Year 1		RM
			Jun 4	Melvin - Noting Charges	100

Hint *They were paid by **Kien Chung** (drawer) but charged to **Melvin**.*

Practice 1 (Bills receivable were kept —— Met, dishonoured & renewed)

On 1 June Year 1, Li Huei sold goods to Moon on credit for RM 5,000. The debt was settled on the same date by cheque RM 1,200, a two-month bill (Bill 1) for RM 1,800 and a three-month bill (Bill 2) for the balance.

Bill 1 was met on maturity, while Bill 2 was dishonoured. Noting charges of RM 20 were incurred and a new bill (Bill 3) at two months was drawn with interest of RM 15 per month for the extended period of credit.

You are required to prepare Journal entries and Ledger accounts in the books of Li Huei to record the above transactions.

Answer Guide

☞ ***Moon*** *had to pay* ***2-month interest*** *for* ***Bill 3.***

1. ***Bill 3****: RM 2,050.*

2. **When a bill receivable is received and discounted**

2.1 A bill receivable is **discounted with bank** and **met** / **honoured on maturity** ☺

If a drawer **discounts** a bill with bank, the bank will only pay the **face value** of the bill less the **discounting charges**, and the bank will receive the full face value from the acceptor on maturity:

Dr **Bank**
Dr **Discounting Charges**
Cr **Bills Receivable**

Example 3 (Same information as in **Example 1**)

On 1 May Year 1, Kien Chung sold goods to Melvin on credit for RM 1,800 and received a bill at one month. On 15 May Year 1, Kien Chung discounted the bill at 4% per annum. The bill was met on maturity.

You are required to prepare Journal entries and Ledger accounts in the books of Kien Chung to record the above transactions.

Solution:

In the books of **Kien Chung** (drawer):

General Journal

Date	Particulars	Debit	Credit
Year 1		RM	RM
May 1	Melvin	1,800	
	Sales		1,800
	(Being goods sold on credit)		
1	Bills Receivable	1,800	
	Melvin		1,800
	(Being bill accepted)		
15	Bank	1,797	
	Discounting Charges (**Working**)	3	
	Bills Receivable		1,800
	(Being bill discounted)		

Hint: *It is the **difference** between **face value** and **cash received**.*

Ledger

Melvin

Date	Particulars	RM	Date	Particulars	RM
Year 1		RM	Year 1		RM
May 1	Sales	1,800	May 1	Bills Receivable	1,800

Bills Receivable

Date	Particulars	RM	Date	Particulars	RM
Year 1		RM	Year 1		RM
May 1	Melvin	1,800	May 15	Bank	1,797
			15	Discounting Charges	3
		1,800			1,800

Bank

Date	Particulars	RM			
Year 1		RM			
May 15	Bills Receivable	1,797			

Discounting Charges

Date	Particulars	RM			
Year 1		RM			
May 15	Bills Receivable	3			

Working:

Discounting Charges: $\text{RM } 1{,}800 \times \frac{4}{100} \times \frac{0.5}{12} = \text{RM } \mathbf{3}$

2.2 A bill receivable is **discounted with bank** and **dishonoured on maturity** ☹

If a drawer **discounts** a bill with bank and the acceptor / debtor fails to meet the bill on maturity, the **bank** will **claim** the **full face value** of the bill plus **noting charges** from the **drawer**, and the debtor will then be charged for the total amount:

Dr **Account Receivable**
Cr   **Bank**

$\}$ *full face value + noting charges paid by bank*

Example 4 (Same information as in **Example 3**)

On 1 May Year 1, Kien Chung sold goods to Melvin on credit for RM 1,800 and received a bill at one month. On 15 May Year 1, Kien Chung discounted the bill at 4% per annum. The bill was dishonoured on maturity and noting charges of RM 100 were incurred.

You are required to prepare Journal entries and Ledger accounts in the books of Kien Chung to record the above transactions.

Solution:

In the books of **Kien Chung** (drawer):

General Journal

Date	Particulars	Debit	Credit
Year 1		RM	RM
May 1	Melvin	1,800	
	Sales		1,800
	(Being goods sold on credit)		
1	Bills Receivable	1,800	
	Melvin		1,800
	(Being bill accepted)		
15	Bank	1,797	
	Discounting Charges	3	
	Bills Receivable		1,800
Jun 4	Melvin	1,800	
	Bank		1,800
	(Being discounted bill dishonoured)		
4	Melvin	100	
	Bank - Noting Charges		100
	(Being noting charges charged to debtor due to bill dishonoured)		
	Or		
4	Melvin	1,900	
	Bank		1,900
	(Being discounted bill dishonoured and noting charges charged to debtor)		

Ledger

Melvin

Year	1		RM	Year	1		RM
May	1	Sales	1,800	May	1	Bills Receivable	1,800
Jun	4	Bank - Dishonoured	1,800				
	4	Bank - Noting Charges	100				

Hint: ***Full face value + noting charges*** *were charged to debtor.*

Bills Receivable

Year	1		RM	Year	1		RM
May	1	Melvin	1,800	May	15	Bank	1,797
					15	Discounting Charges	3
			1,800				1,800

Bank

Year	1		RM	Year	1		RM
May	15	Bills Receivable	1,797	Jun	4	Melvin - Dishonoured	1,800
					4	Melvin - Noting Charges	100

Discounting Charges

Year	1		RM				
May	15	Bills Receivable	3				

Think 3 *Why were the* ***discounting charges not charged*** *to* ***Melvin****?*

Practice 2 (Bills receivable were discounted — Met, dishonoured & renewed)

On 1 July Year 2, Samuel sold goods to Shi Hao on credit for RM 6,000. The debt was settled on that day by cheque RM 1,500, a two-month bill (Bill 1) for RM 2,000 and a three-month bill (Bill 2) for the balance. The bills were accepted by Shi Hao on 3 July Year 2.

Samuel duly discounted Bill 1 with a bank for RM 1,950, and Bill 2 with discounts of RM 75.

On the due date, Bill 1 was honoured, while Bill 2 was dishonoured. Noting charges of RM 25 were incurred and a new bill (Bill 3) for two months was drawn with interest of RM10 per month. Bill 3 was met on maturity.

You are required to prepare Journal entries and Ledger accounts in the books of Samuel to record the above transactions.

Answer Guide

*1. **Bill 3**: RM 2,545.*

3. **When a bill receivable is received and negotiated**

3.1 A bill receivable is **negotiated** and **met** / **honoured on maturity** ☺

If a drawer negotiates a bill to his creditor (supplier) in order to settle his debt:
Dr **Account Payable** (Creditor)
Cr **Bills Receivable**

Example 5 (Same information as in **Example 3**)

On 1 May Year 1, Kien Chung owed Michael RM 3,000. On the same date, Kien Chung sold goods to Melvin on credit for RM 1,800 and received a bill at one month. On 15 May Year 1, Kien Chung negotiated the bill accepted by Melvin to Michael in part payment of his debt. The bill was met on maturity.

You are required to prepare Journal entries and Ledger accounts in the books of Kien Chung to record the above transactions.

Solution:

In the books of **Kien Chung** (drawer):

General Journal

Date	Particulars	Debit	Credit
Year 1		RM	RM
May 1	Melvin	1,800	
	Sales		1,800
	(Being goods sold on credit)		
1	Bills Receivable	1,800	
	Melvin		1,800
	(Being bill accepted)		
15	Michael	1,800	
	Bills Receivable		1,800
	(Being bill accepted by Melvin negotiated)		

Ledger

Melvin

Year 1		RM	Year 1		RM
May 1	Sales	1,800	May 1	Bills Receivable	1,800

Bills Receivable

Year 1		RM	Year 1		RM
May 1	Melvin	1,800	May 15	Michael	1,800

Hint

*A **creditor**.*

Michael

Year 1		RM	Year 1		RM
May 15	Bills Receivable	1,800	May 1	Balance b/d	3,000

3.2 A bill receivable is **negotiated** and **dishonoured on maturity** ☹

If an acceptor / a debtor of a bill fails to meet the bill which has been **negotiated** on maturity, the **bearer** / **creditor** of the bill has the right to **claim** the **full face value** plus **noting charges** from the **drawer**.

Thus, both accounts of **debtor** and **creditor** must be written back to revive the indebtedness including noting charges:

Dr **Account Receivable** (Debtor)
Cr **Account Payable** (Creditor)
full face value + noting charges paid by creditor

Example 6 (Same information as in **Example 5**)

On 1 May Year 1, Kien Chung owed Michael RM 3,000. On the same date, Kien Chung sold goods to Melvin on credit for RM 1,800 and received a bill at one month. On 15 May Year 1, Kien Chung negotiated the bill accepted by Melvin to Michael in part payment of his debt. Melvin failed to meet the bill on maturity.

You are required to prepare Journal entries and Ledger accounts in the books of Kien Chung to record the above transactions.

Solution:

In the books of **Kien Chung** (drawer):

General Journal

Date	Particulars	Debit	Credit
Year 1		RM	RM
May 1	Melvin	1,800	
	Sales		1,800
	(Being goods sold on credit)		
1	Bills Receivable	1,800	
	Melvin		1,800
	(Being bill accepted)		
15	Michael	1,800	
	Bills Receivable		1,800
	(Being bill accepted by Melvin negotiated)		
Jun 4	Melvin	1,800	
	Michael		1,800
	(Being negotiated bill dishonoured, accounts of debtor and creditor written back)		

Ledger

Melvin

Year 1			RM	Year 1			RM
May	1	Sales	1,800	May	1	Bills Receivable	1,800
Jun	4	Michael - Dishonoured	1,800				

Bills Receivable

Year 1			RM	Year 1			RM
May	1	Melvin	1,800	May	15	Michael	1,800

Hint: A **creditor**.

Michael

Year 1			RM	Year 1			RM
May	15	Bills Receivable	1,800	May	1	Balance b/d	3,000
				Jun	4	Melvin - Dishonoured	1,800

Think 4: *If the **dishonoured bill** was **noted**, **who** would **pay** and **bear** the noting charges, and how the **entry** would be recorded in **Kien Chung**'s books?*

Practice 3 (Bill receivable was negotiated —— Dishonoured & renewed)

On 2 February Year 3, Kok sold goods to Zheng on credit for RM 8,000 and Zheng accepted a bill (Bill 1) for the amount at two months.

On 5 February Year 3, Kok negotiated Bill 1 to his creditor Ellis to whom RM 10,000 was owed.

On the due date, Zheng asked for a longer time to pay the debt. Thus a new bill (Bill 2) was drawn on Zheng who duly accepted the bill. Bill 2 was payable in two months plus noting charges RM 20 and interest of RM 5 per month.

You are required to prepare Journal entries and Ledger accounts in the books of Kok to record the above transactions.

Answer Guide: *1. **Bill 2**: RM 8,030.*

23.4.2 Accounting Entries for Bills Payable (Drawee's Books)

When a bill payable is accepted and returned to drawer:
Dr **Account Payable**
Cr **Bills Payable**

1. A bill payable is **met / honoured on maturity** ☺

   If an acceptor / drawee pays a bill on maturity:
   Dr **Bills Payable**
   Cr **Bank**

Example 7

On 1 May Year 1, Melvin purchased goods from Kien Chung on credit for RM 1,800 and accepted a bill drawn by Kien Chung at one month. The bill was met on maturity.

You are required to prepare Journal entries and Ledger accounts in the books of Melvin to record the above transactions.

Solution:
In the books of **Melvin** (drawee):

General Journal

Date	Particulars	Debit	Credit
Year 1		RM	RM
May 1	Purchases	1,800	
	Kien Chung		1,800
	(Being goods purchased on credit)		
1	Kien Chung	1,800	
	Bills Payable		1,800
	(Being bill accepted)		
Jun 4	Bills Payable	1,800	
	Bank		1,800
	(Being bill met on maturity)		

Ledger

Kien Chung

Year 1		RM	Year 1		RM
May 1	Bills Payable	1,800	May 1	Purchases	1,800

Bills Payable

Year 1		RM	Year 1		RM
Jun 4	Bank	1,800	May 1	Kien Chung	1,800

Bank

			Year 1		RM
			Jun 4	Bills Payable	1,800

Practice 4 (Bills payable were met)

On 1 January Year 4, Soon Ying purchased goods from Lih Chung on credit for RM 3,000.

Soon Ying duly accepted two bills of Lih Chung, Bill 1 for RM 1,800 payable in three months and Bill 2 for RM 1,200 payable in four months.

On 1 February Year 4, Lih Chung negotiated Bill 1 to his creditor Joe as part settlement of the debt owed. Besides, he discounted Bill 2 with his bank, discounting charges being RM 10.

On maturity, both of the bills were duly paid by Soon Ying.

You are required to prepare Journal entries and Ledger accounts in the books of Soon Ying to record the above transactions.

Think 5

*What are the **entries** in **Soon Ying**'s books for the **negotiating** and **discounting** made by **Lih Chung**?*

Answer Guide

*1. Total amount **credited** to **Bank** account: RM 3,000.*

2. A bill payable is **dishonoured on maturity** ☹

If an acceptor / drawee dishonours a bill on maturity and the bill is noted, the bill must be written back to revive the indebtedness including noting charges:

Dr **Bills Payable**
Dr **Noting Charges**
Cr **Account Payable**

Example 8 (Same information as in **Example 7**)

On 1 May Year 1, Melvin purchased goods from Kien Chung on credit for RM 1,800 and accepted a bill drawn by Kien Chung at one month. The bill was dishonoured on maturity, noting charges being RM 100.

You are required to prepare Journal entries and Ledger accounts in the books of Melvin to record the above transactions.

Solution:

In the books of **Melvin** (drawee):

General Journal

Date	Particulars	Debit	Credit
Year 1		RM	RM
May 1	Purchases	1,800	
	Kien Chung		1,800
	(Being goods purchased on credit)		
1	Kien Chung	1,800	
	Bills Payable		1,800
	(Being bill accepted)		
Jun 4	Bills Payable	1,800	
	Kien Chung		1,800
	(Being bill dishonoured and written back)		
4	Noting Charges	100	
	Kien Chung		100
	(Being noting charges charged by creditor due to bill dishonoured)		
	Or		
4	Bills Payable	1,800	
	Noting Charges	100	
	Kien Chung		1,900
	(Being bill dishonoured and noting charges charged by creditor)		

Ledger

Kien Chung

Year 1		RM	Year 1		RM
May 1	Bills Payable	1,800	May 1	Purchases	1,800
			Jun 4	Bills Payable - Dishonoured	1,800
			4	Noting Charges	100

Bills Payable

Year 1		RM	Year 1		RM
Jun 4	Kien Chung - Dishonoured	1,800	May 1	Kien Chung	1,800

Noting Charges

Year 1		RM			
Jun 4	Kien Chung	100			

Hint

*If Kien Chung (**drawer**) had **discounted / negotiated** the **bill**, when the bill was **dishonoured**, the **bearer** of the bill had the right to **claim** the full face value plus noting charges from **Kien Chung**. Then **Melvin** would be **charged** by Kien Chung for the whole amount due to his default.*

*Thus, the **entries** would be the **same** as above in the books of Melvin (**drawee**) in the case of **discounting / negotiating**.*

Practice 5 (Bills payable were dishonoured)

On 1 July Year 5, Hui Chin purchased goods from Wai Yee on credit for RM 4,000.

On the same date, Hui Chin accepted two bills drawn by Wai Yee, one (Bill 1) for RM 2,500 and another (Bill 2) for the balance, both were payable in two months.

On 1 August Year 5, Wai Yee negotiated Bill 1 to her creditor Cammy as part settlement of the amount owed. She also discounted Bill 2 with her bank with deduction of discounting charges RM 15.

Unfortunately, Hui Chin failed to meet both bills on the due date. The bills were then noted on 4 September Year 5, noting charges being RM 15 respectively.

You are required to prepare Journal entries and Ledger accounts in the books of Hui Chin to record the above transactions.

Answer Guide

*1. Total amount **credited** to **Wai Yee**: RM 4,030.*

Practice 6

(Bills receivable were discounted, negotiated & kept —— Met, dishonoured & renewed; Bill payable was retired)

The following were the transactions of Chin Chin:

Year 6

* Mar 9		Received Maggy's acceptance (Bill 1) for RM 4,000 at four months and another (Bill 2) for RM 2,500 at two months.
* 12		Endorsed and transferred the acceptance (Bill 2) to Kar Yee in payment of account.
15		Drew on Jun Li a two-month bill (Bill 3) for RM 2,800.
* Apr 9		Discounted Maggy's acceptance (Bill 1) with a bank at a discount of 5% per annum.
28		Jun Li returned empty boxes of value RM 120.
* May 9		Maggy was unable to meet the Bill 2 on maturity but paid RM 500 by cheque on account. Noting charges of RM 30 had been paid by Kar Yee. Received another new acceptance (Bill 4) of two months duration for the balance plus interest of RM 5 per month.
15		Bill 3 was dishonoured on maturity. Jun Li accepted another new bill (Bill 5) at two months for the balance due plus interest of RM 30.
22		Accepted a bill (Bill 6) drawn by Yu Ji for RM 1,500 at two months.
Jun 22		Prior to the due date of Bill 6, Chin Chin desired to retire the bill. Yu Ji agreed and allowed a rebate of RM 60.
* Jul 9		Bill 1 and Bill 4 were both met on maturity.
15		Bill 5 was duly honoured on maturity.

You are required to prepare Journal entries up to 15 July Year 6 to record the above transactions in the books of Chin Chin.

Remarks: Narrations and days of grace are not required.

*, light blue and blue shading refer to the respective transactions of the same and related bills.

Answer Guide

1. ***Bill 4***: *RM 2,040.*
2. ***Bill 5***: *RM 2,710.*

Practice 7

(Bills receivable were discounted, retired, kept & negotiated —— Dishonoured, dishonoured & renewed, met; Bill payable was met)

On 1 January Year 7, Shu Ying had the following balances on her personal accounts:

Debtors	RM	Creditors	RM
Siong Wei	5,000	Jilian	2,500
Anqi	800	Jia Qi	5,000
Shi Min	3,200		
Xiang Ying	4,800		
Sook Fong	1,200		

* Jan	1	Received Siong Wei's acceptance (Bill 1) for RM 5,000 at two months. The bill was discounted at his bank and incurred charges of RM 42.
	2	Anqi settled her debt by cheque RM 100 and accepted a bill (Bill 2) at three months for RM 700.
	3	Received a bill (Bill 3) at two months from Shi Min for RM 3,200.
◇	5	Received a bill (Bill 4) for RM 4,800 at three months from Xiang Ying duly accepted that day. Endorsed the bill over to Jia Qi on 5 March in full settlement of the amount due.
	16	Accepted a bill (Bill 5) drawn by Jilian for the balance due at three months.
△	20	Received from Sook Fong in payment of her account, Bik Hui's acceptance (Bill 6) due on 10 Mar for RM 1,200 duly endorsed.
Feb	2	Anqi decided to retire Bill 2 and was allowed a discount of RM 70.
* Mar	1	Bank advised that Siong Wei's acceptance (Bill 1) was dishonoured and noting charges amounting to RM 60.
	3	Shi Min was unable to meet Bill 3 on maturity but could pay RM 200 by cheque. She then accepted a new bill (Bill 7) at one month for the balance plus interest of RM 30.
△	10	Bik Hui's acceptance (Bill 6) received from Sook Fong was met on maturity.
Apr	3	Shi Min's bill (Bill 7) was met on maturity.
◇	5	Xiang Ying's acceptance (Bill 4) was met on maturity.
	16	Paid Jilian's bill (Bill 5) on the due date.

You are required to prepare Ledger accounts in the books of Shu Ying.

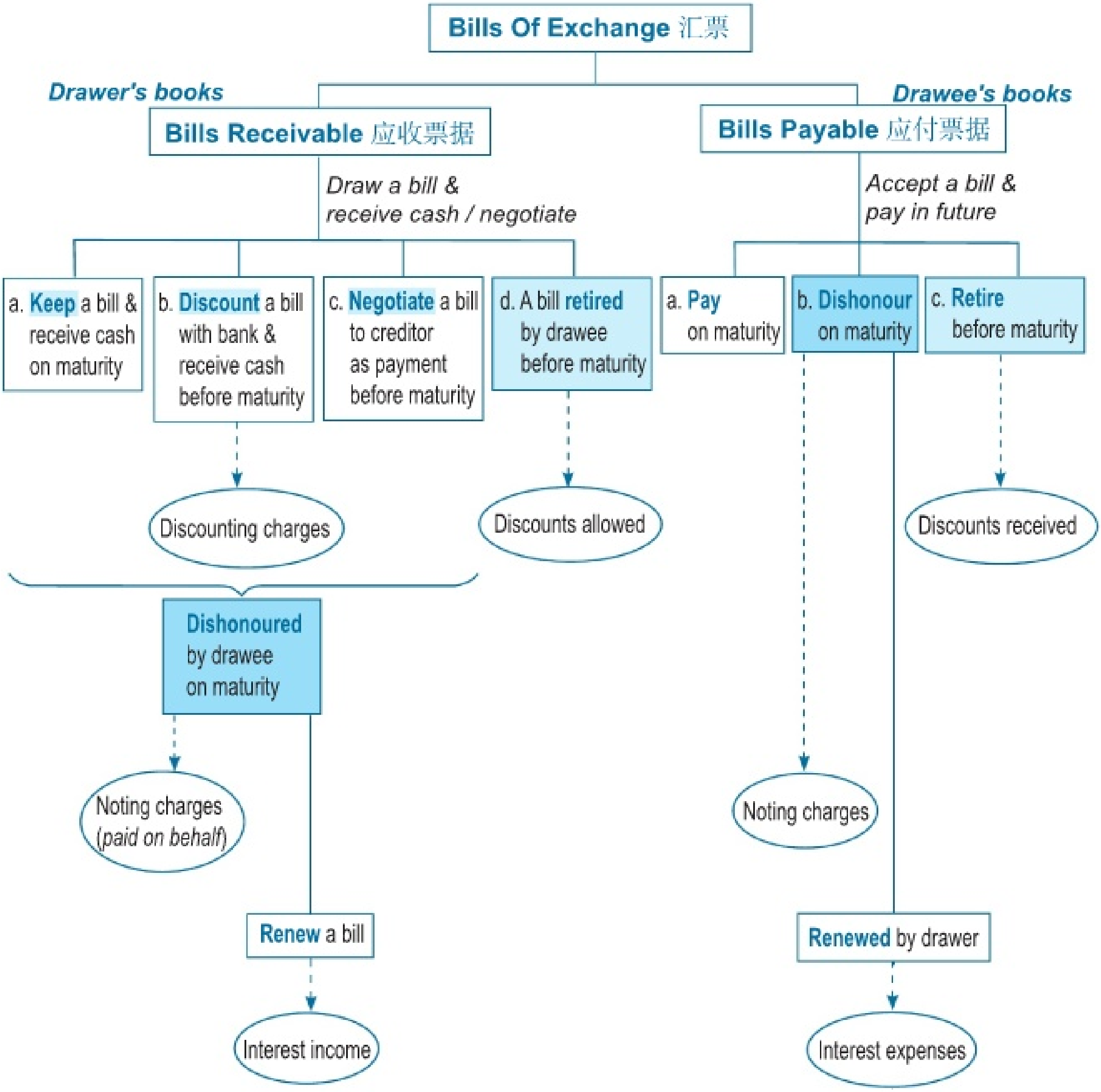
Remarks: Days of grace are not required.
*, ◇, △, and refer to the respective transactions of the same and related bills.

Answer Guide

1. ***Bill 7***: *RM 3,030.*

Review

I.



Bills Of Exchange 汇票
Drawer's books
Bills Receivable 应收票据
Drawee's books
Bills Payable 应付票据
Draw a bill & receive cash / negotiate
Accept a bill & pay in future
a. Keep a bill & receive cash on maturity
b. Discount a bill with bank & receive cash before maturity
c. Negotiate a bill to creditor as payment before maturity
d. A bill retired by drawee before maturity
a. Pay on maturity
b. Dishonour on maturity
c. Retire before maturity
Discounting charges
Discounts allowed
Discounts received
Dishonoured by drawee on maturity
Noting charges (paid on behalf)
Noting charges
Renew a bill
Renewed by drawer
Interest income
Interest expenses

II. **Accounting entries:**

No.	Transactions	**Drawer's books**	**Drawee's books**
a.	When **goods** are **sold on credit**.	Dr Account Receivable Cr Sales	Dr Purchases Cr Account Payable
b.	When a bill is **drawn** and **accepted**.	Dr Bills Receivable Cr Account Receivable	Dr Account Payable Cr Bills Payable
	1. If drawer **keeps** the bill:		
	1.1 If it is met on maturity.	Dr Bank Cr Bills Receivable	Dr Bills Payable Cr Bank
	1.2 If it is dishonoured 拒付 on maturity.	Dr Account Receivable Cr Bills Receivable Cr Bank - Noting Charges	Dr Bills Payable Dr Noting Charges Cr Account Payable
	2. If drawer **discounts** 贴现 the bill:	Dr Bank Dr Discounting Charges Cr Bills Receivable	(No entry)
	2.1 If it is met on maturity.	(No entry)	Dr Bills Payable Cr Bank
	2.2 If it is dishonoured on maturity.	Dr Account Receivable Cr Bank } *full face value + noting charges*	Dr Bills Payable Dr Noting Charges Cr Account Payable
	3. If drawer **negotiates** 转让 the bill:	Dr Account Payable Cr Bills Receivable	(No entry)
	3.1 If it is met on maturity.	(No entry)	Dr Bills Payable Cr Bank
	3.2 If it is dishonoured on maturity.	Dr Account Receivable Cr Account Payable } *full face value + noting charges*	Dr Bills Payable Dr Noting Charges Cr Account Payable
c.	When a bill is **renewed** 续期, interest is charged / given.	Dr Bills Receivable Cr Account Receivable Cr Interest Income	Dr Account Payable Dr Interest Expenses Cr Bills Payable
d.	When a bill is **retired** 赎回 and a rebate is allowed / received.	Dr Bank Dr Discounts Allowed Cr Bills Receivable	Dr Bills Payable Cr Bank Cr Discounts Received

Hint

*In **drawee**'s books, whether the bill is **kept**, **discounted** or **negotiated**, the **entries** will be the **same**:*
*a. if a bill **is met** on maturity as indicated in ;*
*b. if a bill **is dishonoured** on maturity as indicated in .*

Chapter 24 Consignment Accounts

Learning Objectives

After studying this chapter, you should be able to:

- explain the nature of consignment, and the roles of consignor and consignee;
- differentiate between sales commission and del credere commission;
- understand the function of an account sales;
- make entries in the books of consignor and consignee;
- value unsold inventory on consignment.

24.1 Nature of Consignment

1. Consignment is the act of delivering goods to an agent who will sell the goods for a commission, but retaining the legal ownership until the goods are sold.
   Consignment agreement is made between two parties:
   a. Consignor
      - Trader / principal
      - Person despatching / sending the goods for resale
      - Owner of the goods
   b. Consignee
      - Agent
      - Person acting as the sales agent of consignor
      - Having no ownership of the goods

2. Consignee is rewarded a **commission** for the sales made on behalf of consignor:
   a. Sales commission
      - based on **total sales**
      - a normal commission on sales
   b. Del credere commission
      - based on **credit sales**
      - an additional commission (besides the normal commission on sales) payable to consignee undertaking to bear any loss on account of bad debts

   Hint: *It is based on **total sales** if **cash** & **credit sales** are **unknown**.*

3. Consignee is entitled to reimbursement of expenses incurred in connection with the consignment.

4. Statement prepared by **consignee**:
   a. Consignee has to prepare an **account sales** to consignor, showing affairs relating to the consignment as follows:
      i. sales proceeds / receipts;
      ii. expenses incurred and paid on behalf of consignor;
      iii. commissions earned by consignee (sales and / or del credere commission);
      iv. balance due to consignor.

Example:

ACCOUNT SALES

Sales of goods on consignment:

	RM	RM
200 boxes of shoes @ RM 8 each		1,600
150 boxes of shoes @ RM 6 each		900
		2,500
Less: Charges and expenses:		
Transportation	40	
Handling charges	20	
Distribution expenses	35	
5% commission (RM 2,500 x 5%)	125	(220)
Balance due		2,280

E.& O.E.
Sight draft for RM 2,280 herewith

Albert

Consignee → Albert & Company
Kuala Lumpur

16 December Year 1

   b. At the **end** of the **reporting period** of consignor
      i. **Complete consignment** 已完成的寄销交易
         If **all** the **goods** consigned **are sold** before or on the reporting date, consignee will send a **final account sales** to consignor for the settlement of account.

      ii. **Incomplete consignment** 未完成的寄销交易
         If there is **unsold inventory** on the reporting date, consignee will send an **interim account sales** 期中承销清单 to consignor for the purpose of preparing financial statements. A **final account sales** 最后承销清单 will be sent when all the goods are sold in the following year.

24.2 Accounting Entries in Consignor's and Consignee's Books

No.	Transactions	Consignor's books	Consignee's books
1.	When **goods** are **sent** to consignee.	Dr Consignment Cr Goods Sent On Consignment (at Cost)	(No entry) (**Note**: The goods do not belong to consignee.)
	When **goods** are **returned** by consignee.	Dr Goods Sent On Consignment Cr Consignment (at Cost)	
2.	When **expenses** incurred and **paid** by **consignor**.	Dr Consignment Cr Bank	(No entry)
	When **expenses** incurred and **paid** by **consignee** on behalf of consignor.	Dr Consignment Cr Consignee	Dr Consignor Cr Bank
3.	When **goods** are **sold** by consignee.	Dr Consignee Cr Consignment	Dr Bank / Consignment Accounts Receivable Cr Consignor
4.	When **sales** and / or **del credere commission** are / is **allowed** to consignee. (**Note**: The type of commission is usually specified in question.)	Dr Consignment Cr Consignee	Dr Consignor Cr Commission Income
5.	When **payments** are **received** from **consignment debtors**.	(No entry)	Dr Bank Cr Consignment Accounts Receivable
	When **consignment accounts receivable** become **bad**: a. If **del credere commission** is **allowed** to consignee.	(No entry)	Dr Bad Debts Cr Consignment Accounts Receivable
	b. If **del credere commission** is **not allowed** to consignee.	Dr Consignment - Bad Debts Cr Consignee - Bad Debts	Dr Consignor - Bad Debts Cr Consignment Accounts Receivable
6.	When **goods** sent on consignment are **damaged** or **lost in transit**: a. If goods are **covered** by insurance.	Dr Bank Cr Consignment **or** Dr Insurance Claim / Insurance Company Cr Consignment Dr Bank Cr Insurance Claim / Insurance Company	(No entry)
	b. If goods are **not covered** by insurance.	(No entry) (**Note**: The loss will automatically be reflected in profit / loss on consignment.)	(No entry)

Hint: Consignor may **receive** an **advance** from **consignee** before year's end.

7.	At the end of an accounting period: a. When consignor **receives outstanding balance** from consignee: i. by **cheque / sight draft**	Dr Bank Cr Consignee	Dr Consignor Cr Bank
	ii. by **bill of exchange** ① When consignee **accepts** bill drawn by consignor.	Dr Bills Receivable Cr Consignee	Dr Consignor Cr Bills Payable
	② When bill is **discounted**, and discounting charges - are to be **set off** against profit on consignment - are **not** to be **set off** against profit on consignment.	Dr Bank Dr Consignment - Discounting Charges Cr Bills Receivable **Or** Dr Bank Dr Profit And Loss - Discounting Charges Cr Bills Receivable	(No entry)
	b. Calculate **unsold inventory** on consignment.	Unsold inventory is carried down as a **debit balance** on **Consignment** account, and shown as a **Current Asset** on Statement Of Financial Position.	(No entry)
	c. Calculate **profit / loss** on consignment.	Dr Consignment Cr Profit And Loss - Profit On Consignment **Or** Dr Profit And Loss - Loss On Consignment Cr Consignment	(No entry)
	d. Close **Goods Sent On Consignment** account.	Dr Goods Sent On Consignment Cr Trading	(No entry)

Input

Pro-forma invoice* 形式发票 / 估价单 *serves to:
- *inform consignee of the expected **selling price**;*
- *enable consignee to **clear goods through customs**.*

Example 1 (A complete consignment **without unsold inventory**)

On 1 January Year 1, Ekspres Sdn Bhd of Klang consigned 400 units of product, costing RM 90 per unit, to Laju Sdn Bhd of Singapore, and issued a **pro-forma invoice** of value RM 44,000.

Ekspres Sdn Bhd paid transport charges RM 448 and insurance RM 364 at the same date.

On 31 December Year 1, Laju Sdn Bhd sent an account sales to Ekspres Sdn Bhd showing that all the products had been sold for RM 108 per unit.

The following were the expenses incurred and commission earned by Laju Sdn Bhd:

	RM
Customs duties	1,000
Warehouse expenses	216
Advertising charges	124
Sales commission	4%

For the balance due, Laju Sdn Bhd accepted a four-month bill drawn on him by Ekspres Sdn Bhd.

Ekspres Sdn Bhd discounted the bill at its bank, having RM 400 deducted for discounting charges which were to be set off against the profit on consignment.

The bill was duly met on maturity.

You are required to prepare the following accounts for the year ended 31 December Year 1:

(a) in the books of Ekspres Sdn Bhd (consignor):
  (i) Consignment;
  (ii) Goods Sent On Consignment;
  (iii) Bank;
  (iv) Consignee – Laju Sdn Bhd;
  (v) Bills Receivable.

(b) in the books of Laju Sdn Bhd (consignee):
  (i) Consignor – Ekspres Sdn Bhd;
  (ii) Bank;
  (iii) Commission Income;
  (iv) Bills Payable.

Solution:

(a) In the books of **Ekspres Sdn Bhd** (consignor):

(i) Consignment

Year 1			RM	Year 1			RM
Jan	1	Goods Sent On Consignment (**W1**)	36,000	Dec	31	Consignee - Sales (**W2**)	43,200
	1	Bank					
		- Transport Charges	448				
		- Insurance	364				
Dec	31	Consignee					
		- Customs Duties	1,000				
		- Warehouse Expenses	216				
		- Advertising Charges	124				
		- Sales Commission (**W3**)	1,728				
	31	Bills Receivable					
		- Discounting Charges	400				
	31	Profit And Loss					
		- Profit On Consignment	2,920				
			43,200				43,200

Hint *It was treated as an expense of consignment.*

Hint *It is calculated as:*
Sales
Less:
Goods Sent On Consignment
All the expenses

Hint
- *It records the **cost price** of the goods sent on consignment.*
- *It is **closed** to **Trading** account & to reduce the amount of **Purchases**.*

(ii) Goods Sent On Consignment

Year 1			RM	Year 1			RM
Dec	31	Trading	36,000	Jan	1	Consignment	36,000

(iii) Bank

Year 1			RM	Year 1			RM
Dec	31	Bills Receivable	39,732	Jan	1	Consignment	
						- Transport Charges	448
						- Insurance	364

Hint The **information** are from **account sales**.

(iv) Consignee – Laju Sdn Bhd

		RM			RM
Year 1			Year 1		
Dec 31	Consignment - Sales	43,200	Dec 31	Consignment	
				- Customs Duties	1,000
				- Warehouse Expenses	216
				- Advertising Charges	124
				- Sales Commission	1,728
			31	Bills Receivable	40,132
		43,200			43,200

Hint This is the amount owed by **consignee**.

(v) Bills Receivable

		RM			RM
Year 1			Year 1		
Dec 31	Consignee	40,132	Dec 31	Bank	39,732
			31	Consignment	
				- Discounting Charges	400
		40,132			40,132

Workings:

(1) Goods Sent On Consignment:
RM 90 x 400 = RM **36,000**

(2) Sales:
RM 108 x 400 = RM **43,200**

(3) Sales Commission:
RM 43,200 x 4% = RM **1,728**

(b) In the books of **Laju Sdn Bhd** (consignee):

(i) Consignor – Ekspres Sdn Bhd

Year 1		RM	Year 1		RM
Dec 31	Bank		Dec 31	Bank - Sales	43,200
	- Customs Duties	1,000			
	- Warehouse Expenses	216			
	- Advertising Charges	124			
31	Commission Income	1,728			
31	Bills Payable	40,132			
		43,200			43,200

Hint *This is the amount owed to* ***consignor****:*
*(****Sales proceeds***
Less:
Expenses *incurred & paid on behalf*
Commission *earned)*

(ii) Bank

Year 1		RM	Year 1		RM
Dec 31	Consignor - Sales	43,200	Dec 31	Consignor	
				- Customs Duties	1,000
				- Warehouse Expenses	216
				- Advertising Charges	124

(iii) Commission Income

Year 1		RM	Year 1		RM
Dec 31	Profit And Loss	1,728	Dec 31	Consignor	1,728

(iv) Bills Payable

			Year 1		RM
			Dec 31	Consignor	40,132

Practice 1 (A complete consignment **without unsold inventory**)

On 1 July Year 1, Mr Tan of Kuala Lumpur consigned to Mr Lim of Kajang, 100 bales of textiles which cost a total of RM 10,000. Carriage paid by Mr Tan on that day was RM 300.

Mr Lim was allowed a commission of 5%.

The financial year of both parties ended on 31 December Year 1. On the same date, the following account sales was received by Mr Tan together with a cheque as shown below:

ACCOUNT SALES

To: Mr Tan
Kuala Lumpur

	RM	RM
Sales of 100 bales of textiles		15,000
Less: Charges and expenses:		
Storage expenses	150	
5% sales commission (RM 15,000 x 5%)	750	(900)
Cheque enclosed		14,100

Lim

26 December Year 1, Kajang

You are required to prepare the Ledger accounts:
(a) in the books of Mr Tan (consignor);
(b) in the books of Mr Lim (consignee).

Answer Guide

1. ***Profit On Consignment:*** *RM 3,800.*

24.3 Valuation of Unsold Inventory on Consignment

1. If the consigned goods are not sold on the reporting date of consignor, the unsold inventory is to be carried down as a **debit balance** on **Consignment** account, and shown as a **Current Asset** on Statement Of Financial Position at **cost** plus **proportionate expenses**.

2. Valuation of unsold inventory (**without inventory loss**):

$$\text{Unsold inventory value at cost} + \left[\text{Related expenses} \times \frac{\text{Unsold inventory (Quantity/Cost)}}{\text{Goods consigned (Quantity/Cost)}}\right]$$

Or

$$(\text{Cost of goods consigned} + \text{Related expenses}) \times \frac{\text{Unsold inventory (Quantity/Cost)}}{\text{Goods consigned (Quantity/Cost)}}$$

The expenses incurred by **consignor** and / or **consignee** in getting the goods into a saleable condition, **not including** selling and distribution expenses / finance costs (e.g. advertising charges, commissions, discounting charges, etc.).

3. Valuation of unsold inventory **when** the consigned goods are
   a. **damaged** or **lost in transit**, **before** being received by consignee:

Hint *The cost and expenses incurred by **consignor** are for the **whole consignment**.*

$$(\text{Consignor's cost of goods consigned} + \text{Consignor's related expenses}) \times \frac{\text{Unsold inventory (Quantity/Cost)}}{\text{Goods consigned (Quantity/Cost)}}$$

+

$$(\text{Consignee's related expenses}) \times \frac{\text{Unsold inventory (Quantity/Cost)}}{\text{Goods consigned (Quantity/Cost)} - \text{Inventory loss(Quantity/Cost)}}$$

Hint *Expenses incurred by **consignee** are for the **actual quantity received** only.*

   b. **damaged** or **lost**, **after** being received by consignee:
   Unsold inventory is calculated as item 2 above.

Example 2 (An incomplete consignment **with unsold inventory**)

On 1 July Year 2, Eastland Sdn Bhd of Seremban despatched 80 boxes of goods at a cost of RM 350 per box, to their agent Omega Company in Kulai. On that day, it paid freight and insurance amounting to RM 2,000.

On 25 July Year 2, Omega Company received the goods consigned, and paid storage and packing expenses at a total of RM 1,280.

On 15 August Year 2, Omega Company paid advertising charges of RM 320, and sold 30 boxes on credit to customers at a price of RM 600 per box on the same date.

On 20 October Year 2, Omega Company sold another 25 boxes on credit at RM 610 per box, and incurred carriage on sales of RM 280 which were paid on 25 October Year 2.

Omega Company was entitled to a sales commission of 4% and a del credere commission of 2%.

As at 31 December Year 2, Omega Company received RM 30,500 from their debtors, and one of the debtors failed to pay a debt of RM 525 which was written off as bad debts.

On 31 December Year 2, Eastland Sdn Bhd received an account sales covering these transactions and a cheque for the balance due to him.

Your are required to write up the following accounts for the financial year ended 31 December Year 2:

(a) in the books of Eastland Sdn Bhd (consignor):
  (i) Consignment;
  (ii) Goods Sent On Consignment;
  (iii) Bank;
  (iv) Consignee – Omega Company.

(b) in the books of Omega Company (consignee):
  (i) Consignor – Eastland Sdn Bhd;
  (ii) Bank;
  (iii) Consignment Accounts Receivable;
  (iv) Commission Income;
  (v) Bad Debts.

Solution:

(a) In the books of **Eastland Sdn Bhd** (consignor):

(i) Consignment

Date	Particulars	RM	Date	Particulars	RM
Year 2			Year 2		
July 1	Goods Sent On Consignment (**W1**)	28,000	Aug 15	Consignee - Sales (**W2**)	18,000
1	Bank - Freight And Insurance	2,000	Oct 20	Consignee - Sales (**W2**)	15,250
25	Consignee - Storage And Packing Expenses	1,280	Dec 31	Unsold Inventory c/d (**W4**)	9,775
Aug 15	Consignee - Advertising Charges	320			
Oct 25	Consignee - Carriage Expenses	280			
Dec 31	Consignee (**W3**) - Sales Commission	1,330			
	- Del Credere Commission	665			
31	Profit And Loss - Profit On Consignment	9,150			
		43,025			43,025
Year 3					
Jan 1	Unsold Inventory b/d	9,775			

Think

*Who **owns** the **unsold inventory**?*

Hint

It is calculated as:
Sales + Unsold Inventory
Less:
Goods Sent On Consignment
All the expenses

(ii) Goods Sent On Consignment

Date	Particulars	RM	Date	Particulars	RM
Year 2			Year 2		
Dec 31	Trading	28,000	July 1	Consignment	28,000

(iii) Bank

Date	Particulars	RM	Date	Particulars	RM
Year 2			Year 2		
Dec 31	Consignee	29,375	July 1	Consignment - Freight And Insurance	2,000

(iv) Consignee – Omega Company

Year 2			RM	Year 2			RM
Aug	15	Consignment - Sales	18,000	July	25	Consignment - Storage And Packing Expenses	1,280
Oct	20	Consignment - Sales	15,250	Aug	15	Consignment - Advertising Charges	320
				Oct	25	Consignment - Carriage Expenses	280
				Dec	31	Consignment - Sales Commission	1,330
						- Del Credere Commission	665
					31	Bank	* **29,375**
			33,250				33,250

Think 2

*If **del credere commission** was **not allowed** to the consignee, how should the **bad debts** of RM 525 be recorded in the **consignor's books**?*

Workings:

(1) Goods Sent On Consignment:
RM 350 x 80 = RM **28,000**

(2) Sales:
RM 600 x 30 = RM **18,000**
RM 610 x 25 = RM **15,250**

(3) Sales Commission:
(RM 18,000 + RM 15,250) x 4% = RM **1,330**

Del Credere Commission:
(RM 18,000 + RM 15,250) x 2% = RM **665**

(4) Unsold Inventory:

Freight And Insurance
Storage And Packing Expenses

$$\text{(Cost of goods consigned + Related expenses)} \times \frac{\text{Unsold inventory (Quantity/Cost)}}{\text{Goods consigned (Quantity/Cost)}}$$

$$(\text{RM } 350 \times 80) + \text{RM } (2{,}000 + 1{,}280) \times \frac{(80 - 30 - 25)\text{ Boxes}}{80\text{ Boxes}}$$

$$= \text{RM } (28{,}000 + 3{,}280) \times \frac{25\text{ Boxes}}{80\text{ Boxes}}$$

= RM **9,775**

(b) In the books of **Omega Company** (consignee):

(i) Consignor – Eastland Sdn Bhd

Year 2		RM	Year 2		RM
July 25	Bank - Storage And Packing Expenses	1,280	Aug 15	Consignment Accounts Receivable - Sales	18,000
Aug 15	Bank - Advertising Charges	320	Oct 20	Consignment Accounts Receivable - Sales	15,250
Oct 25	Bank - Carriage Expenses	280			
Dec 31	Commission Income - Sales Commission	1,330			
	- Del Credere Commission	665			
31	Bank	* **29,375**			
		33,250			33,250

Think 4: *Why the **two amounts** (with *) are the **same**?*

Think 3: *What is the difference between **sales commission** and **del credere commission**?*

(ii) Bank

Year 2		RM	Year 2		RM
Dec 31	Consignment Accounts Receivable	30,500	July 25	Consignor - Storage And Packing Expenses	1,280
			Aug 15	Consignor - Advertising Charges	320
			Oct 25	Consignor - Carriage Expenses	280
			Dec 31	Consignor	29,375

(iii) Consignment Accounts Receivable

Year 2		RM	Year 2		RM
Aug 15	Consignor - Sales	18,000	Dec 31	Bank	30,500
Oct 20	Consignor - Sales	15,250	31	Bad Debts	525

Think 5: *If **del credere commission** was **not allowed** to the consignee, to which account should the **bad debts** of RM **525** be **debited**?*

(iv) Commission Income

Year 2		RM	Year 2		RM
Dec 31	Profit And Loss	1,995	Dec 31	Consignor - Sales Commission	1,330
				- Del Credere Commission	665
		1,995			1,995

(v) Bad Debts

Year 2		RM	Year 2		RM
Dec 31	Consignment Accounts Receivable	525	Dec 31	Profit And Loss	525

Practice 2 (An incomplete consignment **with unsold inventory**)

On 1 January Year 2, Saujana Bhd of Kepong consigned to his agent, Econsave Company in Jakarta, 25 cases of spare parts costing RM 450 per case, and paid the following expenses:

	RM
Transport charges to warehouse	220
Warehouse and packing charges	810
Shipping costs and insurance	1,100

On 31 March Year 2, the end of the financial year of Saujana Bhd, an account sales together with a **sight draft** 即期汇票 from Econsave Company were received and indicated the following:

	Cases
Goods received:	20
Goods sold at RM 850 per case:	15

		RM
Expenses incurred:	Import duties for 20 cases	550
	Landing charges for 20 cases	250
	Selling costs for 15 cases	420

The agreement between the two parties stated that Econsave Company was to receive 2% commission based on gross sales proceeds.

Saujana Bhd was informed that 5 cases of the goods consigned were lost on the way to Jakarta. The insurance company had agreed to pay RM 350 per case to the consignor in full settlement.

> **Think 6**
> *How to calculate the **unsold inventory** if the **inventory loss** occurred **after** the consignee had received the goods?*

You are required to prepare:

(a) Consignment and Consignee accounts in the Ledger of Saujana Bhd (consignor);
(b) Consignor account in the Ledger of Econsave Company (consignee).

Answer Guide

- *The **insurance claim** was an amount receivable from the insurance company.*
- *The **inventory loss** occurred **before** the consignee received the goods.*

1. ***Unsold Inventory**: RM 2,876.*
2. ***Profit On Consignment**: RM 2,521.*
3. ***Sight Draft**: RM 11,275.*

Review

1. **Flow chart** of **consignment** 寄销:

Hint

Showing:

i. Sales proceeds

ii. Expenses incurred & paid on behalf

iii. Commissions earned
(**sales commission** 销售佣金
and / or
del credere commission 保付货款佣金)

iv. Balance due to consignor

Hint

Balance due to consignor:

by cheque / sight draft / bill

Sales proceeds
Less: Expenses incurred & paid on behalf
Commissions earned

2. **Consignor's books**:

Hint *For more details, refer to the* ***Note*** *on next page.*

Consignment

	RM		RM
Goods Sent On Consignment	xx	Consignee - Sales	xx
Bank - Expenses	xx	Goods Sent On Consignment - Goods Returned	xx
Consignee - Expenses	xx	Unsold Inventory c/d	xx
Consignee			
- Sales Commission	xx		
- Del Credere Commission	xx		
Profit And Loss			
- Profit On Consignment	xx		
	xx		xx
Unsold Inventory b/d	xx		

Expenses incurred & paid by ***consignee***

Commissions rewarded to ***consignee***

Sales made by ***consignee*** *on behalf*

Consignee

	RM		RM
Consignment - Sales	xx	Consignment	
		- Expenses	xx
		Consignment	
		- Sales Commission	xx
		- Del Credere Commission	xx
		Bank/Bills Receivable	yy
	xx		xx

Sales made by ***consignee*** *on behalf*

Expenses incurred & paid by ***consignee***

Commissions rewarded to ***consignee***

Sales proceeds
Less:
Expenses *incurred & paid on behalf*
Commissions *earned*

3. **Consignee's books**:

Consignor

	RM		RM
Bank - Expenses	xx	Bank / Consignment Accounts Receivable - Sales	xx
Commission Income			
- Sales Commission	xx		
- Del Credere Commission	xx		
Bank / Bills Payable	yy		
	xx		xx

Expenses incurred & paid by ***consignee***

Commissions rewarded to ***consignee***

Sales made by ***consignee*** *on behalf*

Note:

> **Hint** ***Trading** and **Profit And Loss** accounts for consignment.*

Consignment

	Dr	RM	Cr	RM	
*Cost of goods sent to **consignee***	Goods Sent On Consignment	xx	Consignee - Sales	xx	*Sales made by **consignee** on behalf*
*Expenses incurred & paid by **consignor***	Bank - Expenses	xx	Goods Sent On Consignment - Goods Returned	xx	*Cost of goods returned by **consignee***
*Expenses incurred & paid by **consignee***	Consignee - Expenses	xx	Insurance Claim / Insurance Company	xx	***Claim** on **insured goods** that are damaged / lost*
*Commissions rewarded to **consignee***	Consignee - Sales Commission - Del Credere Commission	 xx xx	Unsold Inventory c/d	xx	
*Charges **set off** against **profit** on consignment*	Bills Receivable - Discounting Charges	xx			
☞ *Balancing figure:* ***Sales** + **Goods Returned** + **Insurance Claim** + **Unsold Inventory** Less: **Goods Sent On Consignment** **All the expenses*** ☞ *It is credited / debited to **Profit And Loss** account*	Profit And Loss - Profit On Consignment	xx			
		xx		xx	
	Unsold Inventory b/d	xx			

☞ *It is calculated as:*

$$\textit{Unsold inventory valued at cost} + \left[\underbrace{\textit{Related expenses}}_{\text{相关费用}} \times \frac{\textit{Unsold inventory (Quantity/Cost)}}{\textit{Goods consigned (Quantity/Cost)}}\right]$$

Proportionate expenses
按存货所占比率计算的费用

Or

$$(\textit{Cost of goods consigned} + \textit{Related expenses}) \times \frac{\textit{Unsold inventory (Quantity/Cost)}}{\textit{Goods consigned (Quantity/Cost)}}$$

☞ *It is a **current asset**.*

Chapter 25 Joint Venture Accounts

Learning Objectives

After studying this chapter, you should be able to:
- describe the characteristics of a joint venture;
- differentiate between a partnership and a joint venture;
- understand the reasons for a joint venture to keep and not to keep a separate set of books;
- make entries in the books of each joint venturer where no separate set of books is kept.

25.1 Characteristics of Joint Venture

1. A joint venture is formed by two or more persons / organisations (known as **venturers** 合營者 / joint venture partners) to undertake a **specific business project** / **venture** for a **specified period** of time where each venturer agrees to contribute resources. The **profits** / **loss** is then **shared** between them according to the **joint venture agreement**.

2. The main advantage of a joint venture is each venturer may be able to contribute capital, goods, knowledge or expertise which the other venturers may not have (e.g. A has sufficient capital, B has strong bargaining power over suppliers and C has good relationship with customers). Thus, the **pooling** of **financial**, **physical** and **human resources** may lead to **high profits** for a **specific project** in a **temporary duration**.

3. If **compared** to a **partnership**, a **joint venture** has the advantages and disadvantages as follows:
   Advantages:
   a. Name of firm is not used.
   b. There are less expenses incurred in the formation of business.
   c. There is less formality in the business operations.
   d. Venturers do not incur any liabilities beyond the limit of the venture.
   e. Venturers can run their own existing business besides the business venture.
   f. All arrangements are ceased when the business venture is completed,etc.

   Disadvantages:
   a. It is not a separate entity.
   b. There may be incompleteness and inaccuracy of accounts if no separate set of books is kept.
   c. There is no continuity once the business venture is completed, etc.

25.2 Accounting Entries for Joint Venture

Joint venture can be classified as follows:

1. **Where a separate set of books is kept** 设立独立账簿
   For a **large scale** or / and **long-term** joint venture, usually a **separate books** is kept. It is **similar to** a **partnership**, the accounts required are **Joint Bank** account, **Capital** account for each venturer and **Joint Venture** account.

   The **Joint Venture** account (like Trading and Profit And Loss accounts) in which all **expenses** are **debited** and all **income** are **credited**. The difference between them is the profit / loss to be transferred to the respective capital accounts at an agreed ratio. The books are then closed by transferring the remaining bank balance to the capital accounts.

2. **Where no separate set of books is kept** 无独立账簿
   For a **small scale** or / and **short-term** joint venture, usually **no separate books** is kept. Any **transactions** between the **venturer** and the **joint venture business** are recorded in **Joint Venture** account (with the other venturer) in his **own existing books**.

   The accounting entries made in the venturer **A**'s **own existing books** are as follows:

No.	Transactions	Accounting entries
a.	i. **Goods** are **purchased**.	Dr Joint Venture With B Cr Bank / Accounts Payable
	ii. **Goods** are **supplied** by venturer A.	Dr Joint Venture With B Cr Purchases
b.	**Expenses** are **incurred**.	Dr Joint Venture With B Cr Bank / Accrued Expenses
c.	**Goods** are **sold** / **other income** are received.	Dr Bank / Accounts Receivable Cr Joint Venture With B
d.	For **credit purchases** and **sales**:	
	i. When **discounts** are **received** from creditors.	Dr Accounts Payable Cr Joint Venture With B - Discounts Received *
	ii. When **discounts** are **allowed** to debtors.	Dr Joint Venture With B - Discounts Allowed * Cr Accounts Receivable
	When **bad debts** are incurred.	Dr Joint Venture With B - Bad Debts * Cr Accounts Receivable
e.	**Goods** are **withdrawn** from business venture:	
	i. for venturer B (i.e. **inter-firm transfer** of **goods**);	(No entry) (**Note**: The **transfer** of **goods** from **A** to **B** does not affect the business. The cost of goods has been debited to Joint Venture account when they were bought.)
	ii. for **personal use**;	Dr Drawings Cr Joint Venture With B
	iii. for **own business use** 供原有业务用途.	Dr Purchases Cr Joint Venture With B

Hint * ***Discounts received*** *are treated as* ***income****, while* ***discounts allowed*** *&* ***bad debts*** *are treated as* ***expenses*** *&* ***losses*** *of the business venture.*

f.	When **goods** of business venture are **damaged** / **lost** / **destroyed**: i. If goods are **covered** by insurance & venturer A receives the insurance claim.	Dr Bank Cr Joint Venture With B
	ii. If goods are **not covered** by insurance.	(No entry) (**Note**: The loss will automatically be reflected in profit / loss on joint venture)
g.	**Inter-firm payment** is made by venturer A to venturer B **before final settlement**, and vice versa.	Dr Joint Venture With B Cr Bank - to B
		(In the **books** of venturer **B**) Dr Bank - from A Cr Joint Venture With A
h.	Venturer A **takes over** at agreed price: i. **non-current asset**;	Dr Non-current Asset Cr Joint Venture With B
	ii. **unsold goods**.	Dr Purchases Cr Joint Venture With B
i.	**Sales commission** / **interest on capital** is allowed.	Dr Joint Venture With B Cr Profit And Loss - Commission / Interest Income
j.	Draw up **Memorandum Joint Venture** account to **calculate** and divide the **profit** / **loss** on joint venture, and then record it in respective books.	Dr Joint Venture With B Cr Profit And Loss - Profit On Joint Venture **Or** Dr Profit And Loss - Loss On Joint Venture Cr Joint Venture With B
k.	**Final settlement** between venturers A & B: Each **Joint Venture** account reflects the **amounts receivable** and **payable** between the venturers: i. If venturer A's Joint Venture account is in **debit** balance (i.e. payments > receipts), he is to **receive** from venturer B.	Dr Bank - from B Cr Joint Venture With B
	ii. If venturer B's Joint Venture account is in **credit** balance (i.e. payments < receipts), he is to **pay** venturer A.	(In the **books** of venturer **B**) Dr Joint Venture With A Cr Bank - to A

Example 1

On 1 January Year 1, Lee of Johor Bahru and Kong of Penang entered into a joint venture. Lee was to supply the goods and Kong was to arrange the sales. Both venturers would pay some of the expenses when necessary. Profits / losses were to be shared equally. Details of the transactions during the year were as follows:

Year 1			RM
Jan	1	Lee purchased goods in cash	2,400
	8	Lee paid packing expenses	100
	10	Lee paid carriage charges	240
Feb	1	Kong paid storage expenses	350
Apr	15	Kong sold part of the goods for cash	2,200
Jun	20	Kong paid advertising expenses	220
Nov	30	Kong sold the remaining goods for cash	4,200

You are required to prepare:

(a) Ledger accounts in the books of Lee and Kong respectively;

(b) Memorandum Joint Venture account.

Solution:

Step **1** : Lee and Kong, each **recorded** in his own books **only** the **transactions** in which he was **involved**:

(a) In the books of **Lee**:

Joint Venture With Kong

Year 1			RM				
Jan	1	Bank - Purchases	2,400				
	8	Bank - Packing Expenses	100				
	10	Bank - Carriage Charges	240				

Bank

				Year 1			RM
				Jan	1	Joint Venture With Kong - Purchases	2,400
					8	Joint Venture With Kong - Packing Expenses	100
					10	Joint Venture With Kong - Carriage Charges	240

In the books of **Kong**:

Joint Venture With Lee

Year 1		RM	Year 1		RM
Feb 1	Bank - Storage Expenses	350	Apr 15	Bank - Sales	2,200
Jun 20	Bank - Advertising Expenses	220	Nov 30	Bank - Sales	4,200

Bank

Year 1		RM	Year 1		RM
Apr 15	Joint Venture With Lee - Sales	2,200	Feb 1	Joint Venture With Lee - Storage Expenses	350
Nov 30	Joint Venture With Lee - Sales	4,200	Jun 20	Joint Venture With Lee - Advertising Expenses	220

Step 2: Since Lee and Kong did not know what the transactions were in each other's books, at the end of the venture, each of them **sent** a copy of his **Joint Venture** account to the other.
Each party would then draw up a **Memorandum Joint venture** account in which the **profit** / **loss** on the **venture** was **calculated** and **shared** among them as agreed:

> **Hint**
> - *It is drawn up **not** according to the **double entry**.*
> - *It **combines** the **transactions** of all venturers.*
> - *It is in the nature of **Income Statement**.*

(b)

Lee And Kong
Memorandum Joint Venture

		RM		RM
Purchases - Lee		2,400	Sales - Kong	6,400
Packing Expenses - Lee		100		
Carriage Charges - Lee	3,310	240		
Storage Expenses - Kong		350		
Advertising Expenses - Kong		220		
Profit On Joint Venture (**Working**)				
- Lee		1,545		
- Kong		1,545		
		6,400		6,400

> **Hint**
> *It is the **difference** between the **sales** & **expenses** / costs of all venturers.*

Working:
Profit On Joint Venture:
RM (6,400 – 3,310) = RM 3,090

RM 3,090 x $\frac{1}{2}$ = RM **1,545**

Step 3: The **profit** shared between Lee and Kong had to be **brought into** their **respective books**. The **amounts receivable** and **payable** between them could now be **determined**, and the **Joint Venture** account for both parties would then be **closed** by **transferring** of **cash** between them:

(a) In the books of **Lee**:

Joint Venture With Kong

Year 1			RM	Year 1			RM
Jan	1	Bank - Purchases	2,400	Dec	31	Balance c/d	4,285
	8	Bank - Packing Expenses	100				
	10	Bank - Carriage Charges	240				
Dec	31	Profit And Loss - Profit On Joint Venture	1,545				
			4,285				4,285
Dec	31	Balance b/d	4,285	Dec	31	Bank - from Kong	* 4,285

Hint *The* ***debit*** *balance is the amount* ***owed to Lee*** *by* ***Kong****.*

Bank

Year 1			RM	Year 1			RM
Dec	31	Joint Venture With Kong - from Kong	4,285	Jan	1	Joint Venture With Kong - Purchases	2,400
					8	Joint Venture With Kong - Packing Expenses	100
					10	Joint Venture With Kong - Carriage Charges	240

In the books of **Kong**:

Joint Venture With Lee

Year 1		RM	Year 1		RM
Feb 1	Bank- Storage Expenses	350	Apr 15	Bank - Sales	2,200
Jun 20	Bank- Advertising Expenses	220	Nov 30	Bank - Sales	4,200
Dec 31	Profit And Loss - Profit On Joint Venture	1,545			
31	Balance c/d	4,285			
		6,400			6,400
Dec 31	Bank - to Lee	* 4,285	Dec 31	Balance b/d	4,285

Hint *The* ***credit*** *balance is the amount* ***owed to Lee*** *by Kong.*

Bank

Year 1		RM	Year 1		RM
Apr 15	Joint Venture With Lee - Sales	2,200	Feb 1	Joint Venture With Lee - Storage Expenses	350
Nov 30	Joint Venture With Lee - Sales	4,200	Jun 20	Joint Venture With Lee - Advertising Expenses	220
			Dec 31	Joint Venture With Lee - to Lee	4,285

Hint ** The* ***amounts receivable*** *and* ***payable*** *are the* ***same*** *but on* ***opposite sides*** *of* ***Joint Venture*** *account.*

Practice 1

Chong and Ahmad enter into a joint venture on condition that profits and losses would be shared in the ratio of 2:1. No separate set of books was opened for the business. Each party recorded his transactions in his own books.

The following joint venture transactions took place:

Year 1

Apr 15 Chong bought goods in cash RM 2,400.
16 Ahmad paid insurance RM 220.
18 Ahmad bought goods in cash RM 1,350.
24 Chong sold goods for cash RM 3,680.
28 Ahmad sent goods of cost RM 340 to Chong and paid transport expenses RM 90.
29 Chong paid freight RM 420.
30 Chong bought goods in cash RM 780.
May 5 Ahmad sold goods for cash RM 2,890.
6 Chong sold goods for cash RM 580.

Hint *It is an* ***inter-firm transfer*** *of* ***goods.***

The joint venture was completed on the 10 May Year 1.

You are required to prepare:
(a) Ledger accounts in the books of both Chong and Ahmad;
(b) Memorandum Joint Venture account.

Answer Guide

	RM	Chong RM	Ahmad RM
1. ***Profit On Joint Venture:***	*1,890*	*1,260*	*630*
2. ***Bank****: from Ahmad to Chong*	*600*		

Think 1

*What is the **main difference** between a **partnership** and a **joint venture**?*

Example 2

Pan, Qiu and Ren entered into a joint venture dealing in motor spare parts. Profits and losses were to be shared in the ratio of 3:2:1.

The following transactions took place:

Year 2

Jan	1	Pan rented a shop and paid a two-month rent of RM 800.
	2	Qiu bought a second-hand motor van for RM 12,000.
	3	Qiu bought spare parts for RM 2,450 and transferred the goods to Ren to arrange for sales.
	10	Ren sold spare parts amounting to RM 7,350.
	18	Pan bought spare parts in cash RM 4,200.
	25	The motor van broke down. Ren agreed to use his own van for the venture at an agreed charge of RM 600.
Feb	3	The motor van was sold for RM 11,000. Proceeds from the disposal of motor van were kept by Qiu.
	5	Pan sold spare parts for cash RM 12,600.
	10	Ren supplied spare parts of cost RM 1,760 from his own existing business.
	15	Ren sold spare parts for a total of RM 5,280.
	27	Pan paid the electricity bill for the shop by cash RM 120.
	28	Qiu paid general expenses RM 920.
	28	Joint venture ended. The unsold spare parts were taken over by Ren at an agreed value of RM 1,200.

You are required to show:

(a) Joint Venture account in the books of each of the three venturers;

(b) Memorandum Joint Venture account.

Hint

***Transactions between venturers** may involve:*

*a. Sending of **goods** / **non-current asset** from one venturer to another;*

*b. Remittance of **cash** from one venturer to another.*

***Accounting treatment**:*

*If the **asset** (e.g. goods / non-current asset) transferred is the **joint venture's**, **no entry** is needed by any parties.*

*However, if the **asset** (e.g. cash / goods / non-current asset) transferred is the **joint venturer's**, the **sending venturer** is to **debit** the **Joint Venture** account and credit the relevant account, while the **receiving venturer** is to debit the relevant account and **credit** the **Joint Venture** account.*

Think 2 *If Pan **transferred** the **spare parts** from his **own business** instead of buying from the market, what **account** should be **credited**?*

Solution:

(a) In the books of **Pan**:

Joint Venture With Qiu And Ren

Year 2		RM	Year 2		RM
Jan 1	Bank - Rent	800	Feb 5	Bank - Sales	12,600
18	Bank - Purchases	4,200			
Feb 27	Bank - Electricity	120			
28	Profit On Joint Venture *	7,290			
28	Balance c/d	190			
		12,600			12,600
28	Bank - to Qiu	190	28	Balance b/d	190

Hint ** ***Disposal proceeds** & **inventory taken over** were treated in the **same** way as **sales**.*

In the books of **Qiu**:

Joint Venture With Pan And Ren

Year 2		RM	Year 2		RM
Jan 2	Bank - Motor Van	12,000	Feb 3	Bank - Disposal Proceeds of motor van **	11,000
3	Bank - Purchases	2,450	28	Balance c/d	9,230
Feb 28	Bank - General Expenses	920			
28	Profit On Joint Venture *	4,860			
		20,230			20,230
28	Balance b/d	9,230	28	Bank - from Pan	190
				- from Ren	9,040
		9,230			9,230

Hint ***Spare parts** from **Ren**'s **own existing business**.*

In the books of **Ren**:

Joint Venture With Pan And Qiu

Year 2		RM	Year 2		RM
Jan 25	Motor Van Charges	600	Jan 10	Bank - Sales	7,350
Feb 10	Purchases	1,760	Feb 15	Bank - Sales	5,280
28	Profit On Joint Venture *	2,430	28	Purchases - Inventory taken over **	1,200
28	Balance c/d	9,040			
		13,830			13,830
28	Bank - to Qiu	9,040	28	Balance b/d	9,040

Hint * ***Profit On Joint Venture** was derived only **after** the **Memorandum Joint Venture** account had been prepared.*

(b)

Pan, Qiu And Ren
Memorandum Joint Venture

		RM			RM
Rent - Pan		800	Sales - Ren	**(W1)**	12,630
Motor Van - Qiu		12,000	- Pan		12,600
Purchases - Qiu		2,450	Disposal Proceeds of motor van - Qiu		11,000
- Pan	*22,850*	4,200	Inventory taken over - Ren		1,200
- Ren		1,760			
Motor Van Charges - Ren		600			
Electricity - Pan		120			
General Expenses - Qiu		920			
Profit On Joint Venture	**(W2)**				
- Pan		7,290			
- Qiu		4,860			
- Ren		2,430			
		37,430			37,430

Think 3

How do we know that the ***recording*** *of the above joint venture transactions is* ***correct****?*

Workings:

(1) Sales - Ren:
RM (7,350 + 5,280) = RM **12,630**

(2) Profit On Joint Venture:
RM (37,430 – 22,850) = RM 14,580

RM 14,580 x $\frac{3}{6}$ = RM **7,290**

RM 14,580 x $\frac{2}{6}$ = RM **4,860**

RM 14,580 x $\frac{1}{6}$ = RM **2,430**

Practice 2

Abu and Boon agreed to enter into a joint venture and to share profits and losses in the ratio of 2:3. Each of the venturers would receive 5% commission based on their sales.

Hint It is an ***inter-firm payment*** during the venture.

The transactions were only for one month as follows:

Year 2

Jan	1	Boon purchased goods for RM 12,000 and received a cheque from Abu for half of the amount.
	2	Abu bought furniture for the business venture by cheque RM 3,000.
	2	Boon paid transportation and insurance expenses for RM 220 and RM 120 respectively.
	3	Boon sent some of the goods of cost RM 9,000 to Abu.
	14	Abu sold all the goods for RM 13,000 and paid selling expenses RM 300.
	17	Boon sold goods of cost RM 2,000 for RM 3,500 and incurred selling expenses RM 60.
	25	Boon took over the balance of the goods unsold at cost.
	28	Abu agreed to take over the furniture which was depreciated by 5% on cost.
	30	Commission and profits / losses were to be calculated and divided as agreed.
	31	A final settlement was made between the venturers and the venture was closed.

You are required to prepare:

(a) Joint Venture With Boon account in the books of Abu;
(b) Joint Venture With Abu account in the books of Boon;
(c) Memorandum Joint Venture account.

Answer Guide

		Abu	Boon
	RM	RM	RM
1. ***Profit On Joint Venture***:	3,825	1,530	2,295
2. ***Bank***: from Abu to Boon	4,370		

Think 4

*Which **transactions should** be **recorded** in the **books** of **both Abu** and **Boon**?*

Think 5

__Identify__ the __transactions between venturers__ which __should__ and __should not__ be __recorded__ in __Joint Venture__ account in their respective books.

Input

Inventory on hand

At the end of a financial year, any unsold inventory should be taken into account:

a. *It may be valued at **cost** plus **proportionate expenses** (e.g. carriage & insurance).*
b. *It is **credited** to **Joint Venture** account in the books of **each venturer** in profit sharing ratio and carried down to the next period.*
c. *It is **carried down** in **Memorandum** account before profit / loss is calculated and shared.*

Review

Hint: ***Each venturer records** the **transactions** in which he is **involved only** in his own books.*

(a) In the books of **A**:

与B的合营
Joint Venture With B

	RM		RM
Bank - to B *	xx	Bank / Accounts Receivable - Sales	xx
Bank / Accounts Payable - Purchases	xx	Non-current Asset - Taken over	xx
Bank - Expenses	xx	Bank - Insurance Claim	xx
Bank - Non-current Asset	xx	Bank - from B	**yy**
Profit And Loss			
- Commission Income	xx		
- Profit On Joint Venture	xx		
	xx		xx

(b) In the books of **B**:

与A的合营
Joint Venture With A

	RM		RM
Purchases	xx	Bank - from A *	xx
Bank - Expenses	xx	Bank / Accounts Receivable - Sales	xx
Profit And Loss		Purchases - Inventory taken over	xx
- Commission Income	xx		
- Profit On Joint Venture	xx		
Bank - to A	**zz**		
	xx		xx

(c)

A And B A与B
Memorandum Joint Venture 合营备忘录 / 合营损益表

	RM		RM
Purchases - A	xx	Sales - A	xx
- B	xx	- B	xx
Expenses - A	xx	Non-current Asset taken over - A	xx
- B	xx	Inventory taken over - B	xx
Non-current Asset - A	xx	Insurance Claim - A	xx
Commission Income - A	xx		
- B	xx		
Profit On Joint Venture合营利润			
- A	xx		
- B	xx		
	xx		xx

Hint

- ***Inter-firm payments** (*) are **recorded** in **respective books** but **not** in **Memorandum** account as they offset each other.*
- ***Inter-firm transfers** of **goods** are **not recorded** as they do not affect the business venture.*
- ***Memorandum** account is **not** a **double entry** account.*
  *It shows the **combination** of the **transactions** of all venturers to calculate the **profit** / **loss** of the venture.*

*At the **end** of joint venture:*

- *After the **profit** / **loss** has been **calculated** and **recorded** in respective books, each venturer is able to know **how much** he has to **pay to** / **receive from** the other venturer.*
- *A **debit** balance (**yy**) of **Joint Venture** account (i.e. **payments** > **receipts**) indicates the venturer is to **receive from** the other venturer, and vice versa.*
- *The **two joint venture** accounts have the **same amount** of **balance** but on **opposite sides** (i.e. **yy** = **zz**).*
- *After each **balance** is **settled**, the **Joint Venture** account is **closed** in respective books.*

Chapter 26 Hire Purchase Accounts

Learning Objectives

After studying this chapter, you should be able to:

- understand the nature of hire purchase;
- differentiate between cash price and hire purchase price;
- understand and calculate hire purchase price and instalment;
- understand and apportion hire purchase interest, by using:
  a. Straight line method;
  b. Reducing balance method.
- make Ledger entries in the books of buyer, including termination of hire purchase agreement, by using:
  a. Hire purchase interest account method;
  b. Hire purchase interest suspense account method.
- show the relevant items in financial statements.

26.1 Nature of Hire Purchase

1. Hire purchase 分期付款 / 租购 is a purchase and sale of asset under the following conditions:
   a. Asset will be delivered to buyer / purchaser / hirer after hire purchase agreement has been signed;
   b. Buyer has the right to use the asset delivered but the ownership belongs to seller before full settlement of instalments;
   c. The price of the asset will be paid by instalments over the period of agreement yearly / half-yearly / quarterly / monthly;
   d. Each instalment is paid by buyer as the hire charge of asset;
   e. After all instalments are paid, the legal ownership of the asset will be transferred to buyer;
   f. If buyer fails to pay the instalments, seller could repossess the asset.

2. It is a common practice nowadays for a **finance company** to be involved in a hire purchase transaction by buying an asset from seller / dealer. The finance company thus becomes the **owner** as well as **financier** of the asset.

26.2 Terms of Hire Purchase

1. **Cash price** / **cash purchase price** is the price of asset bought and will be **paid immediately** or in a **short period**.

2. When an asset is acquired on hire purchase, the **total amount payable** is **more** than the **cash price**. The excess payment is called the **hire purchase interest** which is included in the **hire purchase price**.

3. Relationship between the terms used:

   Hire purchase price = Cash price + Hire purchase interest
   = Deposit + Instalments

   Hire purchase interest = Hire purchase price – Cash price

4. Calculation of **payment** per **instalment**:

	RM
Cash price	xx
Less: Deposit / Down payment	(xx)
Amount to be financed / Principal / Balance of cash price	xx
Add: Total hire purchase interest	xx
Total amount of instalments / Hire purchase instalments	xx
∴ Per instalment = Total amount of instalments ÷ Total number of instalments	**xx**

+ *Hire purchase price*

Remark: For the following **Examples** and **Practices**, all calculations are made to the **nearest RM** when necessary.

Example 1

Mr Lee was interested in purchasing a Myvi from WS Motors, and he agreed to make a car hire purchase loan with Leong Finance Company.

Think 1

*If Mr Lee was **unable** to **pay** the instalments one year later, what **action** could **Leong Finance Company** take?*

The information was given as follows:
Cash price: RM 45,000
Deposit: RM 5,000
Interest: 10% per annum
Payable: 2 years, monthly

You are required to calculate:
(a) Total hire purchase interest;
(b) Hire purchase price;
(c) Monthly instalment.

Solution:

		RM
Cash price		45,000
Less: Deposit		(5,000)
Amount to be financed		40,000
Add: Total hire purchase interest (RM 40,000 x 10% x 2)	(a)	**8,000**
Total amount of instalments		48,000
Hire purchase price (RM 45,000 + RM 8,000)	(b)	**53,000**
Monthly instalment (RM 48,000 ÷ 24)	(c)	**2,000**

Think 2

*If Mr Lee **settled** all the instalments two years later, what would happen to the car?*

26.3 Apportionment of Hire Purchase Interest

Hire purchase interest is a **finance cost** for deferred payment by the purchaser. The two common methods of apportioning the interest over the hire purchase period are as follows:

1. **Straight line method** / **Equal instalments method**:
   The hire purchase interest is calculated on the **balance** of **cash price outstanding** in the **beginning**.
   It is charged **evenly** / equally **over** the **period** of **hire purchase agreement**.

   a. Calculation of **hire purchase interest** per **instalment**:

   $$\frac{\text{Total hire purchase interest}}{\text{Total number of instalments}}$$

   b. Calculation of **hire purchase interest** for **an accounting period**:

   $$\text{Number of instalments paid} \times \text{Hire purchase interest per instalment}$$

   Or

   $$\text{Total hire purchase interest} \times \frac{\text{Number of instalments paid}}{\text{Total number of instalments}}$$

Example 2

Cash price of a machine: RM 18,000
Down payment: 10% of cash price
Payments: 36 monthly instalments of RM 531 each

You are required to calculate the monthly hire purchase interest using straight line method.

Solution:

	RM
Cash price	18,000
Less: Down payment	(1,800)
Amount to be financed	16,200
Add: Total hire purchase interest	2,916
Total amount of instalments (RM 531 x 36)	19,116
Monthly hire purchase interest (RM 2,916 ÷ 36)	**81**

Balancing figure = RM (19,116 –16,200)

Hint *The **same amount** of interest was charged each month.*

Practice 1

Wong bought a Sony equipment of cash price RM 28,000 from Tien Hoe Enterprise. He paid RM 2,000 as deposit. The balance and the interest would be settled by 12 monthly instalments. The interest charged was 6% per annum.

Hint *It was charged on the **outstanding balance** in the **beginning**.*

You are required to calculate:
(a) Total hire purchase interest;
(b) Total amount of instalments;
(c) Hire purchase price;
(d) Monthly instalment;
(e) Monthly hire purchase interest using straight line method.

Answer Guide

	RM
*(a) **Total hire purchase interest**:*	*1,560*
*(b) **Total amount of instalments**:*	*27,560*
*(c) **Hire purchase price**:*	*29,560*
*(d) **Monthly instalment**:*	*2,297*
*(e) **Monthly hire purchase interest**:*	*130*

2. **Reducing balance method**:
The hire purchase interest is calculated on the **reduced balance outstanding** at the **beginning** of **each period**. Thus, it **varies** from period to period.

Calculation of **hire purchase interest** per **instalment**:

> Outstanding balance *(in the beginning of each period)* x Interest rate (%)

Example 3

	RM
Cash price of a computer:	8,000
Initial deposit:	3,000
Year 1 instalment:	2,200
Year 2 instalment:	2,200
Year 3 instalment:	2,165

Interest: 15% per annum charged on the outstanding balance

You are required to calculate the yearly hire purchase interest using reducing balance method.

Solution:

		RM	
Year 1	Cash price	8,000	
	Less: Initial deposit	(3,000)	
	Amount to be financed	* 5,000	
	Add: Hire purchase interest	**750**	*RM 5,000 x 15%*
		5,750	
	Less: 1st instalment	(2,200)	
Year 2	Outstanding balance	* 3,550	
	Add: Hire purchase interest	**533**	*RM 3,550 x 15%*
		4,083	
	Less: 2nd instalment	(2,200)	
Year 3	Outstanding balance	* 1,883	
	Add: Hire purchase interest	**282**	*RM 1,883 x 15%*
		2,165	
	Less: 3rd instalment	(2,165)	
		0	

Hint **The **outstanding balance** for each year is **decreasing** after each instalment is paid.*

Think 3 *What do you think of the **yearly interest** from Year **1** to Year **3**?*

Practice 2

	RM
Cash price of an air conditioner:	3,000
Down payment:	1,000
Year 1 instalment:	850
Year 2 instalment:	750
Year 3 instalment:	591
Interest rate per annum: 5%	

You are required to calculate the yearly hire purchase interest using reducing balance method.

Answer Guide

	Year 1	*Year 2*	*Year 3*
	RM	*RM*	*RM*
*1. **Hire purchase interest**:*	*100*	*63*	*28*

26.4 Accounting Entries in Buyer's Books

1. There are **two methods** of recording:
   a. **Hire Purchase Interest Account Method**
   Where a **Hire Purchase Interest** account is opened to record the **accrued interest** and charged to **Profit And Loss** account at the **end** of each **accounting period**.

   b. **Hire Purchase Interest Suspense Account Method**
   Where a **Hire Purchase Interest Suspense** account is opened to record the **total hire purchase interest** which will be apportioned to each accounting period.

   Each period is charged only with the **interest accrued** / **incurred** for that period.

   The **balance** in the **Suspense** account represents the **interest not yet due**, and is shown as a **deduction** from **Hire Purchase Vendor** on **Statement Of Financial Position**.

2. For accounting purpose, the asset bought on hire purchase is treated as if it belongs to the buyer and is purchased with a **cash price**. Thus, the cash price of the asset should be **depreciated** in the same way as other assets.

3. **Accounting entries**:

No.	Transactions	Method 1 Hire Purchase Interest Account Method	Method 2 Hire Purchase Interest Suspense Account Method
1.	Buy an asset on hire purchase and record at **cash price** when the agreement is signed.	Dr Non-current Asset Cr Hire Purchase Vendor / Seller / Creditor	(Same)
2.	Pay **deposit** to vendor.	Dr Hire Purchase Vendor Cr Bank	(Same)
3.	Record **total hire purchase interest**.	(Not applicable)	Dr Hire Purchase Interest Suspense Cr Hire Purchase Vendor
4.	Pay each **instalment** to vendor.	Dr Hire Purchase Vendor Cr Bank	(Same)
5.	At the end of an accounting period: a. Record **hire purchase interest** for the **period**.	Dr Hire Purchase Interest Cr Hire Purchase Vendor	(Not applicable)
	b. Transfer the **hire purchase interest** for the **period** to Profit And Loss account.	Dr Profit And Loss Cr Hire Purchase Interest	Dr Profit And Loss - Hire Purchase Interest Cr Hire Purchase Interest Suspense **Or** Dr Hire Purchase Interest Cr Hire Purchase Interest Suspense Dr Profit And Loss Cr Hire Purchase Interest
	c. Charge annual **depreciation** on the **full** amount of **cash price** of the asset.	Dr Profit And Loss - Depreciation Cr Accumulated Depreciation	(Same)
6.	**Termination** of **agreement**: a. Make a **lump sum payment** to vendor.	Dr Hire Purchase Vendor - Final Settlement Cr Bank	(Same)
	b. Record **hire purchase interest** for the **period** before termination.	Dr Hire Purchase Interest Cr Hire Purchase Vendor	(Not applicable)
	c. Transfer the **hire purchase interest** for the **period** to Profit And Loss account.	Dr Profit And Loss Cr Hire Purchase Interest*	Dr Profit And Loss - Hire Purchase Interest * Cr Hire Purchase Interest Suspense
	d. Close **Hire Purchase Interest Suspense** account by transferring the **balance** to Hire Purchase Vendor account.	(Not applicable)	Dr Hire Purchase Vendor Cr Hire Purchase Interest Suspense
	e. Close **Hire Purchase Vendor** account by transferring **termination charges** to Profit And Loss account.	Dr Profit And Loss - Termination Charges* Cr Hire Purchase Vendor	(Same)

	Disposal after **termination**: f. Close **asset** account by transferring the cost to Disposal account.	Dr Disposal Cr Non-current Asset	(Same)
	g. Transfer the **depreciation** for the **period** to Profit And Loss account.	Dr Profit And Loss - Depreciation* Cr Accumulated Depreciation	(Same)
	h. Close **Accumulated Depreciation** account by transferring the accumulated depreciation to Disposal account.	Dr Accumulated Depreciation Cr Disposal	(Same)
	i. Receive **cash** from disposal of asset. **Or** Asset is **destroyed** and **covered** by insurance.	Dr Bank Cr Disposal **Or** Dr Insurance Company / Bank Cr Disposal	(Same)
	j. Close **Disposal** account by transferring **gain** / **loss** on **disposal** to Profit And Loss account.	Dr Disposal Cr Profit And Loss - Gain On Disposal* **Or** Dr Profit And Loss - Loss On Disposal* Cr Disposal	(Same)

Remark: * If the **date** of **termination** does not fall on the **last day** of **accounting year**, the **relevant accounts** (with *) have to be **opened before** being **transferred** to **Profit And Loss** account at the **end** of **accounting period**.

Input

***Substance over form* 实质重于形式**

*In a hire purchase transaction, the **substance** (reality) is that the business purchases an asset through financing, though the **legal title** (form) has not yet been transferred to the business.*
The legal title is normally transferred to the buyer when the financing is fully settled at a later date.

*Thus, from a business point of view, the **substance** (reality) **takes precedence over** 优先于 the (legal) **form**. As a result, the **asset** account is **debited** and the **hire purchase vendor** (liability) account is **credited**.*

1. **Method 1**: **Hire Purchase Interest Account Method**

—— Apportioning hire purchase interest using **straight line method**

Example 4

On 1 April Year 4, Chang purchased a Canon printing machine from Hock Wick Engineering Bhd under a hire purchase agreement. The cash price was RM 50,000. He paid an immediate deposit of RM 5,000 on that day, and the balance was to be paid by 18 monthly instalments.

The rate of interest was 20% per annum. The first instalment was made on 30 April Year 4 and the remaining instalments were to be paid on the last day of each month.

All payments were made on the due dates. The printing machine was depreciated at 20% per annum on cost. The financial year of Chang ends on 31 December each year.

In the books of Chang (buyer), you are required to:

(a) calculate: (i) Hire purchase price;
(ii) Monthly instalment;
(iii) Monthly hire purchase interest.

(b) prepare the following Ledger accounts for the year ended 31 December Year 4:
(i) Office Equipment;
(ii) Hire Purchase Vendor – Hock Wick Engineering Bhd;
(iii) Hire Purchase Interest;
(iv) Accumulated Depreciation Of Office Equipment;
(v) Profit And Loss.

(c) prepare the following financial statements (extract):
(i) Income Statement;
(ii) Statement Of Financial Position.

Solution:

In the books of **Chang** (buyer):

(a)

		RM
Cash price		50,000
Less: Deposit		(5,000)
Amount to be financed		45,000
Add: Total hire purchase interest (RM 45,000 x 20% x $\frac{18}{12}$)		13,500
Total amount of instalments		58,500
Hire purchase price (RM 50,000 + RM 13,500)	(i)	**63,500**
Monthly instalment (RM 58,500 ÷ 18)	(ii)	**3,250**
Monthly hire purchase interest (RM 13,500 ÷ 18)	(iii)	**750**

(b) (i) Office Equipment

Year 4		RM	Year 4		RM
Apr 1	Hire Purchase Vendor	50,000	Dec 31	Balance c/d	50,000
Year 5					
Jan 1	Balance b/d	50,000			

(ii) Hire Purchase Vendor – Hock Wick Engineering Bhd

Year 4		RM	Year 4		RM
Apr 1	Bank - Deposit	5,000	Apr 1	Office Equipment	50,000
30	Bank - 1st Instalment	3,250	Dec 31	Hire Purchase Interest (**W1**)	6,750
May 31	Bank - 2nd Instalment	3,250			
Jun 30	Bank - 3rd Instalment	3,250			
Jul 31	Bank - 4th Instalment	3,250			
Aug 31	Bank - 5th Instalment	3,250			
Sept 30	Bank - 6th Instalment	3,250			
Oct 31	Bank - 7th Instalment	3,250			
Nov 30	Bank - 8th Instalment	3,250			
Dec 31	Bank - 9th Instalment	3,250			
31	Balance c/d	22,500			
		56,750			56,750
			Year 5		
			Jan 1	Balance b/d	22,500

Interest for 9 months & charged equally per month

(iii) Hire Purchase Interest

Year 4		RM	Year 4		RM
Dec 31	Hire Purchase Vendor	6,750	Dec 31	Profit And Loss	6,750

(iv) Accumulated Depreciation Of Office Equipment

Year 4		RM	Year 4		RM
Dec 31	Balance c/d	7,500	Dec 31	Profit And Loss - Depreciation (**W2**)	7,500
			Year 5		
			Jan 1	Balance b/d	7,500

(v) Profit And Loss

Year 4		RM			
Dec 31	Hire Purchase Interest	6,750			
31	Depreciation	7,500			

(c) (i) Income Statement (Extract)
For The Year Ended 31 December Year 4

	RM	
Hire Purchase Interest	6,750	
Depreciation	7,500	

(ii) Statement Of Financial Position (Extract)
As At 31 December Year 4

	RM		RM
Non-current Assets		**Current Liabilities**	
Office Equipment, at cost	50,000	Hire Purchase Vendor	22,500
Less: Accumulated Depreciation	(7,500)		
	42,500		

Hint
- ☞ ***Depreciation** was calculated on the **full cash price**.*
- ☞ *The **full cash price** was the **cost** of the asset.*

Think 4
*How do you explain this figure from **Chang**'s point of view?*

Workings:
(1) Hire Purchase Interest: RM 750 x 9 = RM **6,750**

(2) Depreciation: RM 50,000 x 20% x $\frac{9}{12}$ = RM **7,500**

Practice 3

(**Method 1: Hire Purchase Interest Account Method**
—— Apportioning hire purchase interest using **straight line method**)

On 1 June Year 3, Omega Enterprise acquired furniture of cash price RM 25,000 by means of hire purchase agreement. The enterprise paid an initial deposit of RM 5,000 on the same date. The 12 equal monthly instalments included an interest of 20% per annum calculated on the balance of cash price outstanding on 1 June Year 3.

The first instalment was payable on 30 June Year 3, and the remaining instalments were due on the last day of each month. All instalments were paid on the due dates.

Omega Enterprise charges depreciation on the furniture at the rate of 25% per annum on cost. A half year depreciation is charged on asset acquired during the second half of any accounting year. The enterprise closes its accounts on 31 August annually.

In the books of Omega Enterprise (buyer), you are required to:
(a) calculate: (i) Total hire purchase interest;
(ii) Monthly instalment.
(b) prepare the following Ledger accounts for the year ended 31 August Year 3:
(i) Office Furniture;
(ii) Hire Purchase Vendor;
(iii) Hire Purchase Interest;
(iv) Accumulated Depreciation Of Office Furniture;
(v) Profit And Loss.

(c) prepare the following financial statements (extract):
(i) Income Statement;
(ii) Statement Of Financial Position.

Answer Guide
➢ ***Accounting period**: 1/9/Year 2 ~ 31/8/Year 3*

	RM
1. ***Total hire purchase interest**:*	*4,000*
2. ***Monthly instalment**:*	*2,000*
3. ***Hire Purchase Vendor**:*	*15,000*
4. ***Hire Purchase Interest**:*	*1,000*
5. ***Office Furniture**, carrying amount:*	*21,875*

2. **Method 1**: **Hire Purchase Interest Account Method**

—— Apportioning hire purchase interest using **reducing balance method**

William Enterprise bought a delivery van from Sim Wang Sdn Bhd under a hire purchase agreement on 1 July Year 4. The cash price of the van was RM 90,000. The business paid an initial deposit of RM 15,000 and the balance was to be paid by 3 equal instalments on 30 June Year 5, Year 6 and Year 7 for RM 30,000, RM 30,000 and RM 30,525 respectively.

Interest at 10% was charged on the balance outstanding immediately before the due date of each instalment. Depreciation was charged at 10% on reducing balance basis. The business paid all the instalments on the due dates. The financial year ends on 30 June each year.

In the books of William Enterprise (buyer), you are required to prepare:

(a) the following Ledger accounts for the 3 years up to 30 June Year 7:
- (i) Motor Vehicle;
- (ii) Hire Purchase Vendor – Sim Wang Sdn Bhd;
- (iii) Hire Purchase Interest;
- (iv) Accumulated Depreciation Of Motor Vehicle;
- (v) Profit And Loss.

(b) the following financial statements (extract):
- (i) Income Statement for the year ended 30 June Year 5, Year 6 and Year 7;
- (ii) Statement Of Financial Position as at 30 June Year 5, Year 6 and Year 7.

Solution:

In the books of **William Enterprise** (buyer):

(a) (i) Motor Vehicle

Date	Particulars	RM	Date	Particulars	RM
Year 4			Year 5		
Jul 1	Hire Purchase Vendor	90,000	Jun 30	Balance c/d	90,000
Year 5			Year 6		
Jul 1	Balance b/d	90,000	Jun 30	Balance c/d	90,000
Year 6			Year 7		
Jul 1	Balance b/d	90,000	Jun 30	Balance c/d	90,000
Year 7					
Jul 1	Balance b/d	90,000			

(ii) Hire Purchase Vendor – Sim Wang Sdn Bhd

Date	Particulars	RM	Date	Particulars	RM
Year 4			Year 4		
Jul 1	Bank - Deposit	15,000	Jul 1	Motor Vehicle	90,000
Year 5			Year 5		
Jun 30	Bank - 1st Instalment	30,000	Jun 30	Hire Purchase Interest (**W1**)	7,500
30	Balance c/d	52,500			
		97,500			97,500
Year 6			Year 5		
Jun 30	Bank - 2nd Instalment	30,000	Jul 1	Balance b/d	52,500
30	Balance c/d	27,750	Year 6		
			Jun 30	Hire Purchase Interest (**W1**)	5,250
		57,750			57,750
Year 7			Year 6		
Jun 30	Bank - 3rd Instalment	30,525	Jul 1	Balance b/d	27,750
			Year 7		
			Jun 30	Hire Purchase Interest (**W1**)	2,775
		30,525			30,525

Hint: *The **interest** was **decreasing** each year.*

(iii) Hire Purchase Interest

Date	Particulars	RM	Date	Particulars	RM
Year 5			Year 5		
Jun 30	Hire Purchase Vendor	7,500	Jun 30	Profit And Loss	7,500
Year 6			Year 6		
Jun 30	Hire Purchase Vendor	5,250	Jun 30	Profit And Loss	5,250
Year 7			Year 7		
Jun 30	Hire Purchase Vendor	2,775	Jun 30	Profit And Loss	2,775

(iv) Accumulated Depreciation Of Motor Vehicle

Year 5			RM	Year 5			RM
Jun 30	Balance c/d		9,000	Jun 30	Profit And Loss - Depreciation	(**W2**)	9,000
Year 6				Year 5			
Jun 30	Balance c/d		17,100	Jul 1	Balance b/d		9,000
				Year 6			
				Jun 30	Profit And Loss - Depreciation	(**W2**)	8,100
			17,100				17,100
Year 7				Year 6			
Jun 30	Balance c/d		24,390	Jul 1	Balance b/d		17,100
				Year 7			
				Jun 30	Profit And Loss - Depreciation	(**W2**)	7,290
			24,390				24,390
				Year 7			
				Jul 1	Balance b/d		24,390

(v) Profit And Loss

Year 5		RM	
June 30	Hire Purchase Interest	7,500	
30	Depreciation	9,000	
Year 6			
June 30	Hire Purchase Interest	5,250	
30	Depreciation	8,100	
Year 7			
June 30	Hire Purchase Interest	2,775	
30	Depreciation	7,290	

(b) (i) Income Statement (Extract)
For The Year Ended 30 June

		RM	
Year 5	Hire Purchase Interest	7,500	
	Depreciation	9,000	
Year 6	Hire Purchase Interest	5,250	
	Depreciation	8,100	
Year 7	Hire Purchase Interest	2,775	
	Depreciation	7,290	

Hint *This amount may* ***split into****:*

		RM
Year 5	***Non-current Liabilities***	
	Hire Purchase Vendor	*27,750*
	Current Liabilities	
	Hire Purchase Vendor	*24,750*

(ii) Statement Of Financial Position (Extract)
As At 30 June

		RM			RM
Year 5	**Non-current Assets**		Year 5	**Current Liabilities**	
	Motor Vehicle	90,000		Hire Purchase Vendor	52,500
	Less: Accumulated Depreciation	(9,000)			
		81,000			
Year 6	**Non-current Assets**		Year 6	**Current Liabilities**	
	Motor Vehicle	90,000		Hire Purchase Vendor	27,750
	Less: Accumulated Depreciation	(17,100)			
		72,900			
Year 7	**Non-current Assets**				
	Motor Vehicle	90,000			
	Less: Accumulated Depreciation	(24,390)			
		65,610			

Workings:

		Year 5	Year 6	Year 7
(1)	Hire Purchase Interest:	RM (90,000 – 15,000) = RM 75,000* x 10% = RM **7,500**	RM 52,500* x 10% = RM **5,250**	RM 27,750* x 10% = RM **2,775**
(2)	Depreciation:	RM 90,000 x 10% = RM **9,000**	RM (90,000 – 9,000) = RM 81,000 x 10% = RM **8,100**	RM (90,000 – 17,100) = RM 72,900 x 10% = RM **7,290**

Hint * *The* ***reduced outstanding balance*** *at the* ***beginning*** *of each* ***period****.*

Practice 4 (**Method 1: Hire Purchase Interest Account Method** —— Apportioning hire purchase interest using **reducing balance method**)

Pine Company purchased a Sony television set on hire purchase. The cash price of the TV set was RM 8,000. On 1 April Year 3, the company agreed to pay 20% of the cash price as deposit, and to make 3 annual payments on 31 March each year of RM 2,240 each and the last instalment of RM 2,248.

Interest was charged at 15% on the balance outstanding at the beginning of each financial year.

The 4 instalments were all paid by the due dates. Depreciation is charged at 10% per annum on reducing balance method.

Pine Company closes its books on 31 March each year.

In the books of Pine Company (buyer), you are required to prepare:

(a) the following Ledger accounts for the 4 years up to 31 March Year 7:

- (i) Office Equipment;
- (ii) Hire Purchase Vendor;
- (iii) Hire Purchase Interest;
- (iv) Accumulated Depreciation Of Office Equipment;
- (v) Profit And Loss.

(b) the following financial statements (extract):

- (i) Income Statement for the year ended 31 March Year 4, Year 5, Year 6 and Year 7;
- (ii) Statement Of Financial Position as at 31 March Year 4, Year 5, Year 6 and Year 7.

Answer Guide

➤ ***Accounting periods**: 1/4/Year 3 ~ 31/3/Year 4*
1/4/Year 4 ~ 31/3/Year 5
1/4/Year 5 ~ 31/3/Year 6
1/4/Year 6 ~ 31/3/Year 7

	Year 4	Year 5	Year 6	Year 7
	RM	RM	RM	RM
1. ***Hire Purchase Vendor**:*	5,120	3,648	1,955	-
2. ***Hire Purchase Interest**:*	960	768	547	293
3. ***Office Equipment**, carrying amount:*	7,200	6,480	5,832	5,249

Think 5

*How do you explain the **hire purchase vendor** in Year **7**?*

3. **Method 2**: **Hire Purchase Interest Suspense Account Method**

—— Apportioning hire purchase interest using **straight line method**

Example 6 (Same information as in **Example 4**)

In the books of Chang (buyer), you are required to prepare:

(b) (ii) Hire Purchase Vendor account – Hock Wick Engineering Bhd;

(iii) Hire Purchase Interest Suspense account.

(c) (ii) Statement Of Financial Position.

Think 6 *What is the **difference** in the **Hire Purchase Vendor** account between the **2 methods** in **Examples 4** & **6**?*

Solution:

In the books of **Chang** (buyer):

(All the answers are the same as those in **Example 4 except** for the following)

(b) (ii) Hire Purchase Vendor – Hock Wick Engineering Bhd

Year 4			RM	Year 4			RM
Apr	1	Bank - Deposit	5,000	Apr	1	Office Equipment	50,000
	30	Bank - 1st Instalment	3,250		1	Hire Purchase Interest Suspense	13,500
May	31	Bank - 2nd Instalment	3,250				
Jun	30	Bank - 3rd Instalment	3,250				
Jul	31	Bank - 4th Instalment	3,250				
Aug	31	Bank - 5th Instalment	3,250				
Sept	30	Bank - 6th Instalment	3,250				
Oct	31	Bank - 7th Instalment	3,250				
Nov	30	Bank - 8th Instalment	3,250				
Dec	31	Bank - 9th Instalment	3,250				
	31	Balance c/d	29,250				
			63,500				63,500
				Year 5			
				Jan	1	Balance b/d	29,250

Total hire purchase interest

Unpaid instalments

(iii) Hire Purchase Interest Suspense

Year 4			RM	Year 4			RM
Apr	1	Hire Purchase Vendor	13,500	Dec	31	Profit And Loss - Hire Purchase Interest	6,750
					31	Balance c/d	6,750
			13,500				13,500
Year 5							
Jan	1	Balance b/d	6,750				

Interest for 9 months & charged equally per month

Interest to be apportioned to subsequent periods.

(c) (ii) Statement Of Financial Position (Extract)
As At 31 December Year 4

	RM		RM
Non-current Assets		**Current Liabilities**	
Office Equipment, at cost	50,000	Hire Purchase Vendor	29,250
Less: Accumulated Depreciation	(7,500)	Less: Hire Purchase Interest Suspense	(6,750)
	42,500		22,500

Hint *The **amounts** were the **same** for the **2 methods** in **Examples 4** & **6**.*

Practice 5

(Same information as in **Practice 3**)
(**Method 2**: **Hire Purchase Interest Suspense Account Method**
— Apportioning hire purchase interest using **straight line method**)

In the books of Omega Enterprise (buyer), you are required to prepare:
(b) (ii) Hire Purchase Vendor account;
(iii) Hire Purchase Interest Suspense account.

(c) (ii) Statement Of Financial Position.

Answer Guide

	RM
1. ***Hire Purchase Vendor***:	*18,000*
2. ***Hire Purchase Interest Suspense***:	*3,000*

26.5 Termination of Hire Purchase Agreement

Hire purchase agreement may be terminated for the following reasons:
a. Buyer may wish to settle the outstanding balance with a lump sum payment before the due date;
b. The asset may be damaged in the hands of buyer in an accident. The two parties may have to reach a final settlement of the outstanding balance;
c. The asset may fail to function properly shortly after the commencement of the agreement;
d. Buyer may not pay the instalments and the asset is repossessed (i.e. taken back) by seller / financier.

Example 7 (Termination: Making a lump sum payment for early settlement
Method 1: Hire Purchase Interest Account Method
—— Apportioning hire purchase interest using **straight line method**)

Frank Bhd acquired a motor van from James Motor Sdn Bhd on 1 Oct Year 7 by means of hire purchase. The cash price of the asset was RM 18,000 and down payment of RM 7,000 was made at the date of signing the agreement. The company agreed to pay the balance by 18 monthly instalments of RM 720 each, payable on the 30th of each month, commencing on 30 October Year 7.

The depreciation of motor van was 10% per annum using straight line method. The company policy is to charge full year's depreciation on asset in the year of purchase and none in the year of disposal.

All payments were made on the due date.

On 1 July Year 8, Frank Bhd decided to sell the van for RM 16,000 in cash. James Motor Sdn Bhd agreed to accept the final settlement of RM 6,000 as the termination of hire purchase agreement.

Frank Bhd prepares its financial statements annually on 31 December.

In the books of Frank Bhd (buyer), you are required to:
(a) calculate: (i) Total hire purchase interest;
(ii) Monthly hire purchase interest.

(b) show the following Ledger accounts for Year 7 and Year 8:
- (i) Motor Van;
- (ii) Hire Purchase Vendor – James Motor Sdn Bhd;
- (iii) Hire Purchase Interest;
- (iv) Accumulated Depreciation Of Motor Van;
- (v) Disposal Of Motor Van;
- (vi) Profit And Loss.

(c) prepare the following financial statements (extract) for Year 7 and Year 8:
- (i) Income Statement;
- (ii) Statement Of Financial Position.

Solution:
In the books of **Frank Bhd** (buyer):

(a)

		RM	
Cash price		18,000	
Less: Down payment		(7,000)	
Amount to be financed		11,000	
Add: Total hire purchase interest	(i)	**1,960**	← *Balancing figure = RM (12,960 – 11,000)*
Total amount of instalments (RM 720 x 18)		12,960	
Monthly hire purchase interest (RM 1,960 ÷ 18)	(ii)	**109**	

(b) (i) Motor Van

			RM				RM
Year 7				Year 7			
Oct	1	Hire Purchase Vendor	18,000	Dec 31		Balance c/d	18,000
Year 8				Year 8			
Jan	1	Balance b/d	18,000	Jul	1	Disposal Of Motor Van	18,000

(ii) Hire Purchase Vendor – James Motor Sdn Bhd

			RM				RM
Year 7				Year 7			
Oct	1	Bank - Deposit	7,000	Oct	1	Motor Van	18,000
	30	Bank - 1st Instalment	720	Dec 31		Hire Purchase Interest (**W1**)	327
Nov	30	Bank - 2nd Instalment	720				
Dec	30	Bank - 3rd Instalment	720				
	31	Balance c/d	9,167				
			18,327				18,327
Year 8				Year 8			
Jan	30	Bank - 4th Instalment	720	Jan	1	Balance b/d	9,167
Feb	28	Bank - 5th Instalment	720	Jul	1	Hire Purchase Interest (**W1**)	654
Mar	30	Bank - 6th Instalment	720		1	Termination Charges	499
Apr	30	Bank - 7th Instalment	720				
May	30	Bank - 8th Instalment	720				
Jun	30	Bank - 9th Instalment	720				
Jul	1	Bank - Final Settlement	6,000				
			10,320				10,320

*A **lump sum** payment*

(iii) Hire Purchase Interest

			RM				RM
Year 7				Year 7			
Dec	31	Hire Purchase Vendor	327	Dec 31		Profit And Loss	327
Year 8				Year 8			
Jul	1	Hire Purchase Vendor	654	Dec 31		Profit And Loss	654

(iv) Accumulated Depreciation Of Motor Van

			RM				RM
Year 7				Year 7			
Dec	31	Balance c/d	1,800	Dec 31		Profit And Loss - Depreciation (**W2**)	1,800
Year 8				Year 8			
Jul	1	Disposal Of Motor Van	1,800	Jan	1	Balance b/d	1,800

(v) Disposal Of Motor Van

Year 8			RM	Year 8			RM
Jul	1	Motor Van	18,000	Jul	1	Accumulated Depreciation	1,800
					1	Bank - Disposal Proceeds	16,000
					1	Loss On Disposal Of Motor Van	200
			18,000				18,000

(vi) Profit And Loss

Year 7			RM		
Dec	31	Hire Purchase Interest	327		
	31	Depreciation	1,800		
Year 8					
Dec	31	Hire Purchase Interest	654		
	31	Termination Charges	499		
	31	Loss On Disposal Of Motor Van	200		

(c) (i) Income Statement (Extract)
For The Year Ended 31 December

		RM	
Year 7	Hire Purchase Interest	327	
	Depreciation	1,800	
Year 8	Hire Purchase Interest	654	
	Termination Charges	499	
	Loss On Disposal Of Motor Van	200	

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

		RM			RM
Year 7	**Non-current Assets**		Year 7	**Current Liabilities**	
	Motor Van	18,000		Hire Purchase Vendor	9,167
	Less: Accumulated Depreciation	(1,800)			
		16,200			

Why was there ***no data*** *for* ***Year 8*** *on the* ***Statement Of Financial Position****?*

Workings:

	Year 7	Year 8
(1) Hire Purchase Interest:	RM 109 x 3 = RM **327**	RM 109 x 6 = RM **654**
(2) Depreciation:	RM 18,000 x 10% x 1 = RM **1,800**	-

Practice 6 (Termination: Asset destroyed in an accident
Method 2: Hire Purchase Interest Suspense Account Method
—— Apportioning hire purchase interest using **straight line method**)

On 1 January Year 6, Modern Traders Bhd purchased a machine on a hire purchase basis from KW Machinery Bhd.

The terms of the hire purchase contract were as follows:
(i) Cash price: RM 38,000;
(ii) Deposit: RM 4,000;
(iii) Payments: 8 quarterly instalments, commencing on 31 March Year 6;
(iv) Interest was charged at 10% per annum on the balance of cash price outstanding at the beginning of Year 6.

On 1 Oct Year 7, a fire occurred and the machine was seriously destroyed. The insurance company agreed to compensate RM 30,000 for the loss suffered by Modern Traders Bhd. KW Machinery Bhd received a lump sum of RM 4,500 from Modern Traders Bhd as final settlement to terminate the agreement.

The depreciation charge for machinery is 10% per annum using reducing balance method. The financial year of Modern Traders Bhd ends on 31 December each year.

In the books of Modern Traders Bhd, you are required to prepare:
(a) the following Ledger accounts for Year 6 and Year 7:
- (i) Machinery;
- (ii) Hire Purchase Vendor – KW Machinery Bhd;
- (iii) Hire Purchase Interest Suspense;
- (iv) Accumulated Depreciation Of Machinery;
- (v) Disposal Of Machinery;
- (vi) Profit And Loss.

(b) the following financial statements (extract) for Year 6 and Year 7:
- (i) Income Statement;
- (ii) Statement Of Financial Position.

Answer Guide

	Year 6 RM	Year 7 RM
1. *Hire Purchase Vendor:*	20,400	-
2. *Hire Purchase Interest Suspense:*	3,400	-
3. *Hire Purchase Interest:*	3,400	2,550
4. *Termination Charges:*	-	250
5. *Loss On Disposal Of Machinery:*	-	1,635

Review

1.

Hire purchase transaction ← *Financed by finance company*

Hire purchase price 分期付款价格

Cash price 现金价格 **+** Hire purchase interest 分期付款利息

Apportionment methods:
*a. **Straight line method***
*b. **Reducing balance method***

Deposit 订金 **+** Instalments 分期款项

Accounting entries:

Method 1: Hire Purchase Interest Account Method
分期付款利息账户法

Method 2: Hire Purchase Interest Suspense Account Method
分期付款未到期利息账户法

INPUT

*The **IAS 17 Leases** specifies the accounting requirements for lease transactions, i.e. **finance lease** and **operating lease**. **Hire purchase** is an example of **finance lease**.*

*The following are some of the **criteria** to determine whether a lease is a **finance lease**:*

*a. The **risks** and **benefits** that are normally associated with **owners** of the asset have been substantially **transferred** to the **lessee**.*

*b. The **ownership** or title of the asset is transferred to the **lessee** at the **end** of the **lease term**.*

*c. The **lessee** has the **option** to **purchase** the asset.*

*d. The lease term is for the major part of the **economic life** of the asset. In other words, throughout the life of the asset that can be used economically, the **lessee** is the **primary user** of the **asset**.*

*e. The **lessee** can use the lease asset **without major modifications** being made.*

*f. **Accounting treatments** by lessee:*

*i. At commencement of the lease term, it should be recorded as an **asset** and a **liability**.*

*ii. **Finance lease payments** should be apportioned between the **finance charge** and the reduction of the **outstanding liability**.*
*The **finance charge** is based on the remaining balance of the liability, which is reducing over time. Thus, the finance charge is also reducing over the lease term at a fixed rate, i.e. the **reducing balance method** of apportioning hire purchase interest.*

*iii. The **depreciation** policy for the lease asset should be **consistent** with that for **owned assets**.*

Straight line method:
*Interest based on **cash price balance** outstanding **at the start** & **charged equally** over **each period**.*
Or
Reducing balance method:
*Interest based on **reduced balance** outstanding **at the start** of **each period** & **charged unequally** over **each period**.*

2. In the books of **buyer**:

a. **Method 1**: **Hire Purchase Interest Account Method**
—— Apportioning hire purchase interest using **straight line method** / **reducing balance method**

Office Equipment

Year 1			RM	Year 1			RM
Apr	1	Hire Purchase Vendor	xx	Dec 31		Balance c/d	xx
Year 2							
Jan	1	Balance b/d	xx				

Cash price

Hire Purchase Vendor 分期付款卖方

Year 1			RM	Year 1			RM
Apr	1	Bank - Deposit	xx	Apr	1	Office Equipment	xx
	30	Bank - 1st Instalment	xx	Dec 31		Hire Purchase Interest	xx
May 31		Bank - 2nd Instalment	xx				
		.	xx				
		.	xx				
Dec 31		Balance c/d	xx				
			xx				xx
				Year 2			
				Jan	1	Balance b/d	xx

Payments for cash price & interest

Interest accrued for the period

Hire Purchase Interest 分期付款利息

Year 1		RM	Year 1		RM
Dec 31	Hire Purchase Vendor	xx	Dec 31	Profit And Loss	xx

Profit And Loss

Year 1			RM
Dec 31		Hire Purchase Interest	xx
	31	Depreciation	xx

Income Statement (Extract)
For The Year Ended 31 December Year 1

	RM
Hire Purchase Interest	xx
Depreciation	xx

Statement Of Financial Position(Extract)
As At 31 December Year 1

	RM		RM
Non-current Assets		**Current Liabilities**	
Office Equipment, at cost	xx	Hire Purchase Vendor	**xx** *
Less: Accumulated Depreciation	(xx)		
	xx		

Hint
*Amount of **cash price** still **owing**, **not** including **interest**.*

b. **Method 2: Hire Purchase Interest Suspense Account Method**

—— Apportioning hire purchase interest using **straight line method**

Hire Purchase Vendor

Year 1			RM	Year 1			RM
Apr	1	Bank - Deposit	xx	Apr	1	Office Equipment	xx
	30	Bank - 1st Instalment	xx		1	Hire Purchase Interest Suspense	xx
May	31	Bank - 2nd Instalment	xx				
		.	xx			*Total hire purchase interest*	
		.	xx				
Dec	31	Balance c/d	xx				
			xx				xx
				Year 2			
				Jan	1	Balance b/d	xx

Hire Purchase Interest Suspense 分期付款未到期利息

Year 1			RM	Year 1			RM
Apr	1	Hire Purchase Vendor	xx	Dec	31	Profit And Loss - Hire Purchase Interest	xx
					31	Balance c/d	xx
			xx				xx
Year 2							
Jan	1	Balance b/d	xx				

Interest accrued for the period

Profit And Loss

Year 1			RM		
Dec	31	Hire Purchase Interest Suspense	xx		
	31	Depreciation	xx		

Income Statement (Extract)
For The Year Ended 31 December Year 1

	RM	
Hire Purchase Interest	xx	
Depreciation	xx	

Statement Of Financial Position (Extract)
As At 31 December Year 1

	RM		RM
Non-current Assets		**Current Liabilities**	
Office Equipment	xx	Hire Purchase Vendor	xx
Less: Accumulated Depreciation	(xx)	Less: Hire Purchase Interest Suspense	(xx)
	xx		**xx***

Hint *Hire purchase interest not yet due.*

Remarks:* The **amounts** in **Methods 1** & **2** are the **same**.
The **differences** between **Methods 1** & **2** are shown in the **shaded areas** on page 26-24 & 26-25.

3. **Termination** and **disposal**:

Method 2: Hire Purchase Interest Suspense Account Method

—— Apportioning hire purchase interest using **straight line method**)

In the books of **buyer**:

Hire Purchase Vendor

Year 7			RM	Year 7			RM
Mar 31	Bank - 5th Instalment		xx	Jan 1	Balance b/d		xx
Jun 30	Bank - 6th Instalment		xx	Oct 1	Termination Charges 终止费用	e.	xx
Sept 30	Bank - 7th Instalment		xx				
Oct 1	Bank - Final Settlement	a.	xx				
1	Hire Purchase Interest Suspense		xx				
			xx				xx

d.

Hire Purchase Interest Suspense

Year 7			RM	Year 7			RM
Jan 1	Balance b/d		xx	Oct 1	Hire Purchase Interest	c.	xx
				1	Hire Purchase Vendor		**xx**
			xx				xx

Interest for the period before termination

Depreciation for the period before termination

Non-current Asset

Year 7		RM	Year 7		RM
Jan 1	Balance b/d	xx	Oct 1	Disposal	xx

Accumulated Depreciation

Year 7			RM	Year 7			RM
Oct 1	Disposal		xx	Jan 1	Balance b/d		xx
				Oct 1	Depreciation	g.	xx
			xx				xx

f.

h.

Disposal

Year 7			RM	Year 7			RM
Oct 1	Non-current Asset		xx	Oct 1	Accumulated Depreciation		xx
				1	Bank / Insurance Company - Disposal Proceeds / Compensation	i.	xx
				1	Loss On Disposal	j.	xx
			xx				xx

Profit And Loss

Year 7			RM		
Dec 31	Hire Purchase Interest	c.	xx		
31	Termination Charges	e.	xx		
31	Depreciation	g.	xx		
31	Loss On Disposal	j.	xx		

Remarks: **a.** ~ **j.** They refer to item 6. under section **26.4** of 3. **Accounting entries**.

They are **debited** to the **relevant** accounts at the **date** of **termination**, and will be **transferred** to **Profit And Loss** account at the **end** of **accounting period**.

Chapter 27 Branch Accounts — Centralised

Learning Objectives

After studying this chapter, you should be able to:

- understand the reasons for a head office to keep branch books;
- make Ledger entries in the books of head office for branch transactions where goods are sent to branch at cost and at cost plus profit;
- understand the application of adjustment account method and memorandum columns method at cost plus profit.

27.1 Accounting Systems of Branch

1. A business may expand its operations by setting up branches 分支店 in different locations or even overseas. As the branches form part of the business of head office / headquarter, each branch is run by a branch manager who reports its activities to the head office regularly. All activities in each branch are under the control of head office.

2. There are two types of **accounting systems** for the **branches** of a business:
   a. **Centralised system** 集中制 where **branch books** are **kept** by **head office**;
   b. **Decentralised system** 独立制 where each **branch keeps** its **own books** (Chapter 28).

27.2 Centralised System 集中制

1. Under centralised accounting system, most of the **branch accounting records** are **maintained** by **head office** (probably with the exception of **Sales Ledger**) for control purposes in respect of inventory, cash and profitability of the branches.

2. In such a system, **goods** are usually purchased by head office and **invoiced** to **branches** either at **cost** or at **cost plus profit** (i.e. at selling price).

27.3 Accounting Entries for Branch Transactions in Head Office's Books

No.	Transactions	Goods sent to branch at cost	Goods sent to branch at cost plus profit
1.	**Goods** are **sent** to branch from head office. **Or** **Goods** are **received** from **another branch.** (**Note**: **Inter-branch transfer of goods** The goods are treated as returned to head office by sending branch, and then received by receiving branch from head office.)	Dr Branch Inventory Cr Goods Sent To Branch	Dr Branch Inventory (Selling Price) Cr Goods Sent To Branch (Cost) Cr Branch Adjustment (Profit)
2.	**Goods** are **returned** to head office by branch.	Dr Goods Sent To Branch Cr Branch Inventory - Returns	Dr Goods Sent To Branch (Cost) Dr Branch Adjustment (Profit) Cr Branch Inventory (Selling Price)
3.	Branch sales: a. **Branch cash sales** i. Sales proceeds are **received** by **branch**.	Dr Branch Cash Cr Branch Inventory - Cash Sales	(Same)
	ii. Sales proceeds are **banked** for the credit of **head office**.	Dr Bank Cr Branch Inventory - Cash Sales	
	b. **Branch credit sales**	Dr Branch Accounts Receivable Cr Branch Inventory - Credit Sales	
4.	**Goods** are **returned** by **branch debtors** to: a. **branch**	Dr Branch Inventory (Selling Price) Cr Branch Accounts Receivable (Selling Price)	(Same)
	b. **head office** (**Note**: The **goods** are treated as **returned** to **head office** by **branch**.)	Dr Branch Inventory (Selling Price) Cr Branch Accounts Receivable (Selling Price) Dr Goods Sent To Branch (Cost) Cr Branch Inventory (Cost)	Dr Branch Inventory (Selling Price) Cr Branch Accounts Receivable (Selling Price) Dr Goods Sent To Branch (Cost) Dr Branch Adjustment (Profit) Cr Branch Inventory (Selling Price) **Or** (To combine **2** entries into **1**) Dr Goods Sent To Branch (Cost) Dr Branch Adjustment (Profit) Cr Branch Accounts Receivable (Selling Price)

5.	**Payments** by **branch debtors** and **discounts allowed** to them: a. Payments are **received** by **branch**.	Dr Branch Cash Dr Branch Inventory - Discounts Allowed Cr Branch Accounts Receivable	Dr Branch Cash Dr Branch Adjustment - Discounts Allowed Cr Branch Accounts Receivable
	b. Payments are **banked** for the credit of **head office**. (**Note**: **Discounts allowed** are **debited** to **Branch Inventory** / **Branch Adjustment** account in order to **reduce Branch Gross Profit**.)	Dr Bank Dr Branch Inventory - Discounts Allowed Cr Branch Accounts Receivable	Dr Bank Dr Branch Adjustment - Discounts Allowed Cr Branch Accounts Receivable
6.	**Branch** writes off **bad debts**.	Dr Branch Profit And Loss - Bad Debts Cr Branch Accounts Receivable	(Same)
7.	**Branch expenses** are **paid**: a. from **branch takings**	Dr Branch Profit And Loss - Expenses Cr Branch Cash	(Same)
	b. by **head office**	Dr Branch Profit And Loss - Expenses Cr Bank	
8.	**Price reduction** is authorised by head office.	(**No entry**) (**Note**: It will automatically be reflected in Branch Gross Profit.)	Dr Branch Adjustment - Price Reduction Cr Branch Inventory (**Note**: **Price reduction** refers to selling price. It should **not** be **split** into **cost** & **profit**.)
9.	* **Inventory loss** is incurred at branch: a. **Normal loss**	(**No entry**) (**Note**: It will automatically be reflected in Branch Gross Profit.)	Dr Branch Adjustment (Selling Price) - Normal Loss Cr Branch Inventory (Selling Price)
	b. **Abnormal loss**	Dr Branch Profit And Loss - Abnormal Loss (Cost) Cr Branch Inventory (Cost)	Dr Branch Adjustment (Profit) Dr Branch Profit And Loss - Abnormal Loss (Cost) Cr Branch Inventory (Selling Price)
10.	**Loss** of **cash** is incurred.	Dr Branch Profit And Loss - Loss Of Cash Cr Branch Cash	(Same) (**Note**: If the cash is the sales proceeds, the full selling price should be debited to Branch Profit And Loss account, no debit entry should be made to Adjustment account as the gross profit has been earned.)

11.	At the end of an accounting period: a. Calculate **branch gross profit** / **gross loss**.	Dr Branch Inventory Cr Branch Profit And Loss - Branch Gross Profit **Or** Dr Branch Profit And Loss - Branch Gross Loss Cr Branch Inventory	Dr Branch Adjustment Cr Branch Profit And Loss - Branch Gross Profit **Or** Dr Branch Profit And Loss - Branch Gross Loss Cr Branch Adjustment
	b. Calculate **branch net profit** / **net loss**.	Dr Branch Profit And Loss Cr Profit And Loss (Head Office) - Branch Net Profit **Or** Dr Profit And Loss (Head Office) - Branch Net Loss Cr Branch Profit And Loss	(Same)
	c. Close **Goods Sent To Branch** account.	Dr Goods Sent To Branch Cr Trading (Head Office)	(Same)

Note: * **Inventory loss**:

	Normal loss	Abnormal loss
1.	It is **expected** to occur, and is an **unavoidable** inventory shortage.	It is **not expected** to occur, and is an **avoidable** inventory shortage.
2.	It occurs due to the **nature** of goods.	It occurs due to the **inefficiency** in handling or control of inventory.
3.	It forms part of the **cost of sales** and is absorbed into it. Thus, it is **reflected** in **Branch Gross Profit**.	It is an **administrative loss** and disclosed in the **Profit And Loss** account.
4.	Examples: Goods are kept too long and become unsaleable Goods may be damaged or broken Free samples	Examples: Goods stolen by customers and employees Goods destroyed / damaged by natural disaster such as flood / fire

27.4 Price Recording by Head Office when Goods Sent To Branch

1. Goods sent to branch at **cost**
   When goods are sent to branch at **cost price**, the main accounts opened are as follows:
   a. **Branch Inventory** account / **Branch Trading** account :
      It serves as an / a:
      i. **Inventory** account to record **goods received**, **issued** and **returned**, and to show **closing inventory** of **branch**; and
      ii. **Trading** account to show **cost of sales**, **sales** and **returns**, and to ascertain **gross profit** / **gross loss** of **branch**.

   b. **Goods Sent To Branch** account
      It records **cost** of **goods sent to branch** and **goods returned** by branch, and is to be **deducted** from **purchases** in head office **Trading** account.

Example 1

A trader in Kajang has a retail branch in Klang. All goods sent to the branch are at cost. The branch manager keeps his own Sales Ledger and deposits at the local bank daily all the receipts from cash sales and debtors for the credit of Kajang head office.

All the expenses at branch are settled regularly by cheques sent from head office on the impress system.

The following information of the Klang branch for the three months ended 31 December Year 1 was provided by the head office:

	RM
Inventory, 1 October Year 1	2,500
Branch accounts receivable, 1 October Year 1	4,000
Branch petty cash, 1 October Year 1	3,000
Goods sent to branch	12,500
Cash sales	2,000
Credit sales	12,000
Rent paid	500
Salaries paid	800
General expenses paid	1,200
Receipts from debtors	12,500
Goods returned by credit customers	100

Inventory was physically counted at the branch on 31 December Year 1. It was valued at cost amounting to RM 4,000.

You are required to prepare the following accounts in the books of head office:
(a) Branch Inventory;
(b) Goods Sent To Branch;
(c) Branch Accounts Receivable;
(d) Branch Petty Cash;
(e) Branch Profit And Loss.

Solution:

In the books of **head office**:

Hint *It is treated as a **Trading** account, where:*
*a. Sales & sales returns are at **selling price**, **others** are at **cost**;*
*b. Branch **gross profit** / **loss** is determined.*

(a) Branch Inventory

Year 1		RM	Year 1		RM
Oct 1	Balance b/d	2,500	Dec 31	* **Bank** - Branch Cash Sales	2,000
Dec 31	Goods Sent To Branch	12,500	31	Branch Accounts Receivable - Credit Sales	12,000
31	Branch Accounts Receivable - Sales Returns	100	31	Balance c/d	4,000
31	Branch Profit And Loss - **Branch Gross Profit**	**2,900**			
		18,000			18,000
Year 2					
Jan 1	Balance b/d	4,000			

Balancing figure

Hint ***Physically counted** at year end.*

(b) Goods Sent To Branch

Year 1		RM	Year 1		RM
Dec 31	**Trading**	**12,500**	Dec 31	Branch Inventory	12,500

Hint *It is transferred to the **Trading** account of head office.*

(c) Branch Accounts Receivable

Year 1		RM	Year 1		RM
Oct 1	Balance b/d	4,000	Dec 31	*Bank	12,500
Dec 31	Branch Inventory - Credit Sales	12,000	31	Branch Inventory - Sales Returns	100
			31	Balance c/d	3,400
		16,000			16,000
Year 2					
Jan 1	Balance b/d	3,400			

(d) Branch Petty Cash

Year 1		RM	Year 1		RM
Oct 1	Balance b/d	3,000	Dec 31	Branch Profit And Loss - Rent	500
			31	Branch Profit And Loss - Salaries	800
			31	Branch Profit And Loss - General Expenses	1,200
			31	Balance c/d	500
		3,000			3,000
Year 2					
Jan 1	Balance b/d	500			

(e) Branch Profit And Loss

Year 1		RM	Year 1		RM
Dec 31	Branch Petty Cash - Rent	500	Dec 31	Branch Inventory - **Branch Gross Profit**	**2,900**
31	Branch Petty Cash - Salaries	800			
31	Branch Petty Cash - General Expense	1,200			
31	Profit And Loss (Head Office) - **Branch Net Profit**	**400**			
		2,900			2,900

Note: * **Bank** refers to the **Bank** account of **head office**.

Practice 1 (Goods sent to branch at **cost**)

A retail branch in Miri is supplied with all goods at cost from its head office in Kuching. All the receipts from branch debtors are deposited into the account of head office. All the expenses at branch are paid from branch takings.

The head office provided the following information of its branch for the year ended 31 December Year 1:

	RM
Inventory, 1 January Year 1	3,000
Sundry accounts receivable, 1 January Year 1	5,000
Branch cash, 1 January Year 1	2,000
Goods sent to branch	10,000
Cash sales	1,000
Credit sales	16,000
Discounts allowed	200
Salaries	500
Sundry expenses	1,000
Receipts from debtors	8,000
Returns inwards from credit customers	300

On 31 December Year 1, the unsold inventory at branch was counted and valued at a cost of RM 3,000.

You are required to prepare the following accounts in the books of head office:
(a) Branch Inventory;
(b) Goods Sent To Branch;
(c) Branch Accounts Receivable;
(d) Branch Cash;
(e) Branch Profit And Loss.

Answer Guide

	RM
Branch Gross Profit:	*6,500*
Branch Accounts Receivable:	*12,500*
Branch Cash:	*1,500*
Branch Net Profit:	*5,000*

2. Goods sent to branch at **cost plus profit**

When goods are sent to branch at **cost plus profit**, it is the price after **adding** a **fixed** and **constant mark-up** to the cost of goods purchased by head office.

There are two methods in which goods sent to branch at **cost plus profit** can be recorded:

a. **Adjustment account method** (p.27-8 to p.27-12); and
b. **Memorandum columns method** / **Two-column branch inventory account method** (p.27-13 to p.27-16).

a. **Adjustment account method** / **Integrated method**

Under this method, when goods are sent to branch, it is debited to **Branch Inventory** account at **selling price** and credited to **Goods Sent To Branch** account at **cost price**. Obviously, the accounts are not balanced. Thus, **Branch Adjustment** account is opened to record the **profit loaded** to the **goods**.

The main accounts opened are as follows:

i. **Branch Inventory** account:
- It is recorded at **selling price**.
- It serves as an **Inventory** account to record **goods received**, **issued** and **returned**, and to show **closing inventory** of **branch**.
- It is used to **check** for **inventory deficiencies**.

ii. **Goods Sent To Branch** account:
- It is recorded at **cost price**.
- The **cost** of **goods sent** and **returned** can be calculated from the given **normal selling price** by using the given **mark-up**.

iii. **Branch Adjustment** account / Branch Inventory Adjustment account:
- It is used to record the **profit loading** of **goods**, e.g. the profit element of **opening** and **closing inventory**, **goods sent to branch** and **returns**.
- It is used to ascertain the **gross profit** / **gross loss** of **branch**.

Example 2

Ding Ding Sdn Bhd distributes its goods to its Putrajaya branch at retail price which is cost plus 25%. The following details relate to the branch in respect of the year ended 31 December Year 2:

	RM
Inventory at selling price, 1 January Year 2	10,000
Branch accounts receivable, 1 January Year 2	6,600
Goods sent to branch at selling price	40,000
Goods returned by branch to head office at selling price	3,000
Cash sales (Banked for credit of head office)	15,000
Credit sales	19,500
Goods returned by branch debtors to	
- branch at selling price	1,000
- head office at selling price	1,600
Branch expenses paid by head office	630
Bad debts written off	750
Cash received from debtors (Banked for credit of head office)	10,000
Discounts allowed to debtors	200
Price reduction due to slow-moving inventory	1,000
Inventory at selling price, 31 December Year 2	12,000

Note: Any inventory deficiency was to be treated as abnormal loss.

You are required to prepare the following accounts in the books of head office for the year ended 31 December Year 2:

(a) Branch Inventory;
(b) Branch Adjustment;
(c) Goods Sent To Branch;
(d) Branch Accounts Receivable;
(e) Branch Profit And Loss.

Hint
- It is in the **double entry** recordings.
- All entries are at **selling price** to **check** the **inventory deficiencies**.

Solution:

In the books of **head office**:

(a) Branch Inventory (Selling Price)

Year 2		RM	Year 2		RM
Jan 1	Balance b/d	10,000	Dec 31	Goods Sent To Branch - Returns	3,000
Dec 31	Goods Sent To Branch	40,000	31	Bank - Branch Cash Sales	15,000
31	Branch Accounts Receivable - Sales Returns To Branch	1,000	31	Branch Accounts Receivable - Credit Sales	19,500
	- Sales Returns To Head Office	1,600	31	Branch Adjustment & Goods Sent To Branch - Sales Returns To Head Office	1,600
			31	Branch Adjustment - Price Reduction	1,000
			31	Branch Adjustment & Branch Profit And Loss - Abnormal Loss	**500** ← Balacing figure
			31	Balance c/d	12,000
		52,600			52,600
Year 3					
Jan 1	Balance b/d	12,000			

(b) Branch Adjustment (Profit)

Year 2			RM	Year 2			RM
Dec 31	Branch Inventory - Returns	(**W3**)	600	Jan 1	Balance b/d	(**W1**)	2,000 ← Opening unrealised profit
31	Branch Inventory - Sales Returns To Head Office	(**W4**)	320	Dec 31	Branch Inventory - Goods Sent To Branch	(**W2**)	8,000
To reduce Branch Gross Profit → 31	Branch Accounts Receivable - Discounts Allowed		200				
31	Branch Inventory - Price Reduction		1,000				
31	Branch Inventory - Abnormal Loss	(**W6**)	100				
Earned / Realised profit → 31	Branch Profit And Loss - **Branch Gross Profit**		★**5,380**				
& Balacing figure 31	Balance c/d		2,400				
			10,000				10,000
				Year 3			
				Jan 1	Balance b/d	(**W5**)	2,400 ← Closing unrealised profit

(c) Goods Sent To Branch (Cost Price)

Year 2			RM	Year 2			RM
Dec 31	Branch Inventory - Returns	(**W3**)	2,400	Dec 31	Branch Inventory	(**W2**)	32,000
31	Branch Inventory - Sales Returns To Head Office	(**W4**)	1,280				
31	**Trading**		**28,320**				
			32,000				32,000

Hint Goods returned by branch debtors to head office is treated as **goods returned** to **head office** by branch.

(d) Branch Accounts Receivable

Year 2		RM	Year 2		RM
Jan 1	Balance b/d	6,600	Dec 31	Branch Inventory	
Dec 31	Branch Inventory			- Sales Returns To Branch	1,000
	- Credit Sales	19,500		- Sales Returns To Head Office	1,600
			31	Branch Profit And Loss - Bad Debts	750
			31	Bank	10,000
			31	Branch Adjustment	
				- Discounts Allowed	200
			31	Balance c/d	12,550
		26,100			26,100
Year 3					
Jan 1	Balance b/d	12,550			

(e) Branch Profit And Loss

Year 2		RM	Year 2		RM
Dec 31	Bank - Branch Expenses	630	Dec 31	Branch Adjustment	
31	Branch Accounts Receivable			- **Branch Gross Profit**	**5,380**
	- Bad Debts	750			
31	Branch Inventory				
	- Abnormal Loss (**W6**)	400			
31	Profit And Loss (Head Office)				
	- **Branch Net Profit**	**3,600**			
		5,380			5,380

Workings:

Selling Price = Cost + (25% on Cost) **Or** Profit = $\frac{1}{4}$ on Cost (Mark-up)

= 125% on Cost

= 1.25 x Cost = $\frac{1}{5}$ on Selling Price (Margin)

∴ Cost = Selling Price ÷ 1.25

Profit = Selling Price – Cost ∴ Cost = $\frac{4}{5}$ on Selling Price

		Selling Price RM	Profit RM	Cost Price RM
(1)	Branch Inventory, 1 Jan Year 2:	10,000	**2,000**	8,000
(2)	Goods Sent To Branch:	40,000	**8,000**	**32,000**
(3)	Goods Sent To Branch - Returns:	3,000	**600**	**2,400**
(4)	Sales Returns To Head Office:	1,600	**320**	**1,280**
(5)	Branch Inventory, 31 Dec Year 2:	12,000	**2,400**	9,600
(6)	Abnormal Loss:	500	**100**	**400**

Input

***Statement Of Financial Position** of Head Office*

	RM
Current Assets	
Branch Inventory	*12,000*
Less: Branch Adjustment	*(2,400)*
Branch Inventory, at cost	*9,600*

*If the **mark-up** of $33\frac{1}{3}$% is **not given**, work it out.*

Practice 2 (Goods sent to branch at **cost plus profit** — **Adjustment account method**)

Golden Bhd, a trading company in Penang has branches in Alor Setar and Subang. All the records of branches are kept by the head office. All purchases are made by head office and goods are sent to the branches at a mark-up of $33\frac{1}{3}$% on cost price.

The balances of Alor Setar branch in the books of head office were as follows:

	RM
1 March Year 2:	
Branch Accounts Receivable account	31,700
Branch Inventory account at selling price	39,468
Branch Adjustment account	9,867

The transactions for the half year ended 31 August Year 2 were as follows:

	RM
Cash sales	18,990
Credit sales	187,390
Goods on cash sales returned by a customer and cash refunded	100
Goods sent to branch at selling price	215,980
Goods returned by branch to head office at selling price	3,868
Inter-branch transfer of inventory at selling price from Subang to Alor Setar	4,000
Cash received from debtors	211,100
Rent and rates	8,000
Bad debts written off	200
Discounts allowed to debtors	800
Salaries	10,600
Sundry expenses	1,200
Goods damaged by flood valued at selling price	2,000
All branch cash deposited into head office account	?
Branch Inventory account at selling price, 31 August Year 2	43,200

Hint: *It is treated as **goods sent from head office**.*

Notes: All the above sales were at normal selling price with the exception of goods priced at RM 25,000 were sold by branch at a discount of 10%.
Any inventory deficiency was to be treated as normal loss.

You are required to prepare the following accounts in the books of head office for the half year ended 31 August Year 2:
(a) Branch Inventory;
(b) Branch Adjustment;
(c) Goods Sent To Branch;
(d) Branch Accounts Receivable;
(e) Branch Cash;
(f) Branch Profit And Loss.

*Why is there a **difference** in **accounting entries** between **normal loss** and **abnormal loss**?*

Answer Guide

☞ ***Goods damaged by flood*** *should be treated as an* ***abnormal loss****.*

	RM
Branch Inventory deficiency*:*	*1,600*
Branch Gross Profit*:*	*47,695*
Branch Accounts Receivable*:*	*6,990*
Branch Cash deposited*:*	*210,190*
Branch Net Profit*:*	*26,195*

b. **Memorandum columns method** / **Two-column branch inventory account method**
Under this method, **Branch Adjustment** account is **not required**, and a **two-column Branch Inventory** account is used where "**selling price**" columns are added along with the "**cost price**" columns on both sides of the account.

The main accounts opened are as follows:

i. **Two-column Branch Inventory** account:
It consists of:

① "**Selling Price** / Invoice Price" columns:
The columns are **not** part of the **double entry** but act as **memorandum** columns to **check** the **inventory deficiencies**.

② "**Cost Price**" columns:
The columns are part of the **double entry** where **gross profit** / **gross loss** of **branch** is ascertained. From the "**selling price**" columns, the **cost** of **opening** and **closing inventory**, **goods sent to branch** and **returns** can be calculated by using the given **mark-up**.

ii. **Goods Sent To Branch** account:
It is recorded at **cost price**.

Example 3

(Same information as in **Example 2**)

You are required to prepare a two-column Branch Inventory account in the books of head office for the year ended 31 December Year 2.

Solution:

In the books of **head office**:

(All the answers are the same as those in **Example 2 except** for the following, and the Branch Adjustment account is **not** required)

Hint *"**Selling Price** (Memo)" **columns***
- *They are **not** in the **double entry** recordings.*
- *They are recorded at **selling price** to **check** the **inventory deficiencies**.*

Branch Inventory

	Selling Price (Memo)	Cost Price		Selling Price (Memo)	Cost Price
Year 2	RM	RM	Year 2	RM	RM
Jan 1 Balance b/d (**W1**)	10,000	8,000	Dec 31 Goods Sent To Branch - Returns (**W3**)	3,000	2,400
Dec 31 Goods Sent To Branch (**W2**)	40,000	32,000	31 Bank - Branch Cash Sales	15,000	15,000
31 Branch Accounts Receivable			31 Branch Accounts Receivable		
- Sales Returns To Branch	1,000	1,000	- Credit Sales	19,500	19,500
- Sales Returns To Head Office	1,600	1,600	31 Goods Sent To Branch		
- Discounts Allowed	-	200	- Sales Returns To Head Office (**W4**)	1,600	1,280
31 Branch Profit And Loss			31 Price Reduction	1,000▲	- **
- **Branch Gross Profit**	-	★**5,380**	31 Branch Profit And Loss		
			- Abnormal Loss (**W6**)	**500**	400*
			31 Balance c/d (**W5**)	12,000	9,600
	52,600	48,180		52,600	48,180
Year 3					
Jan 1 Balance b/d	12,000	9,600			

Balancing figure

Hint
- * *The **profit loadings** are automatically reflected in the **Branch Gross Profit**.*
- ** *The **price reduction** is automatically reflected in the **Branch Gross Profit**.*
- ▲ *It is to reflect the **price reduction** in **Memo column** in order to **determine** the **inventory deficiencies**.*
- ★ *The **Branch Gross Profit** is the **same** as that in **Branch Adjustment** account of **Example 2**.*
- ■ *The **Sales** and **Sales Returns** in **cost columns** are the only figures in **selling price**.*

Workings:

Profit = $\frac{1}{4}$ on Cost

= $\frac{1}{5}$ on Selling Price

$\therefore$ Cost = $\frac{4}{5}$ on Selling Price

Think 3

*When using **memorandum columns method**, **Branch Adjustment** account is **not required**. Why?*

		Selling Price	Cost Price
		RM	RM
(1)	Branch Inventory, 1 Jan Year 2:	10,000	**8,000**
(2)	Goods Sent To Branch:	40,000	**32,000**
(3)	Goods Sent To Branch - Returns:	3,000	**2,400**
(4)	Sales Returns To Head Office:	1,600	**1,280**
(5)	Branch Inventory, 31 Dec Year 2:	12,000	**9,600**
(6)	Abnormal Loss:	500	**400**

Practice 3

(Same information as in **Practice 2**)
(Goods sent to branch at **cost plus profit** —— **Memorandum columns method**)

You are required to prepare a two-column Branch Inventory account in the books of head office for the half year ended 31 August Year 2.

Answer Guide

	RM
Branch Inventory deficiency:	*1,600*
Branch Gross Profit:	*47,695*

Think 4

*How do we know that your preparation of this **two-column Branch Inventory** account is **correct**?*

Practice 4 (Goods sent to branch at **cost plus profit** — **Memorandum columns method** & **Adjustment account method**)

Central Bhd has a branch at Seremban. All accounts are kept at the head office in Penang for control purposes. Goods are purchased by head office and invoiced to the branch at selling price which is cost plus $33\frac{1}{3}$%.

Depreciation is charged on furniture and fittings at the rate of 10% per annum on cost.

The following information related to the branch is available:

	RM
Balances at 1 January Year 4:	
Furniture and fittings at cost	6,300
Branch inventory at selling price	6,000
Branch cash	150
Branch accounts receivable	4,200
Goods sent to branch at selling price	90,000
Goods returned by branch at selling price	5,000
Cash sales	26,000
Credit sales	55,300
Cash sent from head office to branch	1,300
Branch expenses paid by head office	10,350
Goods returned from branch debtors	120
Cash received from branch debtors	53,450
Discounts allowed to debtors	180
Branch cash deposited into head office account	78,000
Price reduction due to slow moving inventory	2,000
Branch expenses paid by branch	1,180
Branch inventory stolen at selling price	1,300
Branch inventory at 31 December Year 4 at selling price	6,500

In the books of Central Bhd for the year ended 31 December Year 4, you are required to prepare:

(a) the following accounts:
- (i) Branch Inventory (using separate columns on each side for "Selling Price" and "Cost Price");
- (ii) Goods Sent To Branch;
- (iii) Branch Accounts Receivable;
- (iv) Branch Cash;
- (v) Branch Profit And Loss.

(b) Branch Adjustment account by using the same information above.

Think 5

*For simplicity purpose, in the "**Selling Price**" columns,*
***Closing Inventory** = (**Opening Inventory** + **Goods Sent To Branch**) – **Branch Sales**.*
If they are not equal, what does it indicate?

Answer Guide

	RM
Branch Inventory deficiency	
(Normal Inventory Loss):	*20*
***Branch Gross Profit**:*	*18,600*
***Branch Accounts Receivable**:*	*5,750*
***Branch Cash**:*	*1,720*
***Branch Net Profit**:*	*5,465*

Review

Branch transactions are recorded in the **books** of **head office**:

1. When goods are sent to branch at **cost**:

Branch Inventory / Branch Trading
分支店存货 / 分支店营业

	RM		RM
Balance b/d	xx	Goods Sent To Branch - Returns	xx
Goods Sent To Branch	xx	Branch Cash / Bank - Cash Sales	xx
Goods Sent To Branch - Inter-branch Transfer	xx	Branch Accounts Receivable - Credit Sales	xx
Branch Accounts Receivable - Sales Returns To Branch	xx	Goods Sent To Branch - Sales Returns To Head Office	xx
- Sales Returns To Head Office	xx	Price Reduction	-
- Discounts Allowed	xx	Normal Loss	-
Branch Profit And Loss - **Branch Gross Profit**	**xx**	Branch Profit And Loss - Abnormal Loss	xx
		Balance c/d	xx
	xx		xx
Balance b/d	xx		

at *selling price* (Sales Returns To Branch; Sales Returns To Head Office)

Balancing figure (Branch Gross Profit)

at *selling price* (Cash Sales; Credit Sales)

Not shown, but reflected in Branch Gross Profit automatically (Price Reduction; Normal Loss)

Goods Sent To Branch 发往分支店货物

	RM		RM
Branch Inventory - Returns	xx	Branch Inventory	xx
Branch Inventory - Sales Returns To Head Office	xx	Branch Inventory - Inter-branch Transfer	xx
Trading	**xx**		
	xx		xx

Branch Profit And Loss 分支店损益

	RM		RM
Branch Cash / Bank - Expenses	xx	Branch Inventory - **Branch Gross Profit**	**xx**
Branch Accounts Receivable - Bad Debts	xx		
Branch Inventory - Abnormal Loss	xx		
Branch Cash - Loss Of Cash	xx		
Profit And Loss (Head Office) - **Branch Net Profit**	**xx**		
	xx		xx

Hint: *This **Inventory** account at **selling price** is in the **double entry** recordings.*

2. When goods are sent to branch at **cost plus profit**:
   a. **Adjustment account method** 调整账户法

Branch Inventory (Selling Price)

	RM		RM
Balance b/d	xx	Goods Sent To Branch - Returns	xx
Goods Sent To Branch	xx	Branch Cash / Bank - Cash Sales	xx
Goods Sent To Branch - Inter-branch Transfer	xx	Branch Accounts Receivable - Credit Sales	xx
Branch Accounts Receivable - Sales Returns To Branch	xx	Branch Adjustment & Goods Sent To Branch - Sales Returns To Head Office	xx
- Sales Returns To Head Office	xx	Branch Adjustment - Price Reduction	xx
		Branch Adjustment - Normal Loss	**xx** ← *Balancing figure*
		Branch Adjustment & Branch Profit And Loss - Abnormal Loss	xx
		Balance c/d	xx
	xx		xx
Balance b/d	xx		

Branch Adjustment (Profit) 分支店调整 (利润) / Branch Inventory Adjustment / Branch Mark-up

	RM		RM
Branch Inventory - Returns	xx	Balance b/d	xx ← *Opening unrealised gross profit*
Branch Inventory - Sales Returns To Head Office	xx	Branch Inventory - Goods Sent To Branch	xx
Branch Accounts Receivable - Discounts Allowed	xx	Branch Inventory - Inter-branch Transfer	xx
Whole amount: Branch Inventory - Price Reduction	xx		
Branch Inventory - Normal Loss	xx		
Branch Inventory - Abnormal Loss	xx		
Branch Profit And Loss - **Branch Gross Profit** ← *Realised gross profit for the period*	*Balancing figure* → **xx**★		
Balance c/d	xx		
	xx		xx
		Balance b/d	xx ← *Closing unrealised gross profit*

Goods Sent To Branch (Cost Price)

	RM		RM
Branch Inventory - Returns	xx	Branch Inventory	xx
Branch Inventory - Sales Returns To Head Office	xx	Branch Inventory - Inter-branch Transfer	xx
Trading	**xx**		
	xx		xx

Branch Profit And Loss

	RM		RM
Branch Cash / Bank - Expenses	xx	Branch Adjustment - **Branch Gross Profit**	**xx**
Branch Accounts Receivable - Bad Debts	xx		
Branch Inventory - Abnormal Loss	xx		
Branch Cash - Loss Of Cash	xx		
Profit And Loss (Head Office) - **Branch Net Profit**	**xx**		
	xx		xx

Hint *"**Selling Price** (Memo)" **columns** are **not** in the **double entry** recordings.*

b. **Memorandum columns method / Two-column branch inventory account method**
备忘栏法 / 两栏式分支店存货账户法

Branch Inventory

	Selling Price (Memo)	Cost Price		Selling Price (Memo)	Cost Price
	RM	RM		RM	RM
Balance b/d	xx	xx	Goods Sent To Branch- Returns	xx	xx
Goods Sent To Branch	xx	xx	Branch Cash / Bank- Cash Sales (*at selling price*)	xx	xx
Goods Sent To Branch - Inter-branch Transfer	xx	xx	Branch Accounts Receivable - Credit Sales (*at selling price*)	xx	xx
Branch Accounts Receivable - Sales Returns To Branch (*at selling price*)	xx	xx	Goods Sent To Branch - Sales Returns To Head Office	xx	xx
- Sales Returns To Head Office (*at selling price*)	xx	xx	Price Reduction	xx	-
- Discounts Allowed	-	xx	Normal Loss	*Balancing figure* **xx**	-
Branch Profit And Loss - **Branch Gross Profit**	-	*Balancing figure* **xx**★	Branch Profit And Loss - Abnormal Loss	xx	xx
			Balance c/d	xx	xx
	xx	xx		xx	xx
Balance b/d	xx	xx			

Goods Sent To Branch (Cost Price)

	RM		RM
Branch Inventory - Returns	xx	Branch Inventory	xx
Branch Inventory - Sales Returns To Head Office	xx	Branch Inventory - Inter-branch Transfer	xx
Trading	**xx**		
	xx		xx

Branch Profit And Loss

	RM		RM
Branch Cash / Bank - Expenses	xx	Branch Inventory - **Branch Gross Profit**	**xx**
Branch Accounts Receivable - Bad Debts	xx		
Branch Inventory - Abnormal Loss	xx		
Branch Cash - Loss Of Cash	xx		
Profit And Loss (Head Office) - **Branch Net Profit**	**xx**		
	xx		xx

Remark: ★ The amounts of **branch gross profit** are the **same** for **both methods**.

3. **Returns** of goods at cost plus profit (e.g. at 25% mark-up):
   a. Goods are returned by **branch** to **head office**, e.g. RM 3,000 at selling price;
   b. Goods are returned by **branch debtors** to **branch**, e.g. RM 1,000 at selling price;
   c. Goods are returned by **branch debtors** to **head office**, e.g. RM 1,600 at selling price.

Branch Inventory (Selling Price)

	RM		RM
Goods Sent To Branch	xx	Goods Sent To Branch - Returns	3,000
Branch Accounts Receivable - Sales Returns To Branch	1,000	Branch Accounts Receivable - Credit Sales	yy
- Sales Returns To Head Office	1,600	Branch Adjustment & Goods Sent To Branch - Sales Returns To Head Office	1,600

Branch Adjustment (Profit)

	RM		RM
Branch Inventory - Returns	600	Branch Inventory - Goods Sent To Branch	xx
Branch Inventory - Sales Returns To Head Office	320		

Goods Sent To Branch (Cost Price)

	RM		RM
Branch Inventory - Returns	2,400	Branch Inventory	xx
Branch Inventory - Sales Returns To Head Office	1,280		

Branch Accounts Receivable

	RM		RM
Branch Inventory - Credit Sales	yy	Branch Inventory - Sales Returns To Branch	1,000
		- Sales Returns To Head Office	1,600

Chapter 28

Branch Accounts — Decentralised

Learning Objectives

After studying this chapter, you should be able to:

- understand the reasons for a branch to keep its own books;
- make Ledger entries in the books of head office and branch;
- reconcile Branch Current account with Head Office Current account;
- make adjustments for transit items and allowance for unrealised profit;
- prepare financial statements for head office, branch and the whole business.

28.1 Decentralised System 独立制

1. **Decentralised branch** also known as **autonomous branch** where the branch **keeps** its **own books** as the branch is large or geographically separate from the head office. There are benefits for a branch to have its own full accounting system such as it gives a convenient and easy way of calculating branch profit.

2. Under decentralised accounting system, **two sets** of **books** are kept, one in the **head office** and the other in the **branch**. A **current** account is used to **record** the **transactions between them** in order to **link** them together as illustrated below:

Head Office's Books

Branch Current

	RM		RM
*(resources **to** branch)*		*(resources **from** branch)*	
		Balance c/d	yy
Balance b/d	**yy**		

*As an **account receivable** (current asset)*

Link

Branch's Books

Head Office Current

	RM		RM
*(resources **to** head office)*		*(resources **from** head office)*	
Balance c/d	zz		
		Balance b/d	zz

*As an **account payable** (current liability)*

3. The **current** account is kept to record the **transactions** that **affect both** head office and branch. It shows the transactions regarding the **head office supplying resources** to its **branch** or **taking back** the resources (e.g. goods sent to branch by head office / cash remitted to head office by branch).

   Transactions that **only affect head office** (e.g. head office expenses paid by head office) are recorded in the **books** of **head office** only.

   Similarly, **transactions** that **only affect branch** (e.g. branch expenses paid by branch) are recorded in the **books** of **branch** only.

4. At the end of each financial year, **head office** and **branch** will close their respective Ledgers and draw up their own financial statements. **Head office** will then combine both financial statements for the whole business, and the following accounts must be **contra** to each other:

Head Office's Books		Branch's Books
Goods Sent To Branch account (Cr) (Trading account)	*Contra* ⟺	Goods Received From Head Office account (Dr) (Trading account)
Branch Current account (Dr) (Current Assets)	*Contra* ⟺	Head Office Current account (Cr) (Current Liabilities)

28.2 Accounting Entries in Head Office's and Branch's Books

No.	Transactions	Head Office's Books	Branch's Books
1.	Head office purchases goods.	Dr Purchases Cr Accounts Payable	(No entry)
2.	Branch purchases goods from outside suppliers.	(No entry)	Dr Purchases Cr Accounts Payable
3.	Goods sent to branch from head office is at cost / cost-plus-profit.	Dr Branch Current Cr Goods Sent To Branch	Dr Goods Received From Head Office Cr Head Office Current
4.	Goods are returned to head office by branch.	Dr Goods Sent To Branch Cr Branch Current	Dr Head Office Current Cr Goods Received From Head Office
5.	Head office sales	Dr Accounts Receivable / Bank / Cash Cr Sales	(No entry)
6.	Branch sales	(No entry)	Dr Accounts Receivable / Bank / Cash Cr Sales
7.	Head office receives cash from its debtors.	Dr Bank / Cash Cr Accounts Receivable	(No entry)
8.	Branch receives cash from its debtors.	(No entry)	Dr Bank / Cash Cr Accounts Receivable
9.	Branch debtors make payment to head office.	Dr Bank / Cash Cr Branch Current	Dr Head Office Current Cr Accounts Receivable
10.	Head office pays its own expenses / debts.	Dr Expenses / Other Payables Cr Bank / Cash	(No entry)
11.	Branch expenses / debts are paid from branch cash / branch takings.	(No entry)	Dr Expenses / Other Payables Cr Bank / Cash
12.	Branch expenses / debts are paid by head office.	Dr Branch Current Cr Bank / Cash	Dr Expenses / Other Payables Cr Head Office Current

13.	Cash is transferred to branch by head office.	Dr Branch Current Cr Bank / Cash	Dr Bank / Cash Cr Head Office Current
14.	Cash is transferred to head office by branch.	Dr Bank / Cash Cr Branch Current	Dr Head Office Current Cr Bank / Cash
15.	Charge depreciation on head office non-current assets used by branch.	Dr Branch Current Cr Accumulated Depreciation	Dr Depreciation Cr Head Office Current
16.	Apportion head office expenses to branch.	Dr Branch Current Cr Expenses	Dr Expenses Cr Head Office Current
17.	At the end of an accounting period:		
△	a. **Transit items**: i. Goods from head office are **not** yet received by branch.	Dr Goods In Transit Cr Branch Current	(No entry)
	Note: When branch receives the goods.	Dr Branch Current Cr Goods In Transit	Dr Goods Received From Head Office Cr Head Office Current
	ii. Goods returned by branch are **not** yet received by head office.	Dr Returns In Transit Cr Branch Current	(No entry)
	Note: When head office receives the goods.	Dr Goods Sent To Branch Cr Returns In Transit	(No entry)
	iii. Cash from head office is **not** yet received by branch.	Dr Cash In Transit Cr Branch Current	(No entry)
	Note: When branch receives the cash.	Dr Branch Current Cr Cash In Transit	Dr Bank / Cash Cr Head Office Current
	iv. Cash from branch is **not** yet received by head Office.	Dr Cash In Transit Cr Branch Current	(No entry)
	Note: When head office receives the cash.	Dr Bank / Cash Cr Cash In Transit	(No entry)
*	b. **Allowance for unrealised profit** in branch closing inventory if transfer is at cost-plus-profit.	Dr Profit And Loss Cr Allowance For Unrealised Profit (Being increase in allowance) **Or** Dr Allowance For Unrealised Profit Cr Profit And Loss (Being decrease in allowance)	(No entry)
	c. **Close accounts**: Goods Sent To Branch / Goods Received From Head Office	Dr Goods Sent To Branch Cr Trading	Dr Trading Cr Goods Received From Head Office
	d. When **branch net profit** / **net loss** is determined.	Dr Branch Current Cr Profit And Loss (Head Office) **Or** Dr Profit And Loss (Head Office) Cr Branch Current	Dr Profit And Loss (Branch) Cr Head Office Current **Or** Dr Head Office Current Cr Profit And Loss (Branch)

Note: △ , *

Adjustments for **transit items** and **allowance for unrealised profit** are normally made in the **books** of **head office** instead of branch.

Example 1 (Goods sent to branch at **cost**)

The Statement Of Financial Position of Kuala Lumpur Trading Company is given below:

Statement Of Financial Position
As At 1 January Year 1

	RM	RM
Non-current Assets		
Furniture And Fixtures		7,200
Motor Vehicle		16,000
		23,200
Current Assets		
Inventory, at cost	8,440	
Accounts Receivable	7,920	
Cash At Bank	23,398	39,758
Total Assets		62,958
Current Liabilities		
Accounts Payable		(9,408)
Net Assets		53,550
Owner's Equity		
Capital		53,550

On the same date, the company established a branch in Klang. The branch is to keep its own books.

The transactions for the year ended 31 December Year 1 were as follows:

	RM
Head office purchases on credit	120,000
Goods sent to branch, at cost	30,000
Cash transferred to branch	5,000
Furniture purchased for branch by cash	8,000
Branch expenses paid out of branch cash	500
Head office sales - Credit	130,000
Branch sales - Cash	40,000
- Credit	15,000
Head office expenses paid	6,000
Branch received cash from its debtors	7,000
Head office received cash from its debtors	20,000
Cash transferred to head office	15,000

On 31 December Year 1, inventory at cost:

	RM
Head office	10,000
Branch	2,500

You are required to:

(a) enter the transactions in the Ledger of head office and branch;

(b) prepare Income Statement for the head office and branch separately (including a "combined" column) for the year ended 31 December Year 1;

(c) prepare Statement Of Financial Position for the head office and branch separately (including a "combined" column) as at that date.

Solution:

(a) In the Ledger of **head office**:

Branch Current

Year 1		RM	Year 1		RM
Dec 31	Goods Sent To Branch	30,000	Dec 31	Bank - Transfer	15,000
31	Bank - Transfer	5,000	31	Balance c/d	55,000
31	Bank - Furniture	8,000			
31	Profit And Loss (Head Office) - Branch Net Profit	27,000			
		70,000			70,000
Year 2					
Jan 1	Balance b/d	55,000			

Hint

- *It is recorded in **both current** accounts only **after** it has been **determined** by the **branch**.*
- *The **profit** earned / **loss** incurred by the branch does **not** belong to **branch** but belongs to the **whole business**. Thus, **profit** of the branch should be **credited** to the **Head Office Current** account, and any **loss** being **debited**.*

Goods Sent To Branch

Year 1		RM	Year 1		RM
Dec 31	Trading	30,000	Dec 31	Branch Current	30,000

Purchases

Year 1		RM	Year 1		RM
Dec 31	Accounts Payable	120,000	Dec 31	Trading	120,000

Accounts Payable

Year 1		RM	Year 1		RM
Dec 31	Balance c/d	129,408	Jan 1	Balance b/d	9,408
			Dec 31	Purchases	120,000
		129,408			129,408
			Year 2		
			Jan 1	Balance b/d	129,408

Bank

Year 1		RM	Year 1		RM
Jan 1	Balance b/d	23,398	Dec 31	Branch Current - Transfer	5,000
Dec 31	Accounts Receivable	20,000	31	Branch Current - Furniture	8,000
31	Branch Current - Transfer	15,000	31	Expenses	6,000
			31	Balance c/d	39,398
		58,398			58,398
Year 2					
Jan 1	Balance b/d	39,398			

Sales

Year 1		RM	Year 1		RM
Dec 31	Trading	130,000	Dec 31	Accounts Receivable	130,000

Accounts Receivable

Year 1		RM	Year 1		RM
Jan 1	Balance b/d	7,920	Dec 31	Bank	20,000
Dec 31	Sales	130,000	31	Balance c/d	117,920
		137,920			137,920
Year 2					
Jan 1	Balance b/d	117,920			

Expenses

Year 1		RM	Year 1		RM
Dec 31	Bank	6,000	Dec 31	Profit And Loss	6,000

Trading

Year 1		RM	Year 1		RM
Dec 31	Inventory - Opening Inventory	8,440	Dec 31	Sales	130,000
31	Purchases	120,000	31	Goods Sent To Branch	30,000
31	Profit And Loss - Gross Profit	41,560	31	Inventory - Closing Inventory	10,000
		170,000			170,000

Profit And Loss

Year 1		RM	Year 1		RM
Dec 31	Expenses	6,000	Dec 31	Trading - Gross Profit	41,560
31	Capital - Net Profit	62,560	31	Branch Current - Branch Net Profit	27,000
		68,560			68,560

In the Ledger of **branch**:

Head Office Current

Year 1		RM	Year 1		RM
Dec 31	Bank - Transfer	15,000	Dec 31	Goods Received From Head Office	30,000
31	Balance c/d	55,000	31	Bank - Transfer	5,000
			31	Office Furniture	8,000
			31	Profit And Loss (Branch) - Branch Net Profit	27,000
		70,000			70,000
			Year 2		
			Jan 1	Balance b/d	55,000

Hint *It is similar to **Purchase** account recording **goods from head office**.*

Goods Received From Head Office

Year 1		RM	Year 1		RM
Dec 31	Head Office Current	30,000	Dec 31	Trading	30,000

Bank

Year 1		RM	Year 1		RM
Dec 31	Head Office Current - Transfer	5,000	Dec 31	Expenses	500
31	Sales	40,000	31	Head Office Current - Transfer	15,000
31	Accounts Receivable	7,000	31	Balance c/d	36,500
		52,000			52,000
Year 2					
Jan 1	Balance b/d	36,500			

Office Furniture

Year 1		RM	Year 1		RM
Dec 31	Head Office Current	8,000	Dec 31	Balance c/d	8,000
Year 2					
Jan 1	Balance b/d	8,000			

Expenses

Year 1		RM	Year 1		RM
Dec 31	Bank	500	Dec 31	Profit And Loss	500

Sales

Year 1		RM	Year 1		RM
Dec 31	Trading	55,000	Dec 31	Bank	40,000
			31	Accounts Receivable	15,000
		55,000			55,000

Accounts Receivable

Year 1		RM	Year 1		RM
Dec 31	Sales	15,000	Dec 31	Bank	7,000
			31	Balance c/d	8,000
		15,000			15,000
Year 2					
Jan 1	Balance b/d	8,000			

Trading

Year 1		RM	Year 1		RM
Dec 31	Goods Received From Head Office	30,000	Dec 31	Sales	55,000
31	Profit And Loss - Gross Profit	27,500	31	Inventory - Closing Inventory	2,500
		57,500			57,500

Profit And Loss

Year 1		RM	Year 1		RM
Dec 31	Expenses	500	Dec 31	Trading - Gross Profit	27,500
31	Head Office Current - Branch Net Profit	27,000			
		27,500			27,500

(b)

Kuala Lumpur Trading Company

Income Statement

For The Year Ended 31 December Year 1

	Head Office		Branch		Combined	
	RM	RM	RM	RM	RM	RM
Sales		130,000		55,000		185,000
Less: **Cost Of Sales**						
Opening Inventory, at cost	8,440		-		8,440	
Purchases	120,000		-		120,000	
Goods Sent To Branch	(30,000)		-		(Contra)	
Goods Received From Head Office	-		30,000		(Contra)	
	98,440		30,000		128,440	
Less: Closing Inventory	(10,000)		(2,500)		(12,500)	
		(88,440)		(27,500)		(115,940)
Gross Profit		41,560		27,500		69,060
Less: **Expenses**		(6,000)		(500)		(6,500)
Net Profit		35,560		27,000		62,560

(c)

Kuala Lumpur Trading Company

Statement Of Financial Position

As At 31 December Year 1

	Head Office		Branch		Combined	
	RM	RM	RM	RM	RM	RM
Non-current Assets						
Furniture And Fixtures	7,200		8,000		15,200	
Motor Vehicle	16,000	23,200	-	8,000	16,000	31,200
Current Assets						
Inventory	10,000		2,500		12,500	
Accounts Receivable	117,920		8,000		125,920	
Cash At Bank	39,398		36,500		75,898	
Branch Current	55,000		-		(Contra)	
		222,318		47,000		214,318
Total Assets		245,518		55,000		245,518
Current Liabilities						
Accounts Payable		(129,408)		-		(129,408)
Head Office Current		-		(55,000)	(Contra)	
Net Assets		116,110		-		116,110
Owner's Equity						
Opening Capital		53,550		-		53,550
Add: Net Profit		62,560		-		62,560
Total Equity / Closing Capital		116,110		-		116,110

Think 1

*When drawing up the above **combined financial statements**, what are the **accounts** that would **cancel** each other **out**?*

Practice 1 (Goods sent to branch at **cost**)

Southern Company purchases goods for its business and supplies its branch from its bulk purchases. The branch keeps its full accounting records. The Trial Balance as at 31 December Year 1 was as follows:

	Head Office		Branch	
	Debit	Credit	Debit	Credit
	RM	RM	RM	RM
Capital		38,000		
Drawings	3,700			
Fixtures And Fittings, at cost	4,500		1,100	
Accumulated Depreciation, 1 January Year 1				
Fixtures And Fittings		500		350
Inventory, 1 January Year 1	13,000		200	
Purchases	37,000			
Goods Sent To Branch, at cost		17,200		
Sales		39,000		21,000
Goods Received From Head Office			17,200	
Allowance For Doubtful Debts		600		200
Branch Current and Head Office Current	6,000			6,000
Salaries	4,500		3,000	
Commission			240	
Rent	10,200		960	
Administrative Expenses	2,400			
General Expenses	3,200		1,800	
Accounts Receivable	7,000		2,000	
Accounts Payable		5,800		
Bank	9,600		1,050	
	101,100	101,100	27,550	27,550

You are given the following additional information:

(i) Inventory at 31 December Year 1 amounted to: Head office RM 14,400;
Branch RM 6,570.

(ii) Head office apportioned 20% of his administrative expenses to the branch.

(iii) Depreciation is to be charged on fixtures and fittings at 10% on cost.

You are required to:

(a) prepare head office, branch and combined Income Statement for the year ended 31 December Year 1;

(b) prepare head office, branch and combined Statement Of Financial Position as at that date;

(c) show Head Office and Branch Current account in the respective books.

Answer Guide

	Head Office	*Branch*
	RM	*RM*
*1. **Gross Profit**:*	*20,600*	*10,170*
*2. **Net Profit**:*	*330*	*3,580*
*3. **Total Assets**:*	*44,010*	*10,060*
*4. **Closing Capital**:*	*38,210*	*-*
*5. **Current account**:*	*10,060*	*10,060*

Think 2

*Why do the two **current** accounts have the same **balance** but on **opposite sides**?*

28.3 Items In Transit

1. The balance on **Head Office Current** account must tally with the balance on **Branch Current** account. Practically, the two balances usually are not the same due to time gap in sending and receiving goods or cash at the end of financial year.

   In order to contra both balances in the **combined Statement Of Financial Position**, the **current** accounts are normally **adjusted** in the books of **head office** for the following **transit items**:

   a. **Goods in transit**
      The goods sent by head office but not yet received by branch.

   b. **Returns in transit**
      The goods returned by branch but not yet received by head office.

   c. **Cash in transit**
      The cash remitted by branch but not yet received by head office or vice versa.

2. All the **items in transit** are the **assets** of the business. Thus, they are all in **debit** balances and are shown under **Current Assets** section of **Statement Of Financial Position**.

Example 2 (Goods sent to branch at **cost** & **transit items**)

Northern Trading Company of Kuala Lumpur has a branch in Kuantan. The branch keeps its own books and their respective Trial Balances as at 31 December Year 2 were as follows:

	Head Office		Branch	
	Debit	Credit	Debit	Credit
	RM	RM	RM	RM
Fixtures And Fittings	29,600		24,000	
Inventory, 1 January Year 2, at cost	6,000		1,000	
Accounts Receivable and Accounts Payable	5,600	8,000	4,600	-
Cash At bank	26,000		25,600	
Purchases and Sales	160,000	240,000	-	72,000
Goods Sent To Branch		45,000		
Goods Received From Head Office			44,000	
Rent	10,000		2,000	
Salaries	12,000		4,800	
General Expenses	8,000		5,600	
Insurance	2,000		-	
Branch Current	44,000			
Head Office Current				39,600
Capital		10,200		
	303,200	303,200	111,600	111,600

Think 3

*What caused the disagreement of RM **4,400** (RM 44,000 – RM 39,600)?*

The following additional information was provided:

(i) Inventory at 31 December Year 2, at cost: Head office RM 8,000;
Branch RM 1,200.

(ii) Goods in transit amounted to RM 1,000 at cost.

(iii) During the year, the total remittance by branch to head office was RM 56,000. However, the total amount received by head office at the end of the year was RM 52,600.

You are required to prepare in columnar form for both operations, including a "combined" column:

(a) Income Statement for the year ended 31 December Year 2;

(b) Statement Of Financial Position as at that date.

Think 4

*Illustrate how **transit items** may occur at the end of each financial year.*

Solution:

(a)

Northern Trading Company

Income Statement

For The Year Ended 31 December Year 2

	Head Office		Branch		Combined	
	RM	RM	RM	RM	RM	RM
Sales		240,000		72,000		312,000
Less: **Cost Of Sales**						
Opening Inventory, at cost	6,000		1,000		7,000	
Purchases	160,000		-		160,000	
Goods Sent To Branch	(45,000)		-		(Contra)	
Goods Received From Head Office	-		44,000		(Contra)	
	121,000		45,000		167,000	
Less: Closing Inventory	(8,000)		(1,200)		(9,200)	
Goods In Transit	-		-		(1,000)	
		(113,000)		(43,800)		(156,800)
Gross Profit		127,000		28,200		155,200
Less: **Expenses**						
Rent	10,000		2,000		12,000	
Salaries	12,000		4,800		16,800	
General Expenses	8,000		5,600		13,600	
Insurance	2,000		-		2,000	
		(32,000)		(12,400)		(44,400)
Net Profit		95,000		15,800		110,800

Hint **_Transit items_**:
Dr Goods In Transit
Dr Cash In Transit
Cr Branch Current
Statement Of Financial Position

(b)

Northern Trading Company
Statement Of Financial Position
As At 31 December Year 2

	Head Office		Branch		Combined	
	RM	RM	RM	RM	RM	RM
Non-current Assets						
Fixtures And Fittings		29,600		24,000		53,600
Current Assets						
Inventory	8,000		1,200		9,200	
Goods In Transit (**W3**)	1,000		-		1,000	
Accounts Receivable	5,600		4,600		10,200	
Cash At Bank	26,000		25,600		51,600	
Cash In Transit (**W4**)	3,400		-		3,400	
Branch Current (**W1**)	55,400		-		(Contra)	
		99,400		31,400		75,400
Total Assets		129,000		55,400		129,000
Current Liabilities						
Accounts Payable		(8,000)		-		(8,000)
Head Office Current (**W2**)		-		(55,400)	(Contra)	
Net Assets		121,000		-		121,000
Owner's Equity						
Opening Capital		10,200		-		10,200
Add: Net Profit		110,800		-		110,800
Total Equity / Closing Capital		121,000		-		121,000

Workings:

(1) In the Ledger of **head office**:

Branch Current

Year 2		RM	Year 2			RM
Dec 31	Balance b/d	44,000	Dec 31	Goods In Transit	(**W3**)	1,000
31	Profit And Loss (Head Office) - Branch Net Profit	15,800	31	Cash In Transit	(**W4**)	3,400
			31	Balance c/d		55,400
		59,800				59,800
Year 3						
Jan 1	Balance b/d	**55,400**				

(2) In the Ledger of **branch**:

Head Office Current

Year 2		RM	Year 2		RM
Dec 31	Balance c/d	55,400	Dec 31	Balance b/d	39,600
			31	Profit And Loss (Branch) - Branch Net Profit	15,800
		55,400			55,400
			Year 3		
			Jan 1	Balance b/d	**55,400**

(3) Goods In Transit:
RM (45,000 – 44,000) = RM **1,000**

(4) Cash In Transit:
RM (56,000 – 52,600) = RM **3,400**

Practice 2 (Goods sent to branch at **cost** & **transit items**)

The following were the balances of head office and branch of Wong Enterprise at 31 December Year 2:

	Head Office	Branch
	RM	RM
Motor Vehicle	56,000	10,800
Inventory, 31 December Year 2	12,000	4,800
Accounts Receivable	24,000	3,200
Cash At bank	16,000	3,600
Branch Current, 1 January Year 2	15,200	-
Head Office Current, 1 January Year 2	-	15,200
Goods Sent To Branch	12,000	-
Cash remitted to head office	-	10,400
Capital	99,200	-
Profit for the year	22,000	6,400
Accounts Payable	4,800	-
Goods Received From Head Office	-	11,200
Cash received from branch	9,200	-

You are required to prepare:

(a) Branch Current account in the Ledger of head office;
(b) Head Office Current account in the Ledger of branch;
(c) Statement Of Financial Position as at 31 December Year 2, in columnar form for Head Office, Branch and the business as a whole.

Answer Guide

	Head Office	*Branch*
	RM	*RM*
*1. **Current account**:*	*22,400*	*22,400*
*2. **Total Assets**:*	*132,400*	*22,400*
*3. **Closing Capital**:*	*127,600*	*–*

28.4 Unrealised Profit on Branch Closing Inventory

If goods are sent to branch at **cost plus profit** / selling price / invoiced price / transfer price, **adjustment** must be made to **remove** the **unrealised profit** in **branch closing inventory** for the **combined Closing Inventory** in **combined financial statements** at the end of financial year.

Example 3

(Goods sent to branch at **cost plus profit**)

The Sunshine Enterprise had provided the Statement Of Financial Position as follows:

Sunshine Enterprise
Statement Of Financial Position
As At 1 January Year 3

	RM Cost	RM Accumulated Depreciation	RM Carrying Amount
Non-current Assets			
Premises	50,000	-	50,000
Motor Vehicle	12,000	(2,400)	9,600
	62,000	(2,400)	59,600
Current Assets			
Inventory, at cost		36,000	
Accounts Receivable		12,000	
Cash At Bank		24,000	72,000
Total Assets			131,600
Current Liabilities			
Accounts Payable			(21,600)
Net Assets			110,000
Owner's Equity			
Capital			110,000

During the year, the company established a new branch. The branch is an independent profit center. All goods from head office are at a mark-up of 25%.

The following were the transactions for the year ended 31 December Year 3:

	RM
Head office purchases on credit	60,000
Goods sent to branch, at mark-up	28,800
Cash transferred to branch	6,000
Branch expenses paid	1,200
Head office sales on credit	48,000
Branch cash sales	24,000
Branch credit sales	12,000
Head office expenses paid	3,600
Head office received cash from branch debtors	9,600

The inventory balances on 31 December Year 3 were as follows: Head office, at cost RM 30,000;
Branch, with mark-up RM 3,600.

The enterprise depreciates its motor vehicle at 20% per annum on cost.

You are required to:
(a) show the transactions in the books of head office and branch;
(b) prepare columnar Income Statement for the year ended 31 December Year 3 for the head office, branch and combined business;
(c) prepare columnar Statement Of Financial Position as at 31 December Year 3 for the head office, branch and combined business.

Solution:

(a) In the books of **head office**:

Branch Current

Year 3		RM	Year 3		RM
Dec 31	Goods Sent To Branch	28,800	Dec 31	Bank	9,600
31	Bank - Transfer	6,000	31	Balance c/d	34,800
31	Profit And Loss (Head Office) - Branch Net Profit	9,600			
		44,400			44,400
Year 4					
Jan 1	Balance b/d	34,800			

Goods Sent To Branch

Year 3		RM	Year 3		RM
Dec 31	Trading	28,800	Dec 31	Branch Current	28,800

Purchases

Year 3		RM	Year 3		RM
Dec 31	Accounts Payable	60,000	Dec 31	Trading	60,000

Accounts Payable

Year 3		RM	Year 3		RM
Dec 31	Balance c/d	81,600	Jan 1	Balance b/d	21,600
			Dec 31	Purchases	60,000
		81,600			81,600
			Year 4		
			Jan 1	Balance b/d	81,600

Bank

Year 3		RM	Year 3		RM
Jan 1	Balance b/d	24,000	Dec 31	Branch Current -Transfer	6,000
Dec 31	Branch Current	9,600	31	Expenses	3,600
			31	Balance c/d	24,000
		33,600			33,600
Year 4					
Jan 1	Balance b/d	24,000			

Sales

Year 3		RM	Year 3		RM
Dec 31	Trading	48,000	Dec 31	Accounts Receivable	48,000

Accounts Receivable

Year 3		RM	Year 3		RM
Jan 1	Balance b/d	12,000	Dec 31	Balance c/d	60,000
Dec 31	Sales	48,000			
		60,000			60,000
Year 4					
Jan 1	Balance b/d	60,000			

Expenses

Year 3		RM	Year 3		RM
Dec 31	Bank	3,600	Dec 31	Profit And Loss	3,600

Depreciation

Year 3		RM	Year 3		RM
Dec 31	Accumulated Depreciation (**W1**)	2,400	Dec 31	Profit And Loss	2,400

Accumulated Depreciation

Year 3		RM	Year 3		RM
Dec 31	Balance c/d	4,800	Jan 1	Balance b/d	2,400
			Dec 31	Depreciation	2,400
		4,800			4,800
			Year 4		
			Jan 1	Balance b/d	4,800

Allowance For Unrealised Profit

Year 3		RM	Year 3		RM
Dec 31	Balance c/d	720	Dec 31	Profit And Loss (**W2**)	720
			Year 4		
			Jan 1	Balance b/d	720

Trading

Year 3		RM	Year 3		RM
Dec 31	Inventory - Opening Inventory	36,000	Dec 31	Sales	48,000
31	Purchases	60,000	31	Goods Sent To Branch	28,800
31	Profit And Loss - Gross Profit	10,800	31	Inventory - Closing Inventory	30,000
		106,800			106,800

Profit And Loss

Year 3		RM	Year 3		RM
Dec 31	Expenses	3,600	Dec 31	Trading - Gross Profit	10,800
31	Depreciation	2,400	31	Branch Current - Branch Net Profit	9,600
31	Allowance For Unrealised Profit	720			
31	Capital - Net Profit	13,680			
		20,400			20,400

In the books of **branch**:

Head Office Current

Year 3		RM	Year 3		RM
Dec 31	Accounts Receivable	9,600	Dec 31	Goods Received From Head Office	28,800
31	Balance c/d	34,800	31	Bank - Transfer	6,000
			31	Profit And Loss (Branch) - Branch Net Profit	9,600
		44,400			44,400
			Year 4		
			Jan 1	Balance b/d	34,800

Goods Received From Head Office

Year 3		RM	Year 3		RM
Dec 31	Head Office Current	28,800	Dec 31	Trading	28,800

Bank

Year 3		RM	Year 3		RM
Dec 31	Head Office Current - Transfer	6,000	Dec 31	Expenses	1,200
31	Sales	24,000	31	Balance c/d	28,800
		30,000			30,000
Year 4					
Jan 1	Balance b/d	28,800			

Expenses

Year 3		RM	Year 3		RM
Dec 31	Bank	1,200	Dec 31	Profit And Loss	1,200

Sales

Year 3		RM	Year 3		RM
Dec 31	Trading	36,000	Dec 31	Bank	24,000
			31	Accounts Receivable	12,000
		36,000			36,000

Accounts Receivable

Year 3		RM	Year 3		RM
Dec 31	Sales	12,000	Dec 31	Head Office Current	9,600
			31	Balance c/d	2,400
		12,000			12,000
Year 4					
Jan 1	Balance b/d	2,400			

Trading

Year 3		RM	Year 3		RM
Dec 31	Goods Received From Head Office	28,800	Dec 31	Sales	36,000
31	Profit And Loss - Gross Profit	10,800	31	Inventory - Closing Inventory	3,600
		39,600			39,600

Profit And Loss

Year 3		RM	Year 3		RM
Dec 31	Expenses	1,200	Dec 31	Trading - Gross Profit	10,800
31	Head Office Current - Branch Net Profit	9,600			
		10,800			10,800

Hint ***Goods sent to branch*** *at* ***selling price*** *was treated as part of sales, thus* ***added*** *to head office* ***sales****.*

(b)

Sunshine Enterprise

Income Statement

For The Year Ended 31 December Year 3

	Head Office		Branch		Combined	
	RM	RM	RM	RM	RM	RM
Sales		48,000		36,000		84,000
Goods Sent To Branch		28,800		-		(Contra)
		76,800		36,000		84,000
Less: **Cost Of Sales**						
Opening Inventory, at cost	36,000		-		36,000	
Purchases	60,000		-		60,000	
Goods Received From Head Office	-		28,800		(Contra)	
	96,000		28,800		96,000	
Less: Closing Inventory **(W2)**	(30,000) *		(3,600) *		(32,880) ***	
		(66,000)		(25,200)		(63,120)
Gross Profit		10,800		10,800		20,880
Less: Expenses	3,600		1,200		4,800	
Depreciation Of Motor Vehicle	2,400		-		2,400	
Allowance For Unrealised Profit	720 *		-		-	
		(6,720)		(1,200)		(7,200)
Net Profit		4,080		9,600		13,680

Hint *When* ***transfer*** *is at* ***selling price****, adjustment for branch* ***unsold inventory****:*
Dr ***Profit And Loss*** *(Head Office)*
Cr ***Allowance For Unrealised Profit*** *(Statement Of Financial Position)*

(c)

Sunshine Enterprise
Statement Of Financial Position
As At 31 December Year 3

	Head Office		Branch		Combined	
	RM	RM	RM	RM	RM	RM
Non-current Assets						
Premises		50,000		-		50,000
Motor Vehicle	12,000		-		12,000	
Less: Accumulated Depreciation	(4,800)	7,200	-	-	(4,800)	7,200
		57,200		-		57,200
Current Assets						
Inventory (W2)	30,000 *		3,600 *		32,880 ***	
Accounts Receivable	60,000		2,400		62,400	
Cash At Bank	24,000		28,800		52,800	
Branch Current	34,800		-		(Contra)	
		148,800		34,800		148,080
Total Assets		206,000		34,800		205,280
Current Liabilities						
Accounts Payable	81,600		-		81,600	
Head Office Current	-		34,800		(Contra)	
Allowance For Unrealised Profit	720 *		-		-	
Total Liabilities		(82,320)		(34,800)		(81,600)
Net Assets		123,680		-		123,680
Owner's Equity						
Opening Capital		110,000		-		110,000
Add: Net Profit		13,680		-		13,680
Total Equity / Closing Capital		123,680		-		123,680

Workings:

(1) Depreciation Of Motor Vehicle:
RM 12,000 x 20% = RM **2,400**

(2) Combined Closing Inventory, at cost: ***
RM 30,000 + RM 3,600 – Allowance For Unrealised Profit in branch closing inventory
= RM 30,000 + RM 3,600 – (RM 3,600 x $\frac{1}{5}$)
= RM 30,000 + RM 3,600 – RM **720**
= RM **32,880**

***Adjustments** for **transit items** and **unrealised profit** are normally made in the books of **head office** instead of **branch** at the year's end. Why?*

Practice 3 (Goods sent to branch at **cost plus profit**)

X Company has a branch at Ipoh. A full double entry record is kept in the branch's books. All purchases are made by head office and goods sent to the branch are invoiced at cost plus 25%.

The following Trial Balance was extracted from the head office and the branch as at 30 June Year 3, which was the end of the first year of trading for the Ipoh branch:

	Head Office	Branch
	RM	RM
Debit:		
Purchases	300,500	-
Inventory, 1 July Year 2, at cost	31,000	-
Branch Current	60,100	-
Accounts Receivable	29,400	4,000
Non-current Assets	100,000	32,400
General Expenses	54,960	36,480
Goods Received From Head Office, at cost plus 25%	-	170,500
Cash At Bank	-	1,720
	575,960	245,100
Credit:		
Capital	126,060	-
Sales	260,000	185,000
Goods Sent To Branch, at cost plus 25%	170,500	-
Bank Overdraft	12,400	-
Accounts Payable	7,000	-
Head Office Current	-	60,100
	575,960	245,100

The inventory at 30 June Year 3 was valued as follows:

Head office RM 34,400, at cost;
Branch RM 20,000, at cost plus 25%.

You are required to prepare the following columnar financial statements, including a "total" column for the whole business:

(a) Income Statement for the year ended 30 June Year 3;
(b) Statement Of Financial Position as at 30 June Year 3.

Answer Guide

☞ *Show the two **current** accounts in **workings**.*

	Head Office	*Branch*
	RM	*RM*
*1. **Gross Profit**:*	*133,400*	*34,500*
*2. **Net Profit** / (**Loss**):*	*74,440*	*(1,980)*
*3. **Total Assets**:*	*221,920*	*58,120*
*4. **Closing Capital**:*	*198,520*	*-*
*5. **Current account**:*	*58,120*	*58,120*

Think 6

*The closing balances on each **Current** account of RM **58,120** are not the same as those on the **Trial Balance** (i.e. RM 60,100). Why?*

Review

1. **Format** of the columnar **financial statements** of **head office**总店 and **branch**分支店
   *(if transfer is at **cost plus profit**):*

> **Hint** ***Head office*** *and* ***branch*** *each* ***maintains*** *its own* ***double entry Ledger*** *like a separate business except for a* ***Current*** *account is kept as the link between them.*

a.

XX Enterprise
Income Statement损益表
For The Year Ended ……

	Head Office		Branch		Combined	
	RM	RM	RM	RM	RM	RM
Sales		xx		xx		xx
Goods Sent To Branch		12,500		-		(Contra)
		xx		xx		xx
Less: **Cost Of Sales**						
Opening Inventory, at cost	xx		-		xx	
Purchases	xx		-		xx	
Goods Received From Head Office	-		12,500		(Contra)	
	xx		xx		xx	
Less: Closing Inventory	(20,889)*		(3,000)*		(23,289)***	
		(xx)		(xx)		(xx)
Gross Profit		xx		xx		xx
Less: **Expenses**						
.	xx		xx		xx	
.	xx		-		xx	
Allowance For Unrealised Profit	600*		-		-	
		(xx)		(xx)		(xx)
Net Profit / (Net Loss)		xx		xx		xx

b.

XX Enterprise
Statement Of Financial Position财务状况表
As At ……

	Head Office		Branch		Combined	
	RM	RM	RM	RM	RM	RM
Non-current Assets		xx		xx		xx
Current Assets						
Inventory	20,889 *		3,000 *		23,289 ***	
Accounts Receivable	xx		xx		xx	
Cash At Bank	xx		xx		xx	
Cash In Transit	2,000		-		2,000	
Branch Current	6,520		-		(Contra)	
		xx		xx		xx
Total Assets		xx		xx		xx
Current Liabilities						
Accounts Payable	xx		-		xx	
★Head Office Current	-		6,520		(Contra)	
Allowance For Unrealised Profit	600 *		-		-	
Total Liabilities		(xx)		(xx)		(xx)
Net Assets		xx		-		xx
Owner's Equity						
Opening Capital		xx		-		xx
Add: Net Profit / (Net Loss)		xx		-		xx
Total Equity / Closing Capital		xx		-		xx

Remark:

*** **Combined Closing Inventory**, at **cost**:

	RM	
Head Office, at cost	20,889	
Branch, at cost plus profit	3,000	x Margin (e.g. $\frac{1}{5}$) = RM 600
	23,889	
Less: Allowance For Unrealised Profit 未实现利润准备	(600)	
	23,289	

INPUT

★***Head Office Current*** *account*
It also represents ***head office****'s* ***investment*** *in* ***branch****. Thus, it could be shown under "****Equity****" on the Statement Of Financial Position of branch.*

2. **Current** accounts 往来账户:

a. In the Ledger of **head office**:

Branch Current 分支店往来

Year 1		RM	Year 1			RM
Jan 1	Balance b/d	xx	Dec 31	Goods Sent To Branch - Goods returned		xx
Dec 31	Goods Sent To Branch 发往分支店货物	xx	31	Bank - Cash received from branch debtors		xx
31	Bank - Non-current assets bought for branch	xx	31	Bank - Remittance from branch		xx
31	Bank - Expenses paid for branch	xx	31	Goods In Transit 在途货物	△	xx
31	Profit And Loss (Head Office) - Branch Net Profit / (Net Loss)	xx	31	Returns In Transit 在途退货	△	xx
			31	Cash In Transit 在途现金	△	xx
			31	Balance c/d		yy
		xx				xx
Year 2						
Jan 1	Balance b/d	**yy**				

b. In the Ledger of **branch**:

Head Office Current 总店往来

Year 1		RM	Year 1		RM
Dec 31	Goods Received From Head Office - Goods returned	xx	Jan 1	Balance b/d	xx
31	Accounts Receivable - Cash received by head office	xx	Dec 31	Goods Received From Head Office 总店运来货物	xx
31	Bank - Remittance to head office	xx	31	Non-current Assets - Branch assets bought by head office	xx
31	Balance c/d	zz	31	Expenses - Branch expenses paid by head office	xx
			31	Profit And Loss (Branch) - Branch Net Profit / (Net Loss)	xx
		xx			xx
			Year 2		
			Jan 1	Balance b/d	**zz**

Hint

*The **transit items** (△) are normally **adjusted** in the books of **head office** at the **end** of **financial year**.*

*The **two current** accounts have the **same balance** but on **opposite sides** (i.e. **yy** = **zz**).*

Chapter 29 Company Accounts (2) — Issue Of Shares And Loan Notes

Learning Objectives

After studying this chapter, you should be able to:
- understand the issue prices of shares and loan notes;
- understand the terms of oversubscription and undersubscription of shares;
- understand the accounting procedures of issuing shares and loan notes;
- make Journal / Ledger entries for shares and loan notes payable in full on application and by instalments;
- make Journal / Ledger entries for calls in arrears, forfeiture and reissue of shares;
- show the relevant items on Statement Of Financial Position.

29.1 Introduction

1. Limited companies usually **raise capital** for their future expansion by **issuing shares** (such as ordinary and preferred shares) and **loan notes**.

2. There are two types of limited companies, private and public limited companies. Only the **public limited companies** are allowed to **issue shares** and **loan notes** to the **public**.

3. The **accounting entries** for issue of different types of **shares** and **loan notes** are the **same**. The only **difference** is the **title** of **accounts**.

29.2 Issue of Shares

1. A limited company may **issue shares** at any of the following **prices**:
   a. Shares issued at **par** 平价发行
      They are the shares issued at a price **equal to** their **par** / nominal / face **value** 面值.
      e.g. A share of RM 1 nominal value is issued for RM 1.

b. Shares issued at **premium** 溢价发行

They are the shares issued at a price **greater than** their **nominal value**. The difference between the **issue price** / issue value and the **nominal value** is called the **premium**.

e.g. A share of RM 1 nominal value is issued for RM 1.40 (RM 0.40 is the premium).

c. Shares issued at **discount** 折价发行

They are the shares issued at a price **less than** their **nominal value**. The difference between the **issue price** and the **nominal value** is called the **discount**.

e.g. A share of RM 1 nominal value is issued for RM 0.80 (RM 0.20 is the discount).

The issue of shares at a discount is **prohibited** in many countries.

2. When a company invites investors to apply for its shares, the **number** of **shares applied** for may be **more than** (i.e. **oversubscribed**) or **less than** (i.e. **undersubscribed**) the **number** of **shares** to be **issued**:

a. **Oversubscription** 超额认购

i. The excess applications may be dealt with any combination of the following:

① Some applicants receive **full allotment**;
② Some applicants are **allotted** on a **pro rata** basis;
③ The remaining applicants are **rejected**.

ii. Application monies on shares oversubscribed are:

① refunded wholly / partly to unsuccessful applicants; **or**
② used to reduce the amount due on allotment.

b. **Undersubscription** 不足认购

Entries are made **only** for the **shares applied** for.
No entries are required for the shares **not applied** for because no transaction takes place.

29.3 Accounting Entries for Issue of Shares

1. When issue price is **payable in full** on application:

No.	Transactions	Shares issued at **par**	Shares issued at **premium**
a.	When **application monies** are **received**.	Dr Bank Cr Application And Allotment	Dr Bank *(including **premium**)* Cr Application And Allotment
b.	When **shares** are **allotted**.	Dr Application And Allotment Cr Share Capital	Dr Application And Allotment Cr Share Capital Cr Share Premium *
c.	When **application monies** are **returned** to unsuccessful applicants.	Dr Application And Allotment Cr Bank - Refunded	Dr Application And Allotment Cr Bank - Refunded *(including **premium**)*

Input

*** Share Premium**

a. *It is shown under **Equity** section of **Statement Of Financial Position**.*

b. *It is **not available** for distribution to shareholders as **dividends**.*

c. *It can be used to issue **bonus shares** or to **write off**:*
   - *i. costs of issuing shares;*
   - *ii. premium on redemption of shares / loan notes.*

Input

Shares of no par value

*In many countries (e.g. USA, Australia, Hong Kong and Singapore), **shares** are **issued** at a **price** determined at the **time** of **issuance**. The money **received** is **debited** to **Bank** account and **credited** to **Share Capital** account.*

*Thus, **Share Capital** in the **Statement Of Financial Position** is the **total amount received** when the company issued shares.*

Example 1 (Issue at par & payable in full)

Hint ***Oversubscription***

On 1 March Year 1, 100,000 ordinary shares with a nominal value of RM 1 each were issued at par, and applications were received for 120,000 shares. The allotment was made on 3 March Year 1, and the unsuccessful application monies were returned to applicants on the same date.

You are required to prepare Journal entries and Ledger accounts to record the above transactions.

Solution:

General Journal

Date	Particulars		Debit	Credit
Year 1			RM	RM
Mar 1	Bank	(**W1**)	120,000	
	Application And Allotment			120,000
	(Being application monies received)			
3	Application And Allotment		100,000	
	Ordinary Share Capital	(**W2**)		100,000
	(Being shares allotted)			
3	Application And Allotment		20,000	
	Bank - Refunded	(**W3**)		20,000
	(Being application monies returned to unsuccessful applicants)			

Hint: ***a.*** *~* ***e.*** *shown in the* ***Examples*** *refer to the related* ***sequence*** *of* ***Journal entries*** *stated on pages 2, 7 & 11.*

General Ledger

Application And Allotment

Year 1		RM	Year 1		RM
Mar 3	Ordinary Share Capital	100,000	Mar 1	Bank	120,000
3	Bank - Refunded	20,000			
		120,000			120,000

Bank

Year 1		RM	Year 1		RM
Mar 1	Application And Allotment	120,000	Mar 3	Application And Allotment - Refunded	20,000

Ordinary Share Capital

			Year 1		RM
			Mar 3	Application And Allotment	100,000

Workings:

(1) Application monies received:
120,000 x RM 1 = RM **120,000**

(2) Ordinary Share Capital - Application And Allotment:
100,000 x RM 1 = RM **100,000**

(3) Application monies refunded:
(120,000 – 100,000) x RM 1
= 20,000 x RM 1
= RM **20,000**

Example 2

(Issue at premium & payable in full)
(Same information as in **Example 1**)

On 1 March Year 1, 100,000 shares with a nominal value of RM 1 each were issued for RM 1.50 each, and applications were received for 120,000 shares. The allotment was made on 3 March Year 1, and the unsuccessful application monies were returned to applicants on the same date.

You are required to prepare Journal entries and Ledger accounts to record the above transactions.

Solution:

General Journal

Date	Particulars		Debit	Credit
Year 1			RM	RM
Mar 1	Bank	(**W1**)	180,000	
	Application And Allotment			180,000
	(Being application monies received)			
3	Application And Allotment		150,000	
	Ordinary Share Capital	(**W2**)		100,000
	Share Premium	(**W3**)		50,000
	(Being shares allotted)			
3	Application And Allotment		30,000	
	Bank - Refunded	(**W4**)		30,000
	(Being application monies returned to unsuccessful applicants)			

General Ledger

Application And Allotment

Year 1		RM	Year 1		RM
Mar 3	Ordinary Share Capital	100,000	Mar 1	Bank	180,000
3	Share Premium	50,000			
3	Bank - Refunded	30,000			
		180,000			180,000

b.

Bank

Year 1		RM	Year 1		RM
Mar 1	Application And Allotment	180,000	Mar 3	Application And Allotment - Refunded	30,000

Ordinary Share Capital

			Year 1		RM
			Mar 3	Application And Allotment	100,000

Share Premium

			Year 1		RM
			Mar 3	Application And Allotment	50,000

Workings:

(1) Application monies received:
120,000 x RM 1.50 = RM **180,000**

(2) Ordinary Share Capital - Application And Allotment:
100,000 x RM 1 = RM **100,000**

(3) Share Premium:
100,000 x RM 0.50 = RM **50,000**

(4) Application monies refunded:
(120,000 – 100,000) x RM 1.50
= 20,000 x RM 1.50
= RM **30,000**

Practice 1 (Issue at par & premium, payable in full)

Chong Bhd has an authorised capital of RM 800,000. It had issued 200,000 ordinary shares to the public.

The directors of the company decided to increase its issued share capital by offering a further 400,000 ordinary shares of RM 1 each payable immediately in full on application.

Applications were received on 1 August Year 1 for 440,000 shares. The application monies for 40,000 shares were returned to those applicants to whom no shares were allotted on 20 August Year 1.

You are required to prepare Journal entries and Ledger accounts in the books of Chong Bhd, if the shares were issued:

(a) at par;

(b) at a price of RM 1.80 per share.

Answer Guide

	(a)	*(b)*
	RM	*RM*
*1. **Total share capital**:*	*600,000*	*600,000*
*2. **Share Premium**:*	*-*	*320,000*
*3. **Monies refunded**:*	*40,000*	*72,000*

Think 1

*Why is the amount of **share capital** the **same** whether **shares** were **issued** at **par** or **premium**?*

2. When issue price is **payable by instalments**:

No.	Transactions	Shares issued at **par**	Shares issued at **premium**
a.	When **application monies** are **received**.	Dr Bank Cr Application And Allotment	Dr Bank *(including **premium****)* Cr Application And Allotment
b.	When **shares** are **allotted**.	Dr Application And Allotment Cr Share Capital *	Dr Application And Allotment Cr Share Capital * Cr Share Premium
c.	When **application monies** are **returned** to unsuccessful applicants.	Dr Application And Allotment Cr Bank - Refunded	Dr Application And Allotment Cr Bank - Refunded *(including **premium**)*
d.	When **allotment monies** are **received**.	Dr Bank Cr Application And Allotment	(Same)
e.	When **first call** is **made**.	Dr First Call Cr Share Capital *	(Same)
f.	When **call monies** are **received**.	Dr Bank Cr First Call	(Same)
g.	When **second call** is **made**.	Dr Second And Final Call Cr Share Capital *	(Same)
h.	When **call monies** are **received**.	Dr Bank Cr Second And Final Call	(Same)
i.	At the end of an accounting period, when **call monies** are **not** yet **received**.	Dr Calls In Arrears *** Cr First Call Cr Second And Final Call	(Same)

Notes:

* The amounts **credited** to **Share Capital** account are the **nominal value** due on application, allotment and calls respectively.

** The **premium** may be with the **application** / **allotment** / **call**.

*** **Calls in arrears** is shown with "**()**" under **Equity** section of **Statement Of Financial Position**.

Example 3 (Issue at premium & payable by instalments)

On 1 April Year 3, Digital Bhd invited the public to buy its 20,000 ordinary shares of RM 2 each at a premium of RM 1 each. Payments were required as follows:

			Per share
Year 3			RM
April	1	On application	0.20
	30	On allotment, including premium	2.00
June 30		On first and final call	0.80
			3.00

All of the shares were fully subscribed. All amounts due on allotment and call were received on the due dates.

You are required to prepare Journal entries and Ledger accounts in the books of Digital Bhd.

Solution:
In the books of **Digital Bhd**:

General Journal

Date	Particulars		Debit	Credit
Year 3			RM	RM
Apr 1	Bank	(**W1**)	4,000	
	Application And Allotment			4,000
	(Being application monies received)			
30	Application And Allotment		44,000	
	Ordinary Share Capital	(**W2**)		24,000
	Share Premium	(**W3**)		20,000
	(Being shares allotted)			
		(**W4**)		
30	Bank		40,000	
	Application And Allotment			40,000
	(Being allotment monies received *)			
Jun 30	First And Final Call	(**W5**)	16,000	
	Ordinary Share Capital			16,000
	(Being call made)			
30	Bank		16,000	
	First And Final Call			16,000
	(Being call monies received **)			

General Ledger

Application And Allotment

Year 3		RM	Year 3		RM
Apr 30	Ordinary Share Capital	24,000	Apr 1	Bank - Application	4,000
30	Share Premium	20,000	30	Bank - Allotment	40,000
		44,000			44,000

b.

First And Final Call

Year 3		RM	Year 3		RM
Jun 30	Ordinary Share Capital	16,000	Jun 30	Bank	16,000

e.

Bank

Year 3		RM			
Apr 1	Application And Allotment	4,000			
30	Application And Allotment	40,000			
Jun 30	First And Final Call	16,000			

Ordinary Share Capital

			Year 3		RM	
			Apr 30	Application And Allotment	24,000	*Nominal value*
			Jun 30	First And Final Call	16,000	

Share Premium

			Year 3		RM
			Apr 30	Application And Allotment	20,000

Workings:

(1) Application monies received:
20,000 x RM 0.20 = RM **4,000**

(2) Ordinary Share Capital - Application And Allotment:
20,000 x RM (0.20 + 1.00)
= 20,000 x RM 1.20
= RM **24,000**

(3) Share Premium:
20,000 x RM 1 = RM **20,000**

(4) Allotment monies received:
20,000 x RM 2 = RM **40,000**

(5) Ordinary Share Capital - First And Final Call:
20,000 x RM 0.80 = RM **16,000**

Hint

- *The **allotment monies** were **received** (*) only **after** the **shares** had been **allotted**.*
- *The **call monies** were **received** (**) only **after** the **call** had been **made**.*
- *If **shares** of **different classes** are issued, a **separate** set of **accounts** is opened for each class:*
  e.g. Preferred Share Capital
  Application And Allotment - Preferred Shares
  First And Final Call - Preferred Shares

Practice 2 (Issue at premium & payable by instalments)

On 1 September Year 2 Big Glove Bhd decided to raise its capital by offering 300,000 ordinary shares of RM 1.50 each at a price of RM 2.00 per share payable as follows:

Year 2			Per share RM
Sept	1	Application, including premium RM 0.50	1.00
	24	Allotment	0.50
Oct	1	First Call	0.30
Nov	1	Second And Final Call	0.20
			2.00

The applications were closed on 8 September Year 2. On that day, applications for 600,000 shares had been received and were dealt with as follows:

(i) To allot the shares to the applicants for the first 400,000 shares pro rata to their original applications, and the balance of application monies was applied to the amount due on allotment;

(ii) The cash paid by unsuccessful applicants was returned to them at the date of allotment.

The balance of allotment monies was received on 30 September Year 2. The remaining requested instalments were all paid in full.

You are required to prepare the following accounts in the books of Big Glove Bhd:

(a) Application And Allotment;
(b) First Call;
(c) Second And Final Call;
(d) Bank;
(e) Ordinary Share Capital;
(f) Share Premium.

Think 2

*In **Malaysia**, when a public limited company invites the public to buy its shares, the applicants have to **pay in full** on application or **pay by instalments**?*

Answer Guide

- ***Unsuccessful applications:***
  (600,000 – 400,000) shares
  *= **200,000** shares*
- ***Allotment monies received:***
  (300,000 x RM 0.50) – (100,000 x RM1)
  = RM (150,000 – 100,000)
  *= RM **50,000***
  Or
  *It is the **balance** of **Application And Allotment** account.*

	RM
1. ***Monies refunded:***	*200,000*
2. ***Share Capital:***	*450,000*
3. ***Share Premium:***	*150,000*

Think 3

*What is the **reason** behind a company **issuing shares payable by instalments**?*

29.4 Forfeiture and Reissue of Shares 没收与再发行股份

1. When a shareholder fails to pay the call monies asked for, the company may **forfeit** / cancel the **shares**, and the instalments already paid may be retained by the company.

   After the forfeiture, the company may reissue the shares to a third party. There is a **restriction** on the **minimum reissue price**:

   Amount paid on forfeited shares, *excluding share premium* **+ Amount received on reissue**
   = **Nominal value**, *if shares fully called up*
   Or
   Amount paid on forfeited shares, *excluding share premium* **+ Amount received on reissue**
   = **Called-up value**, *if shares not fully called up*

   The **reissue price** usually **cover** the **amount unpaid on forfeited shares** in order to **avoid** making a **loss** on the reissue.

2. **Accounting entries** for forfeiture of shares:

No.	Transactions	**Accounting entries**
a.	When **shares** are **forfeited**.	Dr Investment In Own Shares * Cr First Call Cr Second And Final Call **Or** Dr Calls In Arrears 应收催缴股款 Cr First Call Cr Second And Final Call Dr Investment In Own Shares Cr Calls In Arrears
b.	When **forfeited shares** are **reissued** and monies **received**.	Dr Bank Cr Investment In Own Shares
c.	Close **Investment In Own Shares** account by transferring the **credit balance** to **Share Premium** account.	Dr Investment In Own Shares Cr Share Premium - Profit On Reissue **

Note:

** **Profit On Reissue** of forfeited shares
= Amount received on reissue – Amount unpaid on forfeited shares
Or
= (Amount paid on forfeited shares, *excluding share premium* + Amount received on reissue) – Nominal value of reissued shares

Input

** Formerly, **Forfeited Shares** account was used instead of **Investment In Own Shares** account.*

Example 4 (Issue at premium, payable by instalments & forfeiture of shares)

Sunsuria Bhd has an authorised capital of 100,000 ordinary shares of RM 1 each. The issued share capital at 31 July Year 4 was RM 50,000 which was fully paid and had been issued at par.

On 1 August Year 4, the directors decided to increase the share capital by offering a further 50,000 ordinary shares of RM 1 each at a price of RM 1.60 per share payable as follows:

Year 4		Per share RM
Aug 10	On application, including premium	0.85
Sept 1	On allotment	0.25
Oct 31	On first and final call	0.50
		1.60

On 10 August Year 4 applications were received for 75,000 shares. It was decided to reject 12,500 shares of application, and allot 50,000 shares on the basis of 4 shares for every 5 shares applied for. The excess application monies were set off against the allotment monies asked for.

Hint

*It means if an investor applied for **5** shares, he was allotted **4** shares. Thus, there was **1** share of application **unsuccessful**, and the money was **retained** by the company to **set off against** the **allotment monies** asked for.*

The shares were allotted on 1 September Year 4, the unsuccessful applicants being repaid their cash on the same date. The balance of the allotment monies was received in full on 10 September Year 4.

An applicant failed to pay the call on the 6,000 shares allotted to him. The remainder of the call was paid in full within 2 weeks after the call had been made.

The directors resolved to forfeit the shares on 20 November Year 4 after giving the required notice. The forfeited shares were then reissued on 30 November Year 4 at RM 0.80 per share.

In the books of Sunsuria Bhd, you are required to:

(a) write up the following Ledger accounts:
- (i) Application And Allotment;
- (ii) First And Final Call;
- (iii) Bank;
- (iv) Ordinary Share Capital;
- (v) Share Premium;
- (vi) Investment In Own Shares.

(b) show the appropriate items in Equity section of the Statement Of Financial Position as at 31 December Year 4;

(c) show the following, if the 6,000 shares were not forfeited (i.e. treats it as calls in arrears):
- (i) First And Final Call account;
- (ii) Equity section of the Statement Of Financial Position as at 31 December Year 4.

Solution:

In the books of **Sunsuria Bhd**:

(a) Ledger accounts:

Hint: *It is also a **balancing figure**, i.e. the **balance** of **Application And Allotment** account.*

(i) Application And Allotment

Year 4			RM	Year 4			RM
Sept 1	Ordinary Share Capital	(W2)	25,000	Aug 10	Bank - Application	(W1)	63,750
1	Share Premium	(W3)	30,000	Sept 10	Bank - Allotment	(W5)	1,875
1	Bank - Refunded	(W4)	10,625				
			65,625				65,625

(ii) First And Final Call

Year 4			RM	Year 4			RM
Oct 31	Ordinary Share Capital	(W6)	25,000	Nov 14	Bank	(W7)	22,000
				20	Investment In Own Shares		3,000
			25,000				25,000

a.

(iii) Bank

Year 4			RM	Year 4			RM
Aug 10	Application And Allotment	(W1)	63,750	Sept 1	Application And Allotment - Refunded	(W4)	10,625
Sept 10	Application And Allotment	(W5)	1,875	Dec 31	Balance c/d		81,800
Nov 14	First And Final Call	(W7)	22,000				
30	Investment In Own Shares	(W8)	4,800				
			92,425				92,425
Year 5							
Jan 1	Balance b/d		81,800				

(iv) Ordinary Share Capital

Year 4			RM	Year 4			RM
Dec 31	Balance c/d		100,000	Jul 31	Balance b/d		50,000
				Sept 1	Application And Allotment	(W2)	25,000
				Oct 31	First And Final Call	(W6)	25,000
			100,000				100,000
				Year 5			
				Jan 1	Balance b/d		100,000

(v) Share Premium

Year 4			RM	Year 4			RM
Dec 31	Balance c/d		31,800	Sept 1	Application And Allotment	(W3)	30,000
				Nov 30	Investment In Own Shares		1,800
			31,800				31,800
				Year 5			
				Jan 1	Balance b/d		31,800

c.

(vi) Investment In Own Shares

Year 4			RM	Year 4			RM
Nov 20	First And Final Call		3,000	Nov 30	Bank	(W8)	4,800
30	Share Premium - Profit On Reissue		1,800				
			4,800				4,800

Think 4: *How to **work out** this **Profit On Reissue**?*

Hint: *The **reissue price** per share (RM 0.80) should **not** be **less than** the **calls in arrears** (RM 0.50).*

(b)

Sunsuria Bhd
Statement Of Financial Position (Extract)
As At 31 December Year 4

	RM	
Equity		
100,000 Ordinary Shares of RM 1 each	100,000	*Paid-up capital*
Share Premium	31,800	
	131,800	

(c) (i)

First And Final Call

Year 4		RM	Year 4		RM
Oct 31	Ordinary Share Capital	25,000	Nov 14	Bank	22,000
			Dec 31	Calls In Arrears c/d	3,000
		25,000			25,000
Year 5					
Jan 1	Calls In Arrears b/d	3,000			

Or

(i)

First And Final Call

Year 4		RM	Year 4		RM
Oct 31	Ordinary Share Capital	25,000	Nov 14	Bank	22,000
			Dec 31	Calls In Arrears	3,000
		25,000			25,000

a.

Calls In Arrears

Year 4		RM	Year 4		RM
Dec 31	First And Final Call	3,000	Dec 31	Balance c/d	3,000
Year 5					
Jan 1	Balance b/d	3,000			

(c) (ii)

Sunsuria Bhd
Statement Of Financial Position (Extract)
As At 31 December Year 4

	RM	
Equity		
100,000 Ordinary Shares of RM 1 each	100,000	*Called-up capital*
Less: Calls In Arrears	(3,000)	*Called-up capital not paid*
	97,000	*Paid-up capital*
Share Premium	30,000	
	127,000	

Hint
*It is **different** from that in **(b)** above.*

Workings:

(1) Application monies received:
75,000 x RM 0.85 = RM **63,750**

(2) Ordinary Share Capital - Application And Allotment:
50,000 x RM [(0.85 – 0.60) + 0.25]
= 50,000 x RM (0.25 + 0.25)
= 50,000 x RM 0.50
= RM **25,000**

(3) Share Premium:
50,000 x RM 0.60 = RM **30,000**

(4) Application monies refunded:
12,500 x RM 0.85
= RM **10,625**

Hint

75,000** shares **applied** – **12,500** shares **rejected

(5) Allotment monies received:
Allotment monies required – Excess application monies
(50,000 x RM 0.25) – [(62,500 – 50,000) x RM 0.85]
= RM 12,500 – (12,500 x RM 0.85)
= RM (12,500 – 10,625)
= RM **1,875**

(6) Ordinary Share Capital - First And Final Call:
50,000 x RM 0.50 = RM **25,000**

(7) Call monies received:
(50,000 – 6,000) x RM 0.50
= 44,000 x RM 0.50
= RM **22,000**

(8) Amount received on reissue:
6,000 x RM 0.80 = RM **4,800**

Practice 3 (Issue at par, payable by instalments & forfeiture of shares)

The authorised capital of Western Bhd was 500,000 ordinary shares of RM 1 each. On 1 May Year 3, the company decided to issue 300,000 ordinary shares at par.

The offer was payable per share as follows:
RM 0.50 on application
RM 0.25 on allotment
RM 0.25 on first and final call

Applications were received for 400,000 ordinary shares. Allotment was made on 15 May Year 3 and application monies were refunded to the unsuccessful applicants.

The amount due on allotment was received on 17 May Year 3.

The amount due on first and final call was received on 15 June Year 3 except for a shareholder who held 2,000 shares failed to pay the due amount. The shares were duly declared forfeited and reissued on 30 June Year 3 as fully paid at RM 0.40 per share.

In the books of Western Bhd, you are required to:
(a) prepare Journal entries to record the above transactions;
(b) show Equity section as it would appear on the Statement Of Financial Position as at 30 June Year 3;
(c) show Equity section as at that date, if the 2,000 shares were not forfeited.

Answer Guide

	(a)&(b)	*(c)*
	RM	*RM*
*1. **Monies refunded:***	*50,000*	
*2. **Allotment monies received:***	*75,000*	
*3. **Call monies received:***	*74,500*	
*4. **Equity:***	*300,000*	*299,500*
*5. **Profit On Reissue:***	*300*	-
*6. **Calls In Arrears:***	-	*500*

29.5 Issue of Loan Notes

1. **Loan notes** are the **loans** 贷款 made **to** a **company**. They are the **borrowed capital** for a **long term** (Refer to: Chapter 18 **18.3** Classes of Shares and Loan Notes).

2. Loan notes are normally issued and **payable in full** on application. They may also be issued and **payable by instalments**.

3. Loan notes are usually issued **at par**. However, a limited company may offer loan note holders a more favourable price by issuing at a **discount** as an incentive.

   On the **date** of **issue**, loan notes are recognised at **fair value** of **total amount received** from the issue (after **discount**) **less issuance costs**. The **accounting entries** are as follows:
   Dr Bank [after discount and issuance costs(*if any*)]
   Cr Loan Notes

> Input
> ***IAS 39** Financial Instruments: Recognition & Measurement*
> *Financial liabilities: **Amortised cost** using the **effective interest method***

Example 5 (Issue at par & payable by instalments)

Soho Bhd advertised on 1 July Year 5 for the issue of RM 100,000 10% loan notes (repayable at the end of Year 17) at RM 100 payable as follows:

	RM
Application on 20 July Year 5	15
Allotment on 31 July Year 5	50
First and final call on 30 September Year 5	35
	100

Applications were received for RM 300,000 worth of loan notes and allotment was made on 31 July Year 5 for payment. On that day application monies were returned to the unsuccessful applicants.

The call monies were received on the due dates.

You are required to record the above transactions in the books of Soho Bhd.

Solution:

In the books of **Soho Bhd**:

*Hint: The **accounting entries** are **similar** to those of the **issue** of **shares**.*

General Journal

Date	Particulars		Debit	Credit
Year 5			RM	RM
Jul 20	Bank	(W1)	45,000	
	Application And Allotment			45,000
	(Being application monies received)			
31	Application And Allotment		65,000	
	10% Loan Notes	(W2)		65,000
	(Being loan notes allotted)			
31	Application And Allotment		30,000	
	Bank - Refunded	(W3)		30,000
	(Being application monies returned to unsuccessful applicants)			
31	Bank	(W4)	50,000	
	Application And Allotment			50,000
	(Being allotment monies received)			
Sept 30	First And Final Call	(W5)	35,000	
	10% Loan Notes			35,000
	(Being call made)			
30	Bank		35,000	
	First And Final Call			35,000
	(Being call monies received)			

General Ledger

Application And Allotment

Date	Particulars	RM	Date	Particulars	RM
Year 5			Year 5		
Jul 31	10% Loan Notes	65,000	Jul 20	Bank - Application	45,000
31	Bank - Refunded	30,000	31	Bank - Allotment	50,000
		95,000			95,000

First And Final Call

Date	Particulars	RM	Date	Particulars	RM
Year 5			Year 5		
Sept 30	10% Loan Notes	35,000	Sept 30	Bank	35,000

Bank

Date	Particulars	RM	Date	Particulars	RM
Year 5			Year 5		
Jul 20	Application And Allotment	45,000	Jul 31	Application And Allotment - Refunded	30,000
31	Application And Allotment	50,000			
Sept 30	First And Final Call	35,000			

10% Loan Notes

Date	Particulars	RM	Date	Particulars	RM
Year 5			Year 5		
Sept 30	Balance c/d	100,000	Jul 31	Application And Allotment	65,000
			Sept 30	First And Final Call	35,000
		100,000			100,000
			Oct 1	Balance b/d	100,000

Workings:

(1) Application monies received:

$\text{RM } 300{,}000 \times \frac{15}{100} = \text{RM } \mathbf{45{,}000}$

(2) 10% Loan Notes - Application And Allotment:

$\text{RM } 100{,}000 \times (\frac{15}{100} + \frac{50}{100})$

$= \text{RM } 100{,}000 \times \frac{65}{100}$

$= \text{RM } \mathbf{65{,}000}$

(3) Application monies refunded:

$\text{RM } (300{,}000 - 100{,}000) \times \frac{15}{100}$

$= \text{RM } 200{,}000 \times \frac{15}{100}$

$= \text{RM } \mathbf{30{,}000}$

(4) Allotment monies received / Balance of Application And Allotment account:

$\text{RM } 100{,}000 \times \frac{50}{100} = \text{RM } \mathbf{50{,}000}$

(5) 10% Loan Notes - First And Final Call:

$\text{RM } 100{,}000 \times \frac{35}{100} = \text{RM } \mathbf{35{,}000}$

Practice 4

(Issue at premium & payable by instalments — Ordinary shares
Issue at discount & payable in full — Loan notes)

JF Bhd is a company with an authorised capital of 10,000,000 ordinary shares of RM 1 each, of which 800,000 shares had been issued and fully paid on 30 June Year 4.

The company proposed to make an offer of 150,000 ordinary shares at a price of RM 1.20 each, the arrangement for payment being:
RM 0.70 per share on application, including premium
RM 0.20 per share on allotment
Balance on first and final call

Applications were received for 218,000 shares on 1 July Year 4. They were dealt with as follows:

Applications	Shares allotted on 10 July Year 4
30,000	Full allotment
180,000	2 shares for every 3 applied for
8,000	No share was allotted and the application monies refunded
218,000	

The excess application monies were held and set off against the amount due on allotment. Any balances remaining were then refunded on 10 July Year 4.

The allotment monies were received on 20 July Year 4.
The first and final call was made on 1 August Year 4 and the monies were fully received on 30 August Year 4.

After the completion of the issue of ordinary shares, the company also made an issue of RM 500,000 8% loan notes at a discount of 1%, payable in full on application.

On 20 September Year 4, applications were received for RM 580,000 of loan notes. Allotment was made on 30 September Year 4 and the excess application monies were refunded on the same date.

You are required to prepare:
(a) a table as shown below:

Shares applied	Shares allotted	Application monies received (1)		Application & allotment monies required (2)		Allotment monies receivable (2) > (1)	Application monies refunded (1) > (2)
Shares	Shares	RM	RM	RM	RM	RM	RM
30,000	Full →						
180,000	2:3 →						
8,000	- →						
218,000							

(b) Journal entries to record the above issue of shares and loan notes;

(c) Equity And Liabilities section as it would appear on the Statement Of Financial Position as at 1 October Year 4.

Answer Guide

		Ordinary Shares	8% Loan Notes
	RM	RM	RM
1. **Monies refunded:**		23,600	79,200
2. **Allotment monies received:**		6,000	-
3. **Call monies received:**		45,000	-
4. **Total Equity And Liabilities:**	1,475,000		

Review

1. Issue of

Issue price:	Shares 股份	Loan Notes 债券
a. at par 平价	√	√
b. at premium 溢价	√	×
c. at discount 折价	×	√

Payable:

a. in full on application
一次缴足

b. by instalments
分期缴付

Hint ***Shares issued*** *at a* ***discount rarely occurs*** *as it is* ***prohibited.***

2. Issue of shares at premium, payable by instalments, forfeiture & reissue of shares:

Steps	Transactions
a.	Application monies received *(including premium)*
b.	Shares allotted & Nominal value *(due on application & allotment)* & premium transferred to Share Capital account & Share Premium account
c.	Application monies returned *(including premium)*
d.	Allotment monies received
e.	Call made & Nominal value *(due on call)* transferred to Share Capital account
f.	Call monies received
g.	Call monies not paid & shares forfeited
h.	Forfeited shares reissued and monies received
i.	Profit on reissue transferred to Share Premium account

Hint *a. ~ i. below refer to the accounting* ***steps*** *on the* ***previous page****.*

Hint *The* ***accounting entries*** *for* ***issue*** *of* ***shares*** *&* ***loan notes*** *are* ***similar****.*

General Ledger

Application And Allotment 申请与分配

		RM			RM
Ordinary Share Capital	b.	xx	Bank - Application	a.	xx
Share Premium	b.	xx	Bank - Allotment	d.	xx
Bank - Refunded	c.	xx			
		xx			xx

First And Final Call 第一次与最后一次催缴

		RM			RM
Ordinary Share Capital	e.	xx	Bank	f.	xx
			* Investment In Own Shares	g.	xx
		xx			xx

Bank

		RM			
Application And Allotment	a.	xx	Application And Allotment - Refunded	c.	xx
Application And Allotment	d.	xx			
First And Final Call	f.	xx			
Investment In Own Shares	h.	xx			

Ordinary Share Capital

					RM
			Application And Allotment	b.	xx
			First And Final Call	e.	xx

$\}$ *Nominal value*

Share Premium

					RM
			Application And Allotment	b.	xx
			Investment In Own Shares - Profit On Reissue	i.	xx

Investment In Own Shares

		RM			RM
First And Final Call	g.	xx	Bank	h.	xx
Share Premium - Profit On Reissue	i.	xx			
		xx			xx

Hint * *If the* ***shares*** *are* ***not forfeited****, at the* ***end*** *of the* ***reporting period****, any* ***debit balance*** *on* ***Call*** *account represents the* ***calls in arrears*** 应收催缴股款.

Chapter 30 Amalgamation And Business Purchase

Learning Objectives

After studying this chapter, you should be able to:

- understand and differentiate between amalgamation and business purchase;
- prepare Journal / Ledger entries and Opening Statement Of Financial Position for:

  Amalgamation
  a. Amalgamation of individual and sole proprietorship;
  b. Amalgamation of sole proprietorship and partnership;
  c. Amalgamation of two sole proprietorships / two partnerships.

  Business Purchase
  a. Takeover of another sole proprietorship by individual / sole proprietorship;
  b. Takeover of sole proprietorship / another partnership by partnership;
  c. Takeover of sole proprietorship / partnership by limited company.

30.1 Amalgamation

1. When an existing business entity agrees to **combine** / **merge** its business with the resources of an individual or another business entity, it is known as **amalgamation** / **combination** / **merger**.

2. After the amalgamation, the **number** of **owners** and other **resources** will **increase**, and it involves the **change** in **business structure**.

3. The normal **procedures** of amalgamation are as follows:
   a. **Assets** are revalued and **goodwill** (*if any*) is considered by respective business(es). **Capital** account(s) is / are then adjusted accordingly before combination;
   b. **Books** of **entities concerned** are closed;
   c. **Books** of **new entity** are opened to record the **assets** and **liabilities** brought in;
   d. **Opening Statement Of Financial Position** is prepared for new entity after combination.

30.1.1 Amalgamation of Individual and Sole Proprietorship

Example 1 (Individual + Sole Proprietorship = Partnership)

On 1 January Year 1, Jia Jun a retired individual was invited by Bi Jun Enterprise to run a retail business in the form of a partnership. The following information was provided by the parties concerned:

Bi Jun Enterprise
Statement Of Financial Position
As At 1 January Year 1

	RM	RM
Non-current Assets		
Furniture		6,000
Office Equipment		10,000
		16,000
Current Assets		
Inventory	4,200	
Accounts Receivable	2,300	
Bank	1,950	8,450
Total Assets		24,450
Current Liabilities		
Accounts Payable		(3,150)
Net Assets		21,300
Owner's Equity		
Opening Capital		21,300

Additional information:

(i) Jia Jun agreed to contribute RM 12,000 cash and motor van worth RM 15,000 as capital.

(ii) Bi Jun's assets and liabilities were brought in at the following values:

	RM
Furniture	7,000
Office equipment	9,500
Inventory	4,100
Accounts Receivable	2,300
Bank	1,950
Accounts Payable	3,150
Goodwill	2,500

Hint *The **carrying values** of **assets** were **revalued** before amalgamation to show their **true values**.*

(iii) The new partnership was known as Bi And Jia Partnership.

You are required to prepare:

(a) General Journal for Bi And Jia Partnership to record the amalgamation;

(b) Statement Of Financial Position as at 1 January Year 1 for the new partnership.

Think 1 *What are the possible **advantages** of **amalgamation**?*

Opening Journal entries & ***Statement Of Financial Position*** *are usually prepared after amalgamation.*

Solution:

In the books of **Bi And Jia Partnership**:

(a) **General Journal**

Date	Particulars	Debit	Credit
Year 1		RM	RM
Jan 1	Furniture	7,000	
	Office Equipment	9,500	
	Inventory	4,100	
	Accounts Receivable	2,300	
	Bank	1,950	
	Goodwill	2,500	
	Accounts Payable		3,150
	Capital - Bi Jun		24,200
	(Being assets and liabilities brought in by Bi Jun)		
		27,350	27,350
1	Bank	12,000	
	Motor Vehicle	15,000	
	Capital - Jia Jun		27,000
	(Being assets brought in by Jia Jun)		
		27,000	27,000

(b) Bi And Jia Partnership

Statement Of Financial Position

As At 1 January Year 1

		RM	RM
Non-current Assets			
Furniture			7,000
Office Equipment			9,500
Motor Vehicle			15,000
Goodwill			2,500
			34,000
Current Assets			
Inventory		4,100	
Accounts Receivable		2,300	
Bank	(**Working**)	13,950	20,350
Total Assets			54,350
Current Liabilities			
Accounts Payable			(3,150)
Net Assets			51,200
Owners' Equity			
Capital			
Bi Jun			24,200
Jia Jun			27,000
			51,200

Working:

Bank = RM (1,950 + 12,000)

= RM **13,950**

Think 2

*If the **accounts payable** of RM 3,150 were **discharged** personally by Bi Jun instead of being brought into the partnership, what would be the **adjusted capital** of **Bi Jun**?*

Practice 1 (Individual + Sole Proprietorship = Partnership)

On 1 July Year 1, Guo Lin an individual decided to join Qi Wei Trading and form a partnership dealing in wholesale business. The following information was provided by both parties:

Qi Wei Trading
Statement Of Financial Position
As At 1 July Year 1

	RM	RM
Non-current Assets		
Fixtures And Fittings		9,000
Motor Vehicles		15,000
		24,000
Current Assets		
Inventory	6,800	
Accounts Receivable	4,500	
Bank	12,000	23,300
Total Assets		47,300
Current Liabilities		
Accounts Payable		(8,200)
Net Assets		39,100
Owner's Equity		
Opening Capital		39,100

Additional information:
(i) The new partnership was named Guo Qi Trading. The partners would share profits and losses equally.
(ii) Some of the assets brought in by Qi Wei were agreed as follows:
Fixtures and fittings were revalued at RM 8,500;
Motor vehicles were valued RM 1,500 above the carrying value;
Inventory was valued at RM 6,500.
(iii) Guo Lin agreed to introduce capital in cash equal to the capital of Qi Wei after revaluation.

You are required to prepare in the books of Guo Qi Trading:
(a) opening Journal entries;
(b) opening Statement Of Financial Position as at 1 July Year 1.

Answer Guide

	Guo Lin	*Qi Wei*
	RM	*RM*
*1. **Cash brought in:***	*39,800*	*12,000*
*2. **Balances on Capital account:***	*39,800*	*39,800*

30.1.2 Amalgamation of Two Sole Proprietorships

Example 2 (Sole Proprietorship + Sole Proprietorship = Partnership)

Albert and Bob agreed to combine their businesses into a partnership named Albert And Bob Partnership on 1 January Year 2:

Albert
Statement Of Financial Position
As At 31 December Year 1

	RM	RM
Non-current Assets		
Premises		30,000
Fixtures And Fittings		10,000
		40,000
Current Assets		
Inventory	5,000	
Accounts Receivable	2,800	
Bank	1,500	9,300
Total Assets		49,300
Current Liabilities		
Accounts Payable		(2,000)
Net Assets		47,300
Owner's Equity		
Capital		47,300

Bob
Statement Of Financial Position
As At 31 December Year 1

	RM	RM
Non-current Assets		
Fixtures And Fittings		8,000
Office Equipment		6,500
		14,500
Current Assets		
Inventory	4,000	
Accounts Receivable	3,200	
Bank	2,200	9,400
Total Assets		
		23,900
Current Liabilities		
Accounts Payable		(1,800)
Net Assets		22,100
Owner's Equity		
Capital		22,100

Additional information:

(i) The revaluation on assets agreed by the owners was as follows:

	Albert RM	Bob RM
Premises	35,000	-
Fixtures and fittings	9,500	8,500
Office equipment	-	7,000

(ii) Total capital of the partnership was RM 90,000 which should be contributed equally. The partners might have to bring in or withdraw cash if necessary.

You are required to prepare:

(a) General Journal for Albert And Bob Partnership to record the amalgamation;

(b) Statement Of Financial Position as at 1 January Year 2 for the new partnership.

Solution:

In the books of **Albert And Bob Partnership**:

(a) **General Journal**

Date	Particulars	Debit	Credit
Year 2		RM	RM
Jan 1	Premises	35,000	
	Fixtures And Fittings	9,500	
	Inventory	5,000	
	Accounts Receivable	2,800	
	Bank	1,500	
	Accounts Payable		2,000
	Capital - Albert		51,800
	(Being assets and liabilities brought in by Albert)		
		53,800	53,800
1	Fixtures And Fittings	8,500	
	Office Equipment	7,000	
	Inventory	4,000	
	Accounts Receivable	3,200	
	Bank	2,200	
	Accounts Payable		1,800
	Capital - Bob		23,100
	(Being assets and liabilities brought in by Bob)		
		24,900	24,900
1	Capital - Albert	6,800	
	Bank (**W1**)		6,800
	(Being cash withdrawn by Albert to have equal capital amount)		
1	Bank (**W2**)	21,900	
	Capital - Bob		21,900
	(Being cash brought in by Bob to have equal capital amount)		

(b)

Albert And Bob Partnership

Statement Of Financial Position

As At 1 January Year 2

		RM	RM
Non-current Assets			
Premises	(**W3**)		35,000
Fixtures And Fittings	(**W4**)		18,000
Office Equipment	(**W5**)		7,000
			60,000
Current Assets			
Inventory	(**W6**)	9,000	
Accounts Receivable	(**W7**)	6,000	
Bank	(**W9**)	18,800	33,800
Total Assets			93,800
Current Liabilities			
Accounts Payable	(**W8**)		(3,800)
Net Assets			90,000
Owners' Equity			
Capital			
Albert			45,000
Bob			45,000
			90,000

Workings:

(1) Cash withdrawn by Albert:
RM(51,800 – 45,000) = RM **6,800**

Equal capital amount = RM 90,000 ÷ 2

(2) Cash brought in by Bob:
RM(45,000 – 23,100) = RM **21,900**

	Albert	Bob	Total
	RM	RM	RM
(3) Premises:	35,000	-	**35,000**
(4) Fixtures And Fittings:	9,500	8,500	**18,000**
(5) Office Equipment:	-	7,000	**7,000**
(6) Inventory:	5,000	4,000	**9,000**
(7) Accounts Receivable:	2,800	3,200	**6,000**
(8) Accounts Payable:	(2,000)	(1,800)	(**3,800**)

(9) Bank

Year 2			RM	Year 2			RM
Jan	1	Capital		Jan	1	Capital - Albert (withdrawn)	6,800
		- Albert	1,500		1	Balance c/d	18,800
		- Bob	2,200				
	1	Capital - Bob (brought in)	21,900				
			25,600				25,600
Jan	1	Balance b/d	**18,800**				

Practice 2 (Sole Proprietorship + Sole Proprietorship = Partnership)

Sole traders, Tan and Lim, decided to amalgamate their businesses as from 1 January Year 2.

Before amalgamation, the financial positions of the two businesses were revealed in their respective **Statements Of Financial Position** as at 31 December Year 1 as follows:

	Tan	Lim
	RM	RM
Premises	20,000	12,000
Motor Vehicles	8,000	6,000
Inventory	2,400	3,200
Accounts Receivable	3,000	2,000
Bank	2,200	800
	35,600	24,000
Capital	30,000	20,000
Accounts Payable	5,600	4,000
	35,600	24,000

The following terms were agreed:

(i) All the assets (except for the bank balances) and liabilities were transferred to the new firm.

(ii) Revaluation of assets was to be made as follows:

	Tan	Lim
	RM	RM
Premises	25,000	15,000
Motor vehicles	6,400	5,000
Allowance for doubtful debts	250	(5% on accounts receivable)

(iii) The goodwill of Tan's business was valued at RM 3,000 and Lim's at RM 2,000.

(iv) Lim had to bring in cash to raise her capital to the amount equal to Tan's revised capital.

(v) The partners were to share profits and losses equally.

You are required to prepare in the books of the new partnership:

(a) opening Journal entries;

(b) opening Statement Of Financial Position as at 1 January Year 2.

Answer Guide

	Tan	*Lim*
	RM	*RM*
*1. **Cash brought in:***	-	*10,850*
*2. **Balances on Capital account:***	*33,950*	*33,950*

30.1.3 Amalgamation of Sole Proprietorship and Partnership & Amalgamation of Two Partnerships

Example 3 (Sole Proprietorship + Partnership = New Partnership)

Hong Yi Enterprise agreed to amalgamate its business on 1 January Year 3 with Shi Yan And Mun Leng Partnership. The new partnership was known as SMH Partners.

The following was the information provided by both entities before amalgamation:

Hong Yi Enterprise
Statement Of Financial Position
As At 31 December Year 2

	RM	RM		RM
Non-current Assets			**Owner's Equity**	
Office Furniture		6,000	Opening Capital	23,500
Motor Vehicles		11,000	Add: Net Profit	7,700
		17,000		31,200
Current Assets			Less: Drawings	(4,850)
Inventory	4,000		Closing Capital	26,350
Accounts Receivable	5,000			
Bank	3,000	12,000	**Current Liabilities**	
			Accounts Payable	2,650
		29,000		29,000

Shi Yan And Mun Leng Partnership
Statement Of Financial Position
As At 31 December Year 2

	RM	RM		RM	RM
Non-current Assets			**Owners' Equity**		
Premises		25,000	Capital		
Motor Vehicles		18,000	Shi Yan	25,500	
		43,000	Mun Leng	20,050	45,550
Current Assets			Current		
Inventory	6,000		Shi Yan	4,500	
Accounts Receivable	8,500		Mun Leng	2,000	6,500
Bank	4,200	18,700	**Current Liabilities**		
			Accounts Payable		9,650
		61,700			61,700

The terms and conditions should be taken into consideration as follows:

(i) All the assets and liabilities would be transferred as follows:

Hong Yi Enterprise: Office furniture RM 5,700;
Motor vehicles RM 12,500;
Allowance for doubtful debts RM 150;
other assets and liabilities remained unchanged.

Shi Yan And Mun Leng Partnership:
Premises RM 28,000;
Motor vehicles RM 17,000;
Allowance for doubtful debts RM 500;
other assets and liabilities remained unchanged.
(Note: The existing profit sharing ratio was 2:1.)

(ii) The balances on partners' current accounts should be transferred to their capital accounts before any adjustment.

(iii) Goodwill of RM 6,000 had been created by Shi Yan And Mun Leng Partnership, and the new partnership decided not to maintain the Goodwill account in the books. The goodwill would be written off by using new profit sharing ratio 1:1:1.

(iv) The new partnership would operate in a sum of RM 96,000 for which each partner should have equal amount of capital. Any difference would be contributed or withdrawn by partners to meet the capital requirement.

You are required to prepare:

(a) in the books of Shi Yan And Mun Leng Partnership:
   (i) Revaluation account;
   (ii) partners' Capital account in columnar form.

(b) in the books of SMH Partners:
   (i) opening Journal entries;
   (ii) opening Statement Of Financial Position.

Solution:

(a) In the books of **Shi Yan And Mun Leng Partnership**:

(i) Revaluation

Year 3			RM	Year 3			RM
Jan	1	Motor Vehicles	1,000	Jan	1	Premises	3,000
	1	Allowance For Doubtful Debts	500				
	1	Capital: Profit On Revaluation (2:1)					
		- Shi Yan	1,000				
		- Mun Leng	500				
			3,000				3,000

(ii) Capital

			Shi Yan	Mun Leng				Shi Yan	Mun Leng
Year 3			RM	RM	Year 3			RM	RM
Jan	1	Balance c/d	35,000	24,550	Jan	1	Balance b/d	25,500	20,050
						1	Current	4,500	2,000
						1	Goodwill (2:1)	4,000	2,000
						1	Revaluation		
							- Profit On Revaluation	1,000	500
			35,000	24,550				35,000	24,550
					Jan	1	Balance b/d	**35,000**	**24,550**

*What is the **alternative way** to **record** the **goodwill** of RM 6,000 which had been built up by Shi Yan And Mun Leng Partnership?*

(b) In the books of **SMH Partners**:

(i) **General Journal**

Date	Particulars		Debit	Credit
Year 3			RM	RM
Jan 1	Office Furniture		5,700	
	Motor Vehicles		12,500	
	Inventory		4,000	
	Accounts Receivable		5,000	
	Bank		3,000	
	Allowance For Doubtful Debts			150
	Accounts Payable			2,650
	Capital - Hong Yi			**27,400**
	(Being assets and liabilities brought in by Hong Yi)			
			30,200	30,200
1	Premises		28,000	
	Motor Vehicles		17,000	
	Inventory		6,000	
	Accounts Receivable		8,500	
	Bank		4,200	
	Goodwill		6,000	
	Allowance For Doubtful Debts			500
	Accounts Payable			9,650
	Capital - Shi Yan	(a)(ii)		**35,000**
	Capital - Mun Leng	(a)(ii)		**24,550**
	(Being assets and liabilities brought in by Shi Yan and Mun Leng)			
			69,700	69,700
1	Capital - Shi Yan		2,000	
	Capital - Mun Leng		2,000	
	Capital - Hong Yi		2,000	
	Goodwill	(**W2**)		6,000
	(Being goodwill created by Shi Yan And Mun Leng Partnership written off in the new partnership)			
1	Bank		15,050	
	Capital - Shi Yan	(**W1**)	1,000	
	Capital - Mun Leng	(**W1**)		9,450
	Capital - Hong Yi	(**W1**)		6,600
	(Being cash withdrawn and brought in by partners to meet the capital requirement of RM 32,000 each)			

(ii)

SMH Partners

Statement Of Financial Position

As at 1 January Year 3

		RM	RM	RM
Non-current Assets				
Premises	(**W3**)			28,000
Office Furniture	(**W4**)			5,700
Motor Vehicles	(**W5**)			29,500
				63,200
Current Assets				
Inventory	(**W6**)		10,000	
Accounts Receivable	(**W7**)	13,500		
Less: Allowance For Doubtful Debts	(**W8**)	(650)	12,850	
Bank	(**W9**)		22,250	45,100
Total Assets				108,300
Current Liabilities				
Accounts Payable	(**W10**)			(12,300)
Net Assets				96,000
Owners' Equity				
Capital	(**W1**)			
Shi Yan				32,000
Mun Leng				32,000
Hong Yi				32,000
				96,000

Workings:

(1) Capital

		Shi Yan	Mun Leng	Hong Yi			Shi Yan	Mun Leng	Hong Yi
Year 3		RM	RM	RM	Year 3		RM	RM	RM
Jan 1	Goodwill - Written Off	2,000	2,000	2,000	Jan 1	Assets & Liabilities (b)(i)	35,000	24,550	27,400
1	Bank	**1,000**	-	-	1	Bank	-	**9,450**	**6,600**
1	Balance c/d	32,000	32,000	32,000					
		35,000	34,000	34,000			35,000	34,000	34,000
					Jan 1	Balance b/d	**32,000**	**32,000**	**32,000**

(2) Goodwill

Year 3		RM	Year 3		RM
Jan 1	Capital - Shi Yan & Mun Leng	6,000	Jan 1	Capital (1:1:1)	**6,000**

		Shi Yan & Mun Leng	Hong Yi	Total
		RM	RM	RM
(3)	Premises:	28,000	-	**28,000**
(4)	Office Furniture:	-	5,700	**5,700**
(5)	Motor Vehicles:	17,000	12,500	**29,500**
(6)	Inventory:	6,000	4,000	**10,000**
(7)	Accounts Receivable:	8,500	5,000	**13,500**
(8)	Allowance For Doubtful Debts:	(500)	(150)	(**650**)
(9)	Bank: RM(3,000 + 4,200 + 9,450 + 6,600 – 1,000)	-	-	**22,250**
(10)	Accounts Payable:	(9,650)	(2,650)	(**12,300**)

Practice 3 (Partnership + Partnership = New Partnership)

Ann and Ben were equal partners in partnership as AB Company, while Carol and Denny were in partnership as CD Company sharing profits and losses in the ratio of 3:2.

On 1 January Year 3, the partners decided to amalgamate their businesses into a partnership as Alpha Company. The profit and loss sharing ratio for the new partnership was 3:2:3:2.

The following were the Statements Of Financial Position of the respective partnerships:

Statement Of Financial Position of AB Company as at 31 December Year 2

	RM		RM
Office Equipment	3,500	Capital	
Motor Vehicles	5,000	- Ann	4,750
Inventory	300	- Ben	4,750
Accounts Receivable	600	Accounts Payable	200
Bank	300		
	9,700		9,700

Statement Of Financial Position of CD Company as at 31 December Year 2

	RM		RM
Office Equipment	3,000	Capital	
Motor Vehicles	4,800	– Carol	4,900
Inventory	200	– Denny	3,100
Accounts Receivable	700	Accounts Payable	300
		Bank Overdraft	400
	8,700		8,700

The terms agreed by the partnerships were:

(i) Revaluations were to be made as follows:

	AB Company	CD Company
	RM	RM
Office equipment	4,000	3,100
Motor vehicles	4,800	5,000
Inventory	400	300
Goodwill	2,600	2,000

(ii) Allowance for doubtful debts of 5% was to be made for the respective accounts receivable.

(iii) The total capital of Alpha Company was to be RM 20,000 and to be contributed by the partners equally. No Goodwill account should be maintained in the books of Alpha Company.

(iv) Ann, Ben, Carol and Denny were to pay or be paid in cash, so that their capital would be in the same proportion.

You are required to prepare in the books of Alpha Company:

(a) opening Journal entries to record the amalgamation;

(b) opening Statement Of Financial Position as at 1 January Year 3;

(c) Capital account of Ann, Ben, Carol and Denny in columnar form;

(d) Bank account.

Answer Guide

		Ann	Ben	Carol	Denny
	RM	RM	RM	RM	RM
1. **Profit On Revaluation** (including Goodwill):		1,485	1,485	1,419	946
2. **Cash brought in** / (**withdrawn**):		145	(315)	61	1,874
3. **Balances on Capital account**:		5,000	5,000	5,000	5,000
4. **Bank**:	1,665	-	-	-	-

30.2 Business Purchase

1. Under business purchase, an entity continues its operations even if it has been purchased / acquired by an individual / another business entity. The change is that the entity is managed and controlled by the buyer.

2. Normally, seller prefers to sell his business as a **going concern** 继续经营 at a higher price to realise the established goodwill. On the other hand, buyer prefers to purchase a business as it saves him the trouble of setting up a business, building market share and reputation.

3. The **buyer** / **purchaser** / **purchasing company** / **acquiring company** will take over the business from the **seller** / **vendor** / **selling company** with an agreed price known as **purchase price** / **purchase consideration** 收购价格. The assets and liabilities of the business taken over will then become part of the resources of the buyer.

4. The payment made by the **buyer** to the **seller** can be in the way of:
   a. cash;
   b. shares;
   c. loan notes; or
   d. any combination of the above.

5. There are various types of **business purchase** / **business acquisition**:
   a. Takeover of another **sole proprietorship** by **individual** / **sole proprietorship**;
   b. Takeover of **sole proprietorship** / another **partnership** by **partnership**;
   c. Takeover of **sole proprietorship** / **partnership** by **limited company**.

30.2.1 Purchase Price

1. When the **purchase price** is **higher** than the fair values of **net assets** taken over, **goodwill** will incur.
   It means the buyer **pays more** to buy the net assets, i.e. the buyer pays an extra amount for the net assets taken over as illustrated below:

	RM
Purchase Price	100,000
Less: Fair values of Net Assets taken over	80,000
Goodwill	20,000

2. When the **purchase price** is **lower** than the fair values of **net assets** taken over, **gain on bargain purchase** will incur.
   It means the buyer **pays less** to buy the net assets as illustrated below:

	RM
Purchase Price	100,000
Less: Fair values of Net Assets taken over	110,000
Gain On Bargain Purchase	(10,000)

3. Formula:

   Goodwill / (**Gain On Bargain Purchase**)
   = **Purchase Price** – **Net Assets**
   = Purchase Price – (Total Assets – Total Liabilities)

   Notes:
   Goodwill: It is recognised as an **intangible non-current asset**.
   Gain On Bargain Purchase: It was formerly known as **negative goodwill**.
   It is recognised as a **gain** in **Income Statement** and eliminated immediately.

30.2.2 Accounting Entries in Buyer's Books

No.	Transactions	**Accounting entries**
1.	Record the **assets** taken over (except for **cash** / **bank**) at **fair values***.	Dr Assets Cr Business Purchase
2.	Record the **liabilities** taken over at **fair values****.	Dr Business Purchase Cr Liabilities
3.	**Record** the **purchase price**.	Dr Business Purchase Cr Seller
4.	Close Business Purchase account by transferring the balance to **Goodwill** / **Gain On Bargain Purchase** account.	Dr Goodwill Cr Business Purchase **Or** Dr Business Purchase Cr Gain On Bargain Purchase *It is a **gain** in **Income Statement***
5.	**Pay off** the **purchase price** by various payment methods.	Dr Seller Cr Bank / Share Capital / Share Premium / Loan Notes

Notes:
* The **fair values** of **assets** sometimes could be the **carrying values**.
** The **fair values** of **liabilities** would normally be the **same** as the **carrying values**.

30.2.3 Accounting Entries in Seller's Books

No.	Transactions	Accounting entries
1.	Close **all asset accounts** (except for **cash** / **bank**) by transferring the **carrying values** of the assets to Realisation account.	Dr Realisation / Dissolution Cr Assets
2.	a. If **liabilities** are taken over by **buyer**, close the **liability accounts** by transferring the **carrying values** to Realisation account.	Dr Liabilities Cr Realisation
	b. If **liabilities** are **paid off**.	Dr Liabilities Cr Bank
	c. If **liabilities** are taken over by **owner** / **partner**(s).	Dr Liabilities Cr Capital / Partners' Capital
3.	a. **Record** the **purchase price**.	Dr Buyer Cr Realisation
	b. If **assets** are taken over by **owner** / **partner**(s) with an agreed price.	Dr Capital / Partners' Capital Cr Realisation
	c. If **assets** are sold to **third party** for cash.	Dr Bank Cr Realisation
4.	Close Realisation account by transferring the **profit** or **loss on realisation** to Capital / partners' **Capital** account.	Dr Realisation - Profit On Realisation Cr Capital / Partners' Capital **Or** Dr Capital / Partners' Capital Cr Realisation - Loss On Realisation
5.	a. **Receive** cash for the **purchase price**.	Dr Bank Cr Buyer **Or** / **And**
	b. **Distribute** shares / loan notes from buyer to **owner** / **partners**.	Dr Capital / Partners' Capital Cr Buyer
6.	For **parnership**, transfer **balances** on partners' **current** accounts to their **capital** accounts.	Dr Current (with **credit** balance) Cr Capital **Or** Dr Capital Cr Current (with **debit** balance)
7.	Balance off **Capital** account and **settle** with **final bank balance**.	Dr Capital / Partners' Capital Cr Bank **Or** Dr Bank Cr Capital / Partners' Capital

30.2.4 Takeover of another Sole Proprietorship by Individual / Sole Proprietorship

Example 4 (Takeover of Sole Proprietorship by Individual)

The Balance Sheet of Wun Peng Enterprise, a sole trader's business was given below:

Statement Of Financial Position
As At 31 December Year 3

	RM	RM
Non-current Assets		
Building		35,000
Motor Vehicles		18,000
		53,000
Current Assets		
Inventory	7,500	
Accounts Receivable	9,800	
Bank	6,700	24,000
Total Assets		77,000
Current Liabilities		
Accounts Payable		(6,000)
Net Assets		71,000
Owner's Equity		
Capital		71,000

On 1 January Year 4, the owner decided to sell the business to Wei Ming, an individual, at an agreed price of RM 70,000.

Wei Ming would take over all the assets and liabilities (excluding cash at bank) at their carrying values.

Wei Ming was to bring in cash to settle the purchase consideration. He contributed an additional RM 3,000 for business use.

> **Think 4**
> *Why is the **cash at bank not taken over** by buyer?*

You are required to prepare:
(a) in the books of Wei Ming (buyer):
- (i) Journal entries;
- (ii) Business Purchase account and Bank account;
- (iii) Opening Statement Of Financial Position as at 1 January Year 4.

(b) in the books of Wun Peng Enterprise (seller):
Journal entries to close the books.

When a business is taken over at a ***price higher than*** *the value of the* ***net assets*** *taken over, what does it mean?*

Solution:

(a) In the books of **Wei Ming** (buyer):

(i) **General Journal**

Date	Particulars	Debit	Credit
Year 4		RM	RM
Jan 1	Building	35,000	
	Motor Vehicles	18,000	
	Inventory	7,500	
	Accounts Receivable	9,800	
	Goodwill (**W1**)	5,700	
	Accounts Payable		6,000
	Business Purchase		70,000
	(Being assets and liabilities taken over)		
		76,000	76,000
1	Business Purchase	70,000	
	Seller - Wun Peng Enterprise		70,000
	(Being purchase of business at a price of RM 70,000)		
1	Bank (**W2**)	73,000	
	Capital		73,000
	(Being cash brought in by Wei Ming)		
1	Seller - Wun Peng Enterprise	70,000	
	Bank		70,000
	(Being purchase price settled by cash)		

(ii) Business Purchase

Year 4			RM	Year 4			RM
Jan	1	Accounts Payable	6,000	Jan	1	Building	35,000
	1	Seller - Wun Peng Enterprise	70,000		1	Motor Vehicles	18,000
					1	Inventory	7,500
					1	Accounts Receivable	9,800
					1	Goodwill	5,700
			76,000				76,000

Bank

Year 4			RM	Year 4			RM
Jan	1	Capital	73,000	Jan	1	Seller - Wun Peng Enterprise	70,000
					1	Balance c/d	3,000
			73,000				73,000
Jan	1	Balance b/d	**3,000**				

(iii)

Wei Ming
Statement Of Financial Position
As At 1 January Year 4

		RM	RM
Non-current Assets			
Tangible Assets			
Building			35,000
Motor Vehicles			18,000
			53,000
Intangible Assets			
Goodwill			5,700
			58,700
Current Assets			
Inventory		7,500	
Accounts Receivable		9,800	
Bank	(ii)	3,000	20,300
Total Assets			79,000
Current Liabilities			
Accounts Payable			(6,000)
Net Assets			73,000
Owner's Equity			
Capital			73,000

(b) In the books of **Wun Peng Enterprise** (seller):

General Journal

Date	Particulars	Debit	Credit
Year 4		RM	RM
Jan 1	Realisation	70,300	
	Building		35,000
	Motor Vehicles		18,000
	Inventory		7,500
	Accounts Receivable		9,800
	(Being closing of asset accounts by transferring the carrying values to Realisation account)		
		70,300	70,300
1	Accounts Payable	6,000	
	Realisation		6,000
	(Being closing of liability account by transferring the carrying value to Realisation account)		
1	Buyer - Wei Ming	70,000	
	Realisation		70,000
	(Being sale of business at a price of RM 70,000)		
1	Realisation - Profit On Realisation (**W3**)	5,700	
	Capital		5,700
	(Being closing of Realisation account by transferring the profit on realisation to Capital account)		
1	Bank	70,000	
	Buyer - Wei Ming		70,000
	(Being cash received from Wei Ming for the purchase price)		
1	Capital (**W4**)	76,700	
	Bank (**W5**)		76,700
	(Being repaying of cash to owner and the books closed)		

Workings:

(1) Goodwill = Purchase Price – (Total Assets – Total Liabilities)
= RM 70,000 – (RM 70,300 – RM 6,000)
= RM 70,000 – RM 64,300
= RM **5,700**

(2) Bank = RM (70,000 + RM 3,000)
= RM **73,000**

(3) Realisation

Year 4		RM	Year 4	*at carrying value*	RM
Jan 1	Building	35,000	Jan 1	Accounts Payable	6,000
1	Motor Vehicles	18,000	1	Buyer - Wei Ming	70,000
1	Inventory *at carrying value*	7,500			
1	Accounts Receivable	9,800			
1	Capital - Profit On Realisation	**5,700**			
		76,000			76,000

Buyer - Wei Ming

Year 4		RM	Year 4		RM
Jan 1	Realisation	70,000	Jan 1	Bank	**70,000**

(4) Capital

Year 4		RM	Year 4		RM
Jan 1	Bank	**76,700**	Jan 1	Balance b/d	71,000
			1	Realisation - Profit On Realisation	5,700
		76,700			76,700

(5) Bank

Year 4		RM	Year 4		RM
Jan 1	Balance b/d	6,700	Jan 1	Capital	**76,700**
1	Buyer - Wei Ming	70,000			
		76,700			76,700

Hint

*The **final** balance on **Capital** account must equal the **final** balance on **Bank** account from which the owner was paid.*

Practice 4 (Takeover of Sole Proprietorship by Individual)

On 1 January Year 4, Wai Leong decided to take over the business of Kin Guo Trading. The Statement Of Financial Position was as follows:

Kin Guo Trading
Statement Of Financial Position
As at 31 December Year 3

	RM		RM
Freehold Premises	40,000	Capital	66,500
Office Equipment	15,000	Accounts Payable	3,500
Inventory	7,500		
Accounts Receivable	6,500		
Bank	1,000		
	70,000		70,000

The purchase consideration of RM 65,000 was to be settled by cash.

All the assets and liabilities (except for cash at bank) were to be taken over at their original carrying values.

Besides the purchase consideration, Wai Leong was to bring in RM 5,000 cash for the business operation.

You are required to prepare:
(a) in the books of Wai Leong (buyer):
- (i) Journal entries to record the above transactions;
- (ii) Business Purchase account and Vendor account - Kin Guo Trading;
- (iii) Statement Of Financial Position, immediately after completion of the acquisition.

(b) in the books of Kin Guo Trading (seller):
Journal entries to close the books.

Answer Guide

	RM
1. ***Gain On Bargain Purchase***:	*500*
2. ***Bank***:	*5,000*
3. ***Capital***:	*70,500*

Practice 5 (Takeover of another Sole Proprietorship by Sole Proprietorship)

Kiam Kin's **Statement Of Financial Position** as at 31 December Year 4

	RM		RM
Freehold Premises	35,000	Capital	80,000
Plant	12,000	Accounts Payable	15,000
Motor Vehicles	15,000		
Inventory	6,500		
Accounts Receivable	17,000		
Bank	9,500		
	95,000		95,000

On 1 January Year 5, Kiam Kin agreed to acquire the business of Kok Seng who was going to retire. Kok Seng presented the following **Statement Of Financial Position** as at 31 December Year 4:

	RM		RM
Freehold Premises	20,000	Capital	41,500
Plant And Machinery	12,000	Accounts Payable	6,500
Furniture And Fixtures	3,800		
Inventory	4,200		
Accounts Receivable	7,600		
Bank	400		
	48,000		48,000

Additional information:

(i) Kiam Kin agreed to take over all the assets (except for cash) and the liabilities of Kok Seng at a price of RM 50,000 which would be paid by cash.

(ii) The assets taken over were revalued by Kiam Kin as follows:

	RM
Freehold premises	22,000
Plant and machinery	11,000
Furniture and fixtures	3,500
Inventory	3,800

(iii) Kiam Kin obtained RM 50,000 bank loan for the debts owing to the vendor.

You are required to prepare

(a) in the books of Kiam Kin (buyer):
   (i) Business Purchase account, Vendor account and Bank account;
   (ii) Statement Of Financial Position as at 1 January Year 5.

(b) in the books of Kok Seng (seller):
   Journal entries to close the books.

Think 6

*How to distinguish an **amalgamation** from a **business purchase**?*

Answer Guide

	RM
*1. **Goodwill**:*	*8,600*
*2. **Bank**:*	*9,500*
*3. **Profit On Realisation**:*	*8,900*

30.2.5 Takeover of Sole Proprietorship / another Partnership by Partnership

Example 5 (Takeover of another Partnership by Partnership)

Tian, Yan and Xuan were in partnership sharing profits and losses in the ratio of 1:2:3. The **Statement Of Financial Position** for the partnership as at 31 December Year 4 was as follows:

	RM	RM
Non-current Assets		
Motor Vehicles		18,400
Office Equipment		12,600
		31,000
Current Assets		
Inventory	4,850	
Accounts Receivable	3,000	
Bank	5,150	13,000
Total Assets		44,000
Current Liabilities		
Accounts Payable		(2,750)
Net Assets		41,250
Owners' Equity		
Capital		
Tian	10,000	
Yan	12,000	
Xuan	15,000	37,000
Current		
Tian	250	
Yan	1,000	
Xuan	3,000	4,250
Total Equity		41,250

On 1 January Year 5, the partners agreed to sell their business to Chan And Chong Partnership for RM 45,000 cash.

The following was the **Statement Of Financial Position** of Chan And Chong Partnership:

	RM		RM
Motor Vehicles	25,000	Capital	
Fixtures And Fittings	16,000	- Chan	58,000
Inventory	12,800	- Chong	40,000
Accounts Receivable	12,200	Accounts Payable	29,600
Bank	61,600		
	127,600		127,600

The additional information was as follows:
(i) All the assets except for bank balance were taken over by Chan And Chong Partnership.
(ii) The accounts payable were taken over at carrying value.
(iii) The new valuation of assets taken over was as follows:

	RM
Motor Vehicles	18,000
Office Equipment	14,000
Inventory	4,800

You are required to prepare:
(a) Journal entries in the books of buyer to record the business purchase;
(b) Journal entries in the books of seller for the dissolution of the partnership.

Solution:

(a) In the books of **buyer** (Chan And Chong Partnership):

General Journal

Date	Particulars	Debit	Credit
Year 5		RM	RM
Jan 1	Motor Vehicles	18,000	
	Office Equipment	14,000	
	Inventory	4,800	
	Accounts Receivable	3,000	
	Goodwill (**W1**)	7,950	
	Accounts Payable		2,750
	Business Purchase		45,000
	(Being assets and liabilities taken over)		
		47,750	47,750
1	Business Purchase	45,000	
	Seller - Tian, Yan And Xuan		45,000
	(Being purchase of business at a price of RM 45,000)		
1	Seller - Tian, Yan And Xuan	45,000	
	Bank		45,000
	(Being purchase price settled by cash)		

(b) In the books of **seller** (Tian, Yan And Xuan):

General Journal

Date	Particulars	Debit	Credit
Year 5		RM	RM
Jan 1	Realisation	38,850	
	Motor Vehicles		18,400
	Office Equipment		12,600
	Inventory		4,850
	Accounts Receivable		3,000
	(Being closing of asset accounts by transferring the carrying values to Realisation account)		
		38,850	38,850
1	Accounts Payable	2,750	
	Realisation		2,750
	(Being closing of liability account by transferring the carrying value to Realisation account)		
1	Buyer - Chan And Chong Partnership	45,000	
	Realisation		45,000
	(Being sale of business at a price of RM 45,000)		
1	Realisation - Profit On Realisation (**W2**)	8,900	
	Capital - Tian (**W2**)		1,483
	Capital - Yan (**W2**)		2,967
	Capital - Xuan (**W2**)		4,450
	(Being closing of Realisation account by transferring the profit on realisation to capital accounts)		
1	Bank	45,000	
	Buyer - Chan And Chong Partnership		45,000
	(Being cash received from buyer for the purchase price)		
1	Current - Tian	250	
	Current - Yan	1,000	
	Current - Xuan	3,000	
	Capital - Tian		250
	Capital - Yan		1,000
	Capital - Xuan		3,000
	(Being transferring of balances on partners' current accounts to their capital accounts)		
1	Capital - Tian (**W3**)	11,733	
	Capital - Yan (**W3**)	15,967	
	Capital - Xuan (**W3**)	22,450	
	Bank		50,150
	(Being repaying of cash to partners and the books closed)		

Think 7

*The Goodwill (in **buyer**'s book) and Profit On Realisation (in **seller**'s book) had a difference of RM **950** (i.e. RM 7,950 – RM 8,900). Why?*

Workings:

(1) Goodwill = Purchase Price – (Total Assets – Total Liabilities)
= RM 45,000 – (RM 39,800 – RM 2,750)
= RM 45,000 – RM 37,050
= RM **7,950**

(2) Profit On Realisation = Purchase Price – Net Assets taken over, at carrying values
= RM 45,000 – RM(38,850 – 2,750)
= RM 45,000 – RM 36,100
= RM **8,900**

RM 8,900 x $\frac{1}{6}$ = RM **1,483**

RM 8,900 x $\frac{2}{6}$ = RM **2,967**

RM 8,900 x $\frac{3}{6}$ = RM **4,450**

(3) Capital

			Tian	Yan	Xuan				Tian	Yan	Xuan
Year 5			RM	RM	RM	Year 5			RM	RM	RM
Jan	1	Bank	**11,733**	**15,967**	**22,450**	Jan	1	Balance b/d	10,000	12,000	15,000
							1	Current	250	1,000	3,000
							1	Realisation - Profit On Realisation	1,483	2,967	4,450
			11,733	15,967	22,450				11,733	15,967	22,450

(4) Bank

Year 5			RM	Year 5			RM
Jan	1	Balance b/d	5,150	Jan	1	Capital	**50,150**
	1	Buyer - Chan And Chong Partnership	45,000				
			50,150				50,150

Practice 6 (Takeover of Sole Proprietorship by Partnership)

Tee decided to retire from business from 31 December Year 5. His financial position as at that date was as follows:

	RM		RM
Motor Vehicles	12,000	Capital	14,000
Inventory	4,500	Accounts Payable	1,500
Accounts Receivable	2,800	Loan From Samy	4,500
Bank	700		
	20,000		20,000

On 1 January Year 6 the business was purchased by Phang And Gooi, a newly formed partnership.

Tee was to pay off all the liabilities and would retain the cash at bank. All the other assets would be taken over at carrying values, except for inventory which was revalued at RM 3,800. The purchase consideration was agreed at RM 25,000.

The partnership agreement provided that the partners should each contribute RM 15,000 cash as their initial capital from which the consideration would be discharged.

You are required to prepare:

(a) in the books of buyer:

 (i) Journal entries to record the business purchase;

 (ii) Statement Of Financial Position as at 1 January Year 6.

(b) in the books of seller:

 Journal entries to close the books.

Answer Guide

	RM
1. ***Goodwill***:	6,400
2. ***Bank***:	5,000
3. ***Profit On Realisation***:	5,700

30.2.6 Takeover of Sole Proprietorship by Limited Company

Example 6 (Takeover of Sole Proprietorship by Limited Company)

The **Statement Of Financial Position** of Fen Fen Sdn Bhd as at 31 December Year 5 was shown below:

	RM Cost	RM Accumulated Depreciation	RM Carrying Amount
Non-current Assets			
Freehold Premises	90,000	(18,000)	72,000
Plant And Machinery	60,000	(18,000)	42,000
Motor Vehicles	50,000	(20,000)	30,000
	200,000	(56,000)	144,000
Current Assets			
Inventory		93,000	
Accounts Receivable		155,000	
Bank		55,000	303,000
Total Assets			447,000
Current Liabilities			
Accounts Payable			(77,000)
Net Assets			370,000
Equity			
Share Capital (Ordinary Shares of RM 1 each)			300,000
Retained Profits			70,000
Total Equity			370,000

On 1 January Year 6, Fen Fen Sdn Bhd decided to take over the business of Li Lee, a sole trader, based on the following **Statement Of Financial Position**:

	RM	RM		RM
Non-current Assets			Capital	29,000
Freehold Premises		9,000	Accounts Payable	7,000
Plant And Machinery		12,000		
		21,000		
Current Assets				
Inventory	4,000			
Accounts Receivable	6,000			
Bank	5,000	15,000		
		36,000		36,000

Fen Fen Sdn Bhd took over all the assets except for bank balance, and agreed to take over the responsibility for making payments to the creditors.

The purchase price of RM 30,000 was to be settled by issue of 20,000 new ordinary shares of Fen Fen Sdn Bhd at premium.

Immediately after completion of the business purchase, Fen Fen Sdn Bhd revalued the total premises to RM 100,000.

You are required to prepare:
(a) in the books of Fen Fen Sdn Bhd (buyer):
  (i) Journal entries (including cash) to record the above transactions;
  (ii) Statement Of Financial Position, immediately after completion of the transactions.

(b) the following accounts in the books of Li Lee (seller):
  (i) Realisation;
  (ii) Bank;
  (iii) Capital.

Solution:

(a) in the books of **Fen Fen Sdn Bhd** (buyer):

(i) **General Journal**

Date	Particulars	Debit	Credit
Year 6		RM	RM
Jan 1	Freehold Premises	9,000	
	Plant And Machinery	12,000	
	Inventory	4,000	
	Accounts Receivable	6,000	
	Goodwill (**W1**)	6,000	
	Accounts Payable		7,000
	Business Purchase		30,000
	(Being assets and liabilities taken over)		
		37,000	37,000
1	Business Purchase	30,000	
	Seller - Li Lee		30,000
	(Being purchase of business at a price of RM 30,000)		
1	Seller - Li Lee	30,000	
	Ordinary Share Capital		20,000
	Share Premium		10,000
	(Being purchase price settled by issue of 20,000 new ordinary shares at premium)		
1	Freehold Premises	19,000	
	Assets Revaluation Reserve (**W2**)		19,000
	(Being revaluation of total premises to RM 100,000)		

(ii)

Fen Fen Sdn Bhd

Statement Of Financial Position

As At 1 January Year 6

		RM Cost	RM Accumulated Depreciation	RM Carrying Amount
Non-current Assets				
Tangible Assets				
Freehold Premises		100,000	-	100,000
Plant And Machinery	(**W3**)	72,000	(18,000)	54,000
Motor Vehicles		50,000	(20,000)	30,000
		222,000	(38,000)	184,000
Intangible Assets				
Goodwill				6,000
				190,000
Current Assets				
Inventory	(**W4**)		97,000	
Accounts Receivable	(**W5**)		161,000	
Bank			55,000	313,000
Total Assets				503,000
Current Liabilities				
Accounts Payable	(**W6**)			(84,000)
Net Assets				419,000
Equity				
Share Capital (Ordinary Shares of RM 1 each)	(**W7**)			320,000
Share Premium				10,000
Assets Revaluation Reserve				19,000
Retained Profits				70,000
Total Equity				419,000

(b) in the books of **Li Lee** (seller):

(i) Realisation

Year 6		RM	Year 6		RM
Jan 1	Freehold Premises	9,000	Jan 1	Accounts Payable	7,000
1	Plant And Machinery	12,000	1	Buyer - Fen Fen Sdn Bhd	30,000
1	Inventory	4,000			
1	Accounts Receivable	6,000			
1	Capital - Profit On Realisation	6,000			
		37,000			37,000

(ii) Bank

Year 6		RM	Year 6		RM
Jan 1	Balance b/d	5,000	Jan 1	Capital	5,000

(iii) Capital

Year 6		RM	Year 6		RM
Jan 1	Buyer - Fen Fen Sdn Bhd (Ordinary Shares)	30,000	Jan 1	Balance b/d	29,000
1	Bank	5,000	1	Realisation - Profit On Realisation	6,000
		35,000			35,000

Hint *The **shares** from buyer was **distributed** to seller.*

Workings:

(1) Goodwill = Purchase Price – (Total Assets – Total Liabilities)
= RM 30,000 – (RM 31,000 – RM 7,000)
= RM 30,000 – RM 24,000
= RM **6,000**

(2) Assets Revaluation Reserve = RM 100,000 – (RM 72,000 + RM 9,000)
= RM 100,000 – (RM 81,000)
= RM **19,000**

	Fen Fen Sdn Bhd	Assets & Liabilities taken over	Total
	RM	RM	RM
(3) Plant And Machinery:	60,000	12,000	**72,000**
Accumulated Depreciation:	(18,000)	-	(**18,000**)
(4) Inventory:	93,000	4,000	**97,000**
(5) Accounts Receivable:	155,000	6,000	**161,000**
(6) Accounts Payable:	(77,000)	(7,000)	(**84,000**)

(7) Share Capital = (300,000 + 20,000) shares x RM 1
= **320,000** shares x RM 1
= RM **320,000**

Think 8 *The Goodwill (in **buyer**'s book) and Profit On Realisation (in **seller**'s book) are the same amount, i.e. RM 6,000. Why?*

Practice 7 (Takeover of Sole Proprietorship by Limited Company)

Qi Qi Bhd was incorporated with an authorised capital of 350,000 ordinary shares of RM 1 each.

The following was the **Statement Of Financial Position** of Qi Qi Bhd as at 31 December Year 6:

	RM		RM
Land And Building	80,000	Share Capital	
Plant	35,000	150,000 Ordinary Shares of RM 1 each	150,000
Motor Vehicles	35,000	Share Premium	6,000
Inventory	12,000	Revenue Reserves	15,000
Accounts Receivable	9,000	Accounts Payable	8,000
Bank	8,000		
	179,000		179,000

On 1 January Year 7, Qi Qi Bhd decided to acquire the business of Kok Lam, a sole trader.

The **Statement Of Financial Position** of Kok Lam as at 31 December Year 6 showed the following financial position:

	RM		RM
Land And Building	16,000	Capital	40,000
Plant	7,000	Accounts Payable	6,400
Inventory	12,000		
Accounts Receivable	10,000		
Cash In Hand	1,400		
	46,400		46,400

The assets and liabilities (with the exception of cash in hand) were taken over according to the values as follows:

	RM
Land And Building	22,000
Plant	6,500
Inventory	12,000
Accounts Receivable (at carrying value with a doubtful debts allowance of RM 600)	?
Accounts Payable	6,400
Goodwill	8,000

The purchase consideration based on the above valuation was to be settled by issue of ordinary shares of Qi Qi Bhd at par.

You are required to prepare:
(a) in the books of Qi Qi Bhd (buyer)
(i) Journal entries;
(ii) Statement Of Financial Position, immediately after completion of the acquisition.

(b) in the books of Kok Lam (seller):
Journal entries to close the books.

Answer Guide

	RM
1. ***Purchase Consideration***:	51,500
2. ***Share Capital***:	201,500
3. ***Profit On Realisation***:	12,900

30.2.7 Takeover of Partnership by Limited Company

Example 7 (Takeover of Partnership by Limited Company)

Yen, Gee and Kin were in partnership sharing profits and losses in the ratio of 1:2:3. The **Statement Of Financial Position** of the partnership as at 31 December Year 6 was as follows:

	RM	RM	RM
Non-current Assets			
Land And Building			50,000
Office Equipment			3,800
Motor Vans			8,400
			62,200
Current Assets			
Inventory		12,850	
Accounts Receivable	6,000		
Less: Allowance For Doubtful Debts	(300)	5,700	
Bank		3,200	21,750
Total Assets			83,950
Non-current Liabilities			
Mortgage Loan		4,000	
Current Liabilities			
Accounts Payable		4,750	
Total Liabilities			(8,750)
Net Assets			75,200
Owners' Equity			
Capital			
Yen		10,000	
Gee		30,000	
Kin		35,000	75,000
Current			
Yen		(2,000)	
Gee		1,000	
Kin		1,200	200
Total Equity			75,200

It means the business of the partnership will ***continue*** *to* ***operate*** *for an indefinite long period of time* ***after taken over*** *by Ging Sdn Bhd.*

On 1 January Year 7, the partners agreed to sell their business to Ging Sdn Bhd as a **going concern** 继续经营 for RM 90,000.

The authorised share capital of Ging Sdn Bhd was made up of 250,000 ordinary shares of RM 1 each. It was a newly established company. The balances of both Bank account and Share Capital account were RM 50,000 at the date of acquisition.

The additional information was as follows:

(i) The acquiring company took over all the assets (excluding bank balance) of the partnership at the following revalued amounts:

	RM
Land And Building	60,000
Office Equipment	3,300
Motor Van (excluding the van taken over by Kin)	5,800
Inventory	11,000
Accounts Receivable	5,550

(ii) The accounts payable were also taken over at the original carrying value by Ging Sdn Bhd.

(iii) Ging Sdn Bhd discharged the purchase price by issue of another 40,000 ordinary shares at RM 1.50 each, and the balance was to be paid by cash.

(iv) The partners would divide the shares between them according to their profit and loss sharing ratio.

(v) One of the motor vans was taken over by Kin at its carrying value of RM 2,400.

(vi) The partnership would pay off its mortgage loan.

(vii) The balances on capital accounts were finally settled by cash.

You are required to prepare:

(a) in the books of Ging Sdn Bhd (buyer):

(i) Journal entries to record the purchase of business;

(ii) Statement Of Financial Position as at 1 January Year 7, immediately after the business purchase.

(b) in the books of partnership (seller):

Journal entries to record the dissolution of the business.

Solution:

(a) In the books of **Ging Sdn Bhd** (buyer):

(i) **General Journal**

Date	Particulars	Debit	Credit
Year 7		RM	RM
Jan 1	Land And Building	60,000	
	Office Equipment	3,300	
	Motor Van	5,800	
	Inventory	11,000	
	Accounts Receivable	5,550	
	Goodwill (**W1**)	9,100	
	Accounts Payable		4,750
	Business Purchase		90,000
	(Being assets and liabilities taken over)		
		94,750	94,750
1	Business Purchase	90,000	
	Vendor - Yen, Gee And Kin		90,000
	(Being purchase of business at a price of RM 90,000)		
1	Vendor - Yen, Gee And Kin	90,000	
	Ordinary Share Capital (**W2**)		40,000
	Share Premium (**W2**)		20,000
	Bank		30,000
	(Being purchase price settled by issue of 40,000 ordinary shares at RM 1.50 each, and the balance by cash)		

(ii)

Ging Sdn Bhd

Statement Of Financial Position

As At 1 January Year 7

		RM	RM
Non-current Assets			
Tangible Assets			
Land And Building			60,000
Office Equipment			3,300
Motor Van			5,800
			69,100
Intangible Assets			
Goodwill			9,100
			78,200
Current Assets			
Inventory		11,000	
Accounts Receivable		5,550	
Bank	(**W3**)	20,000	36,550
Total Assets			114,750
Current Liabilities			
Accounts Payable			(4,750)
Net Assets			110,000
Equity			
Share Capital (Ordinary Shares of RM 1 each)	(**W4**)		90,000
Share Premium			20,000
Total Equity			110,000

Think 9

*Show your **Journal** entries for the alternative way to record:*
a. Motor Vans of RM 8,400;
b. Accounts Receivable of RM 5,700.

(b) In the books of **partnership** (seller):

General Journal

Date	Particulars	Debit	Credit
Year 7		RM	RM
Jan 1	Realisation	80,750	
	Land And Building		50,000
	Office Equipment		3,800
	Motor Vans		8,400
	Inventory		12,850
	Accounts Receivable		5,700
	(Being closing of asset accounts by transferring the carrying values to Realisation account)		
		80,750	80,750
1	Accounts Payable	4,750	
	Realisation		4,750
	(Being closing of liability account by transferring the carrying value to Realisation account)		
1	Buyer - Ging Sdn Bhd	90,000	
	Realisation		90,000
	(Being sale of business at a price of RM 90,000)		
1	Capital - Kin	2,400	
	Realisation		2,400
	(Being taking over of motor van by Kin at carrying value)		
1	Realisation - Profit On Realisation (**W5**)	16,400	
	Capital - Yen (**W5**)		2,733
	Capital - Gee (**W5**)		5,467
	Capital - Kin (**W5**)		8,200
	(Being closing of Realisation account by transferring the profit on realisation to capital accounts)		

1	Capital - Yen (**W6**)	10,000	
	Capital - Gee (**W6**)	20,000	
	Capital - Kin (**W6**)	30,000	
	Buyer - Ging Sdn Bhd		60,000
	(Being ordinary shares from buyer for part of the purchase price distributed to partners according to profit and loss sharing ratio)		
1	Bank	30,000	
	Buyer - Ging Sdn Bhd		30,000
	(Being cash received from buyer for part of the purchase price)		
1	Mortgage Loan	4,000	
	Bank		4,000
	(Being paying off mortgage loan)		
1	Capital - Yen	2,000	
	Current - Yen		2,000
	(Being transferring of debit balance on partner's current account to capital account)		
1	Current - Gee	1,000	
	Current - Kin	1,200	
	Capital - Gee		1,000
	Capital - Kin		1,200
	(Being transferring of credit balances on partners' current accounts to capital accounts)		
1	Capital - Yen (**W7**)	733	
	Capital - Gee (**W7**)	16,467	
	Capital - Kin (**W7**)	12,000	
	Bank (**W8**)		29,200
	(Being repaying of cash to partners and the books closed)		

Workings:

(1) Goodwill = Purchase Price – (Total Assets – Total Liabilities)
= RM 90,000 – (RM 85,650 – RM 4,750)
= RM 90,000 – RM 80,900
= RM **9,100**

(2) Ordinary Share Capital = 40,000 shares x RM 1
= RM **40,000**

Share Premium = 40,000 shares x RM 0.50
= RM **20,000**

(3) Bank = RM (50,000 – 30,000)
= RM **20,000**

(4) Ordinary Share Capital = (50,000 + 40,000) shares x RM 1
= 90,000 shares x RM 1
= RM **90,000**

(5) Realisation

Year 7			RM	Year 7		RM
Jan 1	Land And Building		50,000	Jan 1	Accounts Payable	4,750
1	Office Equipment		3,800	1	Buyer - Ging Sdn Bhd	90,000
1	Motor Vans		8,400	1	Capital: Motor Vehicle taken over	
1	Inventory		12,850		- Kin	2,400
1	Accounts Receivable		5,700			
1	Capital:Profit On Realisation					
	- Yen ($\frac{1}{6}$)		**2,733**			
	- Gee ($\frac{2}{6}$)	*16,400*	**5,467**			
	- Kin ($\frac{3}{6}$)		**8,200**			
			97,150			97,150

(6) Ordinary shares distributed to partners:

RM 60,000 x $\frac{1}{6}$ = RM **10,000**

RM 60,000 x $\frac{2}{6}$ = RM **20,000**

RM 60,000 x $\frac{3}{6}$ = RM **30,000**

(7) Capital

		Yen	Gee	Kin			Yen	Gee	Kin
Year 7		RM	RM	RM	Year 7		RM	RM	RM
Jan 1	Realisation	-	-	2,400	Jan 1	Balance b/d	10,000	30,000	35,000
1	Buyer - Ging Sdn Bhd (Ordinary Shares)	10,000	20,000	30,000	1	Current	-	1,000	1,200
1	Current	2,000	-	-	1	Realisation - Profit On Realisation	2,733	5,467	8,200
1	Bank	**733**	**16,467**	**12,000**					
		12,733	36,467	44,400			12,733	36,467	44,400

(8) Bank

Year 7		RM	Year 7		RM
Jan 1	Balance b/d	3,200	Jan 1	Mortgage Loan	4,000
1	Buyer - Ging Sdn Bhd	30,000	1	Capital	**29,200**
		33,200			33,200

Practice 8 (Takeover of Partnership by Limited Company)

Wei Ming, Wai Leong and Wun Peng were partners sharing profits and losses in the ratio of 2:1:1.
Their Statement Of Financial Position was as follows:

Wei Ming, Wai Leong And Wun Peng
Statement Of Financial Position
As At 28 February Year 8

	RM	RM
Non-current Assets		
Fixtures And Fittings		6,700
Office Equipment		20,800
Motor Vehicles		19,500
		47,000
Current Assets		
Inventory	9,300	
Accounts Receivable	9,600	
Cash At Bank	1,800	20,700
Total Assets		67,700
Current Liabilities		
Accounts Payable		(4,100)
Net Assets		63,600
Owners' Equity		
Capital		
Wei Ming	29,500	
Wai Leong	15,250	
Wun Peng	15,250	60,000
Current		
Wei Ming	1,540	
Wai Leong	800	
Wun Peng	1,260	3,600
Total Equity		63,600

On 1 March Year 8, Weng Loong Sdn Bhd made an offer of RM 50,000 to purchase the partnership business as a going concern.

The agreement provided that Weng Loong Sdn Bhd would pay off the accounts payable, and to take over all the assets, apart from cash at bank.

Weng Loong Sdn Bhd valued the acquired assets as follows:

	RM
Fixtures and fittings	6,100
Office equipment	18,000
Motor vehicles	19,000
Inventory	6,800

Weng Loong Sdn Bhd was a newly established company with an authorised capital of 150,000 ordinary shares of RM 1 each. The company proposed to settle the purchase price by the issue of 50,000 RM 1 ordinary shares at par.

The partners would divide the shares among them in profit and loss sharing ratio and use any remaining cash to clear the balances on capital accounts.

You are required to prepare:

(a) Journal entries in the books of Weng Loong Sdn Bhd (buyer) to record the business purchase;

(b) the following accounts in the books of Wei Ming, Wai Leong And Wun Peng (seller):
   (i) Realisation;
   (ii) Bank;
   (iii) Buyer - Weng Loong Sdn Bhd;
   (iv) partners' Capital in columnar form.

Answer Guide

		Wei Ming	Wai Leong	Wun Peng
	RM	RM	RM	RM
1. ***Gain On Bargain Purchase***:	5,400	-	-	-
2. ***Loss On Realisation***:	11,800	5,900	2,950	2,950
3. ***Bank balance settled***:	1,800	140	600	1,060

Review

1. **Amalgamation** 合并 :

Procedures of Amalgamation 合并程序

- **Assets** revalued & **goodwill** (*if any*) considered, with **Capital** account(s) adjusted
- ↓
- **Books** of **entities concerned** closed
- ↓
- **Books** of **new entity** opened for **assets** & **liabilities** brought in
- ↓
- **Opening Statement Of Financial Position** prepared for new entity

⇩ *Amalgamation of **sole proprietorship**(C) & **partnership**(A & B)*

Before amalgamation (in the books of **old partnership**):

Revaluation

	RM		RM
Assets (*decrease in value*)	xx	Assets (*increase in value*)	xx
Capital: **Profit On Revaluation**		Goodwill (*valued*)	xx
- A	xx		
- B	xx		
	xx		xx

Capital

	A	B		A	B
	RM	RM		RM	RM
Balance c/d	xx	xx	Balance b/d	xx	xx
			Current	xx	xx
			Revaluation - Profit On Revaluation	xx	xx
			Liabilities (*settled by partner*)	-	xx
	xx	xx		xx	xx
			Balance b/d	**xx**	**xx**

Adjusted & combined with ***C****'s*

Adjusted capital balances of ***A*** *&* ***B***

After amalgamation:

Statement Of Financial Position of new partnership
As At ……

	RM		RM
Goodwill *(valued)*	xx	Liabilities *(brought in)*	xx
Assets *(revalued & brought in)*	xx	Capital *(adjusted)*	
		- A	xx
		- B	xx
		- C	xx
	xx		xx

Net assets brought in by ***C***

Purchase Price – *Net Assets*

(except for cash / bank)

2. **Business purchase 企业收购**:

   a. **Buyer's books**:

Business Purchase

	RM		RM
Liabilities taken over *(at fair values)*	5,000	Assets taken over *(at fair values)*	50,000
Seller - Purchase Price	50,000	**Goodwill**	5,000
	55,000		55,000

Seller

	RM		RM
Bank / Share Capital / Share Premium / Loan Notes	50,000	Business Purchase - Purchase Price	50,000

① Purchase price is paid by **cash**; or
② Purchase price is paid by **shares** and / or **loan notes**.

Bank

	RM		RM
Capital / Partners' Capital	50,000	Seller	50,000

(1) If bought by **individual** / **sole proprietor**:

Capital

			RM
		Bank	50,000

(2) If bought by **partnership**:

Partners' Capital

			A	B
			RM	RM
		Bank	xx	xx

(3) If bought by **limited company**:

Ordinary / Preferred Share Capital

			RM
		Seller	50,000

Share Premium

			RM
		Seller	xx

Loan Notes

			RM
		Seller	xx

b. **Seller's books**: (*except for* ***cash*** */* ***bank***)

Realisation / Dissolution

	RM		RM
Assets taken over *(at carrying values)*	50,000	Liabilities taken over *(at carrying values)*	5,000
Profit On Realisation	5,000	Buyer - Purchase Price	50,000
		Capital / Partners' Capital	xx
	55,000		55,000

(1) If sold to a **buyer**:

Buyer

	RM		RM
Realisation	50,000	Bank	10,000
		Capital / Partners' Capital - Shares / Loan Notes	40,000
	50,000		50,000

Debited to

(2) If assets taken over by **sole proprietor**:

Capital

	RM		
Realisation	xx		

(3) If assets taken over by **partners**:

Partners' Capital

	A	B		
	RM	RM		
Reallisation	xx	xx		

Realisation / Dissolution

	RM		RM
Assets taken over *(at carrying values)*	50,000	Liabilities taken over *(at carrying values)*	5,000
Profit On Realisation	5,000	Buyer - Purchase Price	50,000
		Capital / Partners' Capital	xx
	55,000		55,000

Capital

	RM		RM
Buyer - Shares / Loan Notes	40,000	Balance b/d	xx
Bank	xx	Realisation - Profit On Realisation	5,000
	xx		xx

Or

Partners' Capital

	A	B		A	B
	RM	RM		RM	RM
Buyer - Shares / Loan Notes	xx	xx	Balance b/d	xx	xx
Bank	xx	xx	Realisation - Profit On Realisation	xx	xx
	xx	xx		xx	xx

Bank

	RM		RM
Balance b/d	xx	Capital / Partners' Capital	xx
Buyer	10,000		
	xx		xx

3. a. Amalgamation vs Business Purchase

Amalgamation	Business Purchase
➢ **Combination** of **assets** & **liabilities** of one or more **entities**. ➢ Each individual **entity revalues** its **assets** & **goodwill** (*if any*) with **Capital** account(s) **adjusted** before combining into 1 entity. Thus, **purchase price** is **not involved**. ➢ After amalgamation, **books** of **entities concerned** are **closed**, & **books** of **newly formed entity** are **opened**.	➢ **Acquisition** of **assets** & **liabilities** of one entity as a **going concern** by another entity with an agreed **purchase price**. ➢ Buyer pays a **price** to **purchase** an entity at **fair values**. Thus, there may be **goodwill** / **gain on bargain purchase** incurred. ➢ In seller(s)'s books, **net assets** (except for cash / bank) at **carrying values** are transferred to Realisation account. ➢ After business purchase, **seller(s)'s books** are **closed**, & **buyer continues** to exist.

b. Goodwill vs Gain On Bargain Purchase 议价购买之收益

Goodwill	Gain On Bargain Purchase
➢ It is **not amortised** but tested annually for **impairment** (非考纲范围). ➢ It is recognised as an **intangible non-current asset**.	➢ It is recognised as a **gain** in **Income Statement**.

c. Goodwill vs Profit On Realisation

Buyer's books:

Business Purchase

	RM		RM
Liabilities taken over *(at fair values)*	5,000	Assets taken over *(at fair values)*	54,000
Seller - Purchase Price	60,000	**Goodwill**	**11,000**
	65,000		65,000

Seller's books:

Realisation / Dissolution

	RM		RM
Assets taken over *(at carrying values)*	50,000	Liabilities taken over *(at carrying values)*	5,000
Profit On Realisation *	**15,000**	Buyer - Purchase Price	60,000
	65,000		65,000

* It comprises of:	RM
Goodwill	11,000
Difference between fair values & carrying values of net assets taken over	4,000
	15,000

Appendix I: Accounting Terminology

No.	UK	IAS 国际会计准则
1.	Accruals	Other Payables 其他应付款
2.	Balance Sheet	Statement Of Financial Position 财务状况表
3.	Balance Sheet date	end of the reporting period 报告期末
4.	Bank And Cash	Cash And Cash Equivalents 现金与现金等值 / 现金与约当现金
5.	Capital And Reserves	Equity 权益
6.	Cash Flow Statement	Statement Of Cash Flows 现金流量表
7.	Cost Of Goods Sold	Cost Of Sales 销货成本
8.	Creditors / Trade Creditors	Accounts Payable / Trade Payables 应付账款 / 购货应付账款
9.	Current Liabilities / Creditors: Amounts Falling Due Within One Year (12 months) / Creditors Falling Due Within One Year (12 months) / Amounts Payable Within One Year (12 months)	Current Liabilities 流动负债
10.	Debentures / Loan Stock / Bonds	Loan Notes 债券
11.	Debtors / Trade Debtors	Accounts Receivable / Trade Receivables 应收账款 / 销货应收账款
12.	Final Accounts	Financial Statements 财务报表
13.	Fixed Assets	Non-current Assets 非流动资产
14.	Interest Payable	Finance Costs 财务成本 / 融资成本
15.	Interest Receivable	Finance Income 财务收入 / Investment Revenue 投资收益
16.	Loans Repayable After 12 Months	Long-term Borrowings 长期贷款
17.	Loans Repayable Within 12 Months	Short-term Borrowings 短期贷款

18.	Long-term Liabilities / Creditors: Amounts Falling Due After More Than One Year / Creditors Falling Due After More Than One Year / Amounts Payable After More Than One Year	Non-current Liabilities 非流动负债
19.	Minority Interest	Non-controlling Interests 非控制权益
20.	Negative Goodwill	Gain On Bargain Purchase 议价购买之收益
21.	Net Book Value	Carrying Amount / Carrying Value 账面金额 / 账面价值
22.	Net Profit / Loss	Profit / Loss for the year 本年度盈利 / 亏损
23.	Ordinary Shares	Equity Shares 权益股
24.	Preference Share Capital	Irredeemable Preferred Share Capital 不可赎回优先股本 Redeemable Preferred Share Capital 可赎回优先股
25.	Prepayments	Other Receivables 其他应收款
26.	Private Limited Company Public Limited Company	Private Company 私人公司 Public Company 公共公司
27.	Profit And Loss Account (under Reserves of Balance Sheet)	Retained Profits / Retained Earnings or Accumulated Losses 保留盈利 或 累计亏损
28.	Provision For Depreciation	Accumulated Depreciation累计折旧
29.	Provision For Doubtful Debts	Allowance For Doubtful Debts 呆账准备
30.	Sales / Turnover	Revenue 收益
31.	Stock	Inventory 存货
32.	Tangible Fixed Assets	Property, Plant And Equipment 不动产、厂房与设备
33.	Sole Proprietorship: Trading And Profit And Loss Account	Income Statement 损益表
	Partnership: Trading And Profit And Loss Account And Appropriation Account	Income Statement 损益表
	Limited Company: Trading And Profit And Loss Account And Appropriation Account	a. Income Statement 损益表 / Statement Of Comprehensive Income 全面收益表 b. Statement Of Changes In Equity 权益变动表
34.	Working Capital	Net Current Assets 净流动资产 / Net Current Liabilities 净流动负债

Note: Items at **Accounting** level.

Appendix II: Accounting Treatment and Presentation

No.		UK	IAS
1.	Appropriation of profits (limited company only)	It is shown in **Profit And Loss Appropriation Account**.	It is shown in **Statement Of Changes In Equity**.
2.	Discounts allowed	They are shown as an **expense** in **Profit And Loss Account**.	They are shown as a **deduction** from **Sales** in **Income Statement**.
3.	Discounts received	They are shown as an **other income** in **Profit And Loss Account**.	They are shown as a **deduction** from **Purchases** in **Income Statement**.
4.	Dividends paid & unpaid (i.e. Interim & final dividends)	They are shown in **Profit And Loss Appropriation Account**. **Dividends unpaid** are **liabilities** and shown on **Balance Sheet**.	a. **Dividends paid** are shown in **Statement Of Changes In Equity**. b. **Dividends unpaid** are disclosed in **notes**, and **not** shown in **Statement Of Changes In Equity**. They are **not liabilities** and do **not** shown on **Statement Of Financial Position**.
5.	Formation expenses	They are shown in **Profit And Loss Appropriation Account**.	They are shown as an **expense** in **Income Statement**.
6.	Goodwill generated on acquisition (i.e. Purchased goodwill)	a. **Positive goodwill** It is **amortised** and **written off** to **Appropriation Account** annually. It is recognised as an **intangible fixed asset**. b. **Negative goodwill** ① It is treated as a **capital reserve** and shown under **Capital** section of Balance Sheet; **or** ② It is shown with "**( )**" under **Intangible Assets** section of Balance Sheet.	a. **Positive goodwill** It is **not amortised** but tested annually for **impairment**. It is recognised as an **intangible non-current asset**. b. **Gain on bargain purchase** It is recognised as a **gain** in **Income Statement** and eliminated immediately.

7.	Preference / Preferred share capital	**Irredeemable** & **Redeemable Preference Share Capital** are shown as part of **Shareholders' Equity**.	a. **Irredeemable Preferred Share Capital** 不可赎回优先股本 is shown as part of **Shareholders' Equity**. b. **Redeemable Preferred Share Capital** 可赎回优先股本 is shown as part of **Non-current Liabilities**.

Notes:

1. **Dividends** on **irredeemable** and **non-cumulative preferred shares**
   Irredeemable and **non-cumulative preferred share capital** is **equity** but not borrowed capital.
   The **dividends paid** are shown in **Statement Of Changes In Equity**.

2. **Dividends** on **redeemable preferred shares**
   Redeemable preferred share capital is **borrowed capital** (i.e. liability / debt capital).
   The **dividends paid** and **unpaid** are **accrued** and shown as **finance cost**, and any **arrears** of the dividends are shown as **current liabilities**.