

The Student's Guide:

UNDERSTANDING FINANCIAL STATEMENTS

BY:

SURIA ABDUL MALEK

NUR 'ABIDAH SOLIHUDDIN





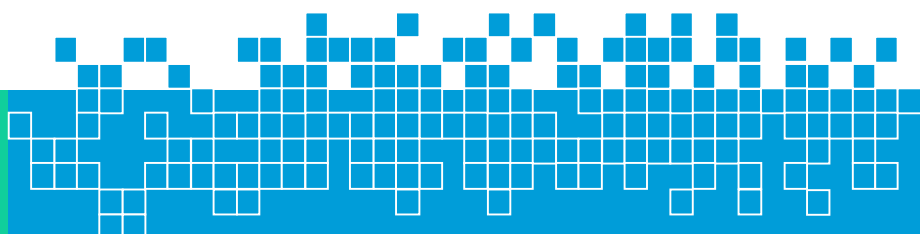
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©ePembelajaran Politeknik Merlimau

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We would like to record our warm appreciation and thanks to the many parties who have provided encouragement and helpful comments towards the arrangement of this *The Student's Guides: UNDERSTANDING FINANCIAL STATEMENTS*. It is our hope that this e-book would help students and readers to gain better understanding of this course.

PREFACE

This e-book is designed primarily for students who need clear understanding of financial statements. It is also suitable for those who are studying independently.

This e-book is written specially for non-accounting students pursuing diploma as parts of their course in completing their studies. Undergraduates and other interested parties, particularly those with no background in this area, may also benefit from this book as it provides a basic understanding in preparing financial statements.

This e-book entitled, ***The Student's Guides: UNDERSTANDING FINANCIAL STATEMENTS*** is aimed to present the information, notes and practices in preparing financial statements. It comprises of two topics; Topic 1 is on the financial statements and Topic 2 is on financial statement with year-end adjustments. In Topic 2 of the e-book, it comprises of guidelines of the steps that should be considered by the students in preparing the financial statements with the adjustment needed. Hopefully this e-book will help students and readers enhancing their knowledge and understanding in preparation of financial statements.

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FINANCIAL STATEMENTS

**LEARNING
OUTCOME**

Describe types and importance of financial reporting in the business.

Describe the format of financial statements.

Prepare the financial statements with adjustments.

1.0 FINANCIAL STATEMENTS

1.1 Describe types and importance of financial reporting in the business.

1.1.1 The Objective Presentation of Financial Statements

Objective MASB 1: Presentation of Financial Statements

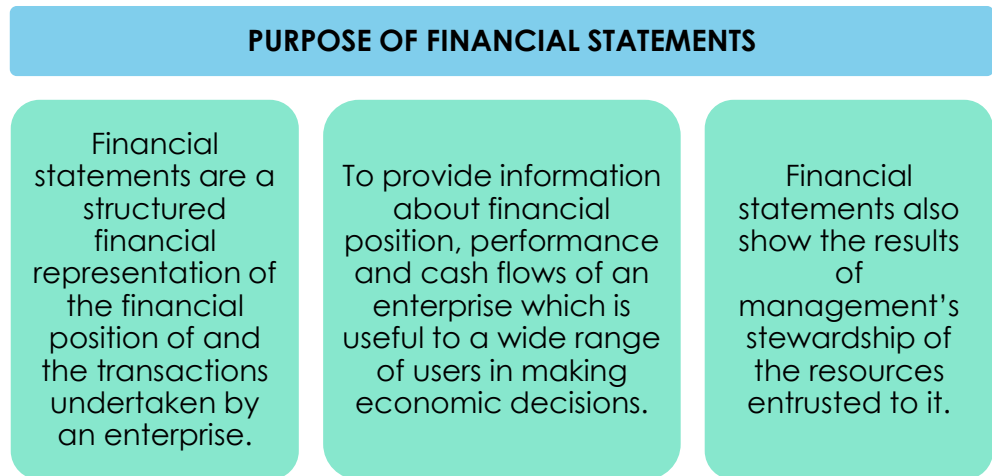
To prescribe the basis for presentation of general purpose financial statements in order to ensure comparability with both the enterprise's own financial statements of previous periods and with the financial statements of other enterprises.

- To achieve this objective, this Standard sets out the overall considerations for the presentation of financial statements, guidelines for their structure and minimum requirements for the content of financial statements.
- The recognition, measurement and disclosure of specific transactions and events is dealt with in other MASB Standards.
- Financial statements provide information about an enterprise's:

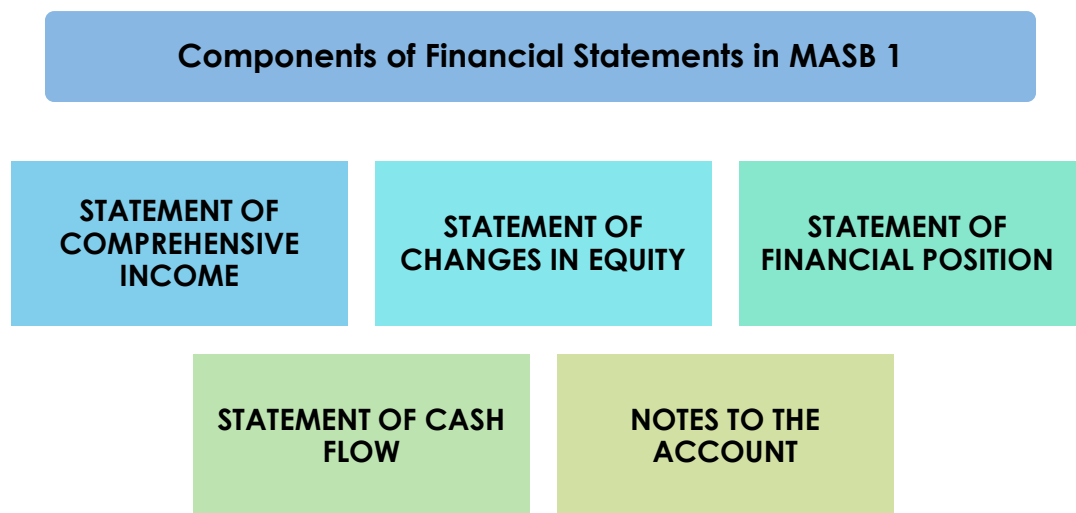


- This information, including other information in the notes to financial statements, assists users in predicting the enterprise's future cash flows and the timing and certainty of the generation of cash and cash equivalents.
- The board of directors or the equivalent governing body of an enterprise is responsible for the preparation and presentation of its financial statements.

1.1.2 Purpose of Financial Statements

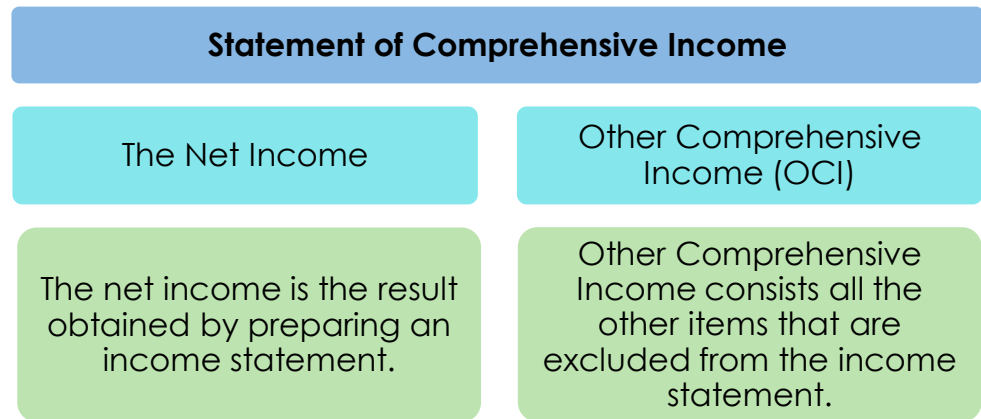


1.1.3 Type of financial reporting

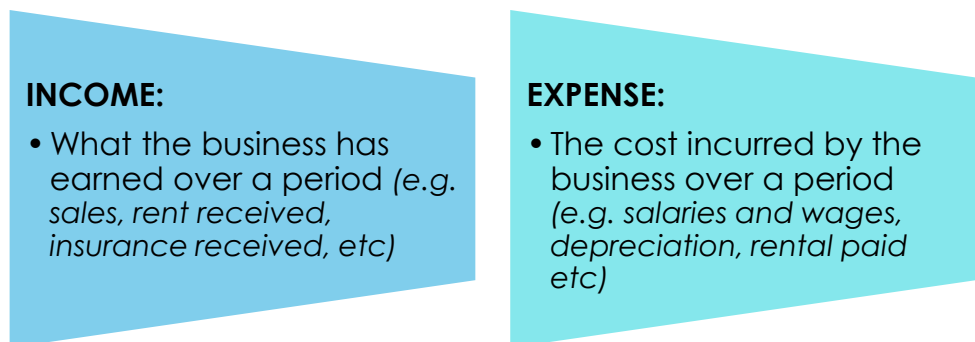


▪ STATEMENT OF COMPREHENSIVE INCOME

- Statement of Comprehensive Income, also known as Income Statement or Profit and Loss Statement, reports the company's financial performance in terms of net profit or loss over a specified period.



- Income Statement is composed of the following two elements:



- Net profit or loss is arrived by deducting expenses from income.

▪ **STATEMENT OF CHANGES IN EQUITY**

- Statement of Changes in Equity, also known as the Statement of Retained Earnings, details the movement in owners' equity over a period.
- The movement in owners' equity is derived from the following components:
 - Net Profit or loss during the period as reported in the income statement.
 - Share capital issued or repaid during the period
 - Dividend payments
 - Gains or losses recognized directly in equity (e.g revaluation surpluses)
 - Effects of a change in accounting policy or correction of accounting error.

▪ STATEMENT OF FINANCIAL POSITION

- Statement of Financial Position or Balance Sheet, presents the financial position of an entity at a given date. It is comprised of the following three elements:

ASSETS:

- Something a business owns or controls (e.g. cash, inventory, plant and machinery, etc)

LIABILITIES:

- Something a business owes to someone (e.g. creditors, bank loans, etc)

EQUITY:

- What the business owes to its owners.
- This represents the amount of capital that remains in the business after its assets are used to pay off its outstanding liabilities.
- Equity represents the difference between the assets and liabilities.

▪ **STATEMENT OF CASH FLOW**

- Cash Flow Statement shows inflow and outflow of cash and bank balances over a period.
- The movement in cash flows is classified into the following segments:

**OPERATING
ACTIVITIES**

- Represents the cash flow from primary activities of a business.

**INVESTING
ACTIVITIES**

- Represents cash flow from the purchase and sale of assets other than inventories (e.g. purchase of a factory plant)

**FINANCING
ACTIVITIES**

- Represents cash flow generated or spent on raising and repaying share capital and debt together with the payments of interest and dividends.

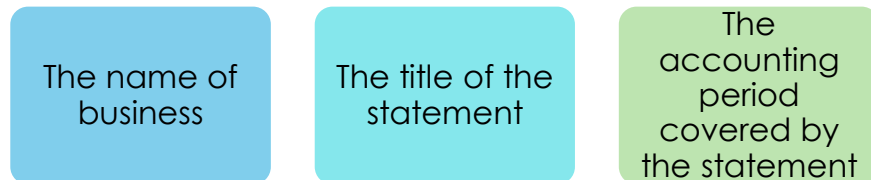
■ NOTES TO THE ACCOUNT

- Also known notes to financial statements, footnotes, notes to accounts are supporting information that is usually provided along with a company's final accounts or financial statements.
- Such notes are required to be provided by law, including details related to provisions, reserves, depreciation, investments, inventory, share capital, employee benefits, contingencies, etc.
- Other information supplied along with the financial statements may be a product of the accounting standards being followed by the business.
- Notes to accounts help users of accounting information to understand the current financial position of a company and as a support for its estimated future performance.

1.2 Preparation of Financial Statements

1.2.1 Preparation of Statement of Comprehensive Income

- Shows the financial performance of the company
- The Statement of Comprehensive Income should have a heading which includes 3 pieces of information:



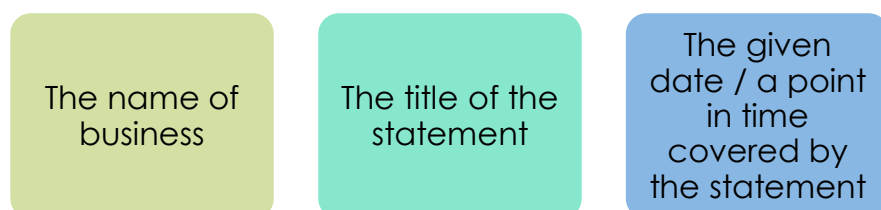
- The body of the Statement of Comprehensive Income consists of two main components:



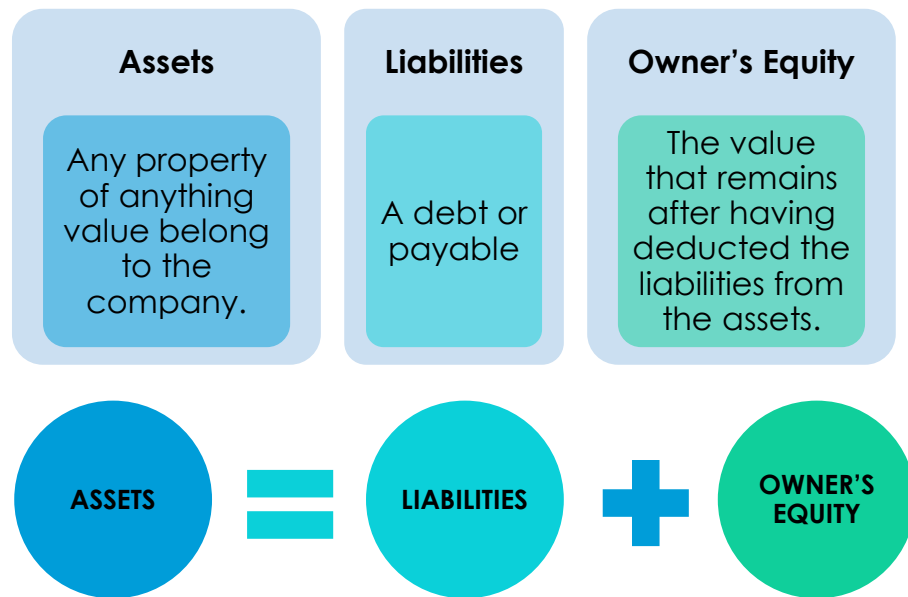
- A negative profit called a **LOSS**.

1.2.2 Preparation of Statement of Financial Positions

- Shows the position of assets belonging to the company, its liabilities and equity at the end of accounting period.
- The Statement of Financial Position should have a heading which includes 3 pieces of information:



- The body of the Statement of Financial Position consists of three main components:



1.2.3 Link Between Statement of Comprehensive Income and Statement of Financial Positions

- The Statement of Comprehensive Income is the major link between two statements of financial position.
- The profit is added to the owner's equity for successful operation while losses are deducted from the owner's equity for unsuccessful operations.

1.2.4 Describe the format of financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

NAME OF BUSINESS

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED.....

	RM	RM	RM
Sales		X	
(-) Sales return / return inwards		(X)	
(-) Discount allowed		(X)	
Net sales			X
<u>Less : Cost of goods sold</u>			
Opening inventories/opening stock		X	
Purchases	X		
(-) Purchase return / return outwards	(X)		
(-) Discount received	(X)		
Net purchases		X	
Add : Purchase expenses			
Carriage inwards / Freight inwards	X		
Wages on purchases	X		
Import duties / custom duties	X		
Insurance on purchases	X		
Purchases costs		X	
Cost of goods available for sale		X	
(-) Closing inventories / closing stock		(X)	
Cost of sales			(X)
GROSS PROFIT / (GROSS LOSS)			XX
Add : Revenue			
Interest received		X	
Rental received		X	
Bad debts recovered		X	
Profit on assets disposal		X	
Decrease in provision for doubtful debts		X	X

Less : Expenses			
Stationeries		X	
Carriage outwards / freight outwards		X	
Utilities		X	
General / sundry / miscellaneous expenses		X	
Administrative expenses		X	
Interest on loan / interest on overdraft		X	
Salaries		X	
Bad debts		X	
Advertising		X	
Insurance		X	
Commission paid		X	
Rental		X	
Depreciation		X	
Increase in provision for doubtful debts/ doubtful debt expenses		X	(X)
NET PROFIT / (NET LOSS)			XX

STATEMENTS OF COMPREHENSIVE INCOME

NAME OF BUSINESS

STATEMENT OF FINANCIAL POSITION AS AT.....

	RM	RM	RM
NON CURRENT ASSETS			
Land		X	
Building / premises		X	
Motor vehicles	X		
(-)Provision for depreciation	(X)		
		X	
Plant and machinery	X		
(-)Provision for depreciation	(X)		
		X	
Investment		X	XX
CURRENT ASSETS			
Closing inventories		X	
Debtors / Account receivables	X		
(-)Bad debts (additional)	(X)		
(-)Provision for doubtful debt	(X)		
Prepayment expenses	X		
Accrued revenues		X	
Cash at bank		X	
Cash in hand		X	X
			XX
Financed by:			
OWNER'S EQUITY			
Opening capital		X	
+ net profit / - net loss		(X)	
Drawings		X	
Closing capital			X
NON CURRENT LIABILITIES			
Long term loan		X	
Mortgage		X	X

CURRENT LIABILITIES			
Creditors / Account Payable		X	
Accrued expenses		X	
Advanced revenues		X	
Bank overdraft		X	X
			XX

1.3 Prepare the financial statements without adjustments.

COMPREHENSIVE EXAMPLE

Jamz opened a business. Below is the information about trial balance as at 31 December 2019.

JAMZ ENTERPRISE		
TRIAL BALANCE AS AT 31 DECEMBER 2019		
PARTICULARS	DEBIT (RM)	CREDIT (RM)
Cash	5,100	
Debtors	11,000	
Inventories (1 January 2015)	32,000	
Fixtures & Fittings	7,300	
Furniture & Equipment	120,000	
Creditors		34,000
Capital		60,000
Dividend		46,000
Sales		283,600
Return inwards	1,300	
Discount Allowed	2,600	
Purchased	173,000	
Return outwards		2,400
Discount received		3,200
Carriage inwards	3,600	
Salary	42,000	
Rent	23,000	
Advertising	4,500	
Insurance	4,800	
Import duty	2,000	
Interest		3,000
	432,200	432,200

Additional information:

- Inventory at 31 December 2015 was valued at RM27,000.

You are required to prepare:

- Statement of Comprehensive Income for the year ended 31 December 2019.
- Statement of Financial Position as at 31 December 2019.

FULL ANSWER:

JAMZ ENTERPRISE Statement of Comprehensive Income for the year ended 31 December 2019			
	RM	RM	RM
Sales		283,600	
(-) Returns		(1,300)	
(-) Discount allowed		(2,600)	
			279,700
<u>(-) COGS</u>			
Beginning stock		32,000	
Purchase	173,000		
(-) Returns	(2,400)		
Discount received	(3,200)		
<i>Net Purchases</i>		167,400	
(+) Carriage inwards	3,600		
(+) Import duty	2,000	5,600	
COGS		205,000	
(-) Closing stock		(27,000)	
Cost of Sales			(178,000)
GROSS PROFIT			101,700
<u>(+) Revenues</u>			
Dividend		46,000	
Interest		3,000	49,000
<u>(-) Expenses</u>			
Salary		42,000	
Rent		23,000	
Advertising		4,500	
Insurance		4,800	(74,300)
NET PROFIT			76,400

JAMZ ENTERPRISE			
Statement of Financial Position as at 31 December 2019			
	RM	RM	RM
<u>NON CURRENT ASSETS</u>			
Fixtures & Fittings		7,300	
Furniture & Equipment		120,000	127,300
<u>CURRENT ASSETS</u>			
Cash		5,100	
Debtors		11,000	
Ending stock		27,000	43,100
			170,400
<u>OWNER'S EQUITY</u>			
Capital		60,000	
(+) Net Profit		76,400	
(-) Drawings		-	136,400
<u>CURRENT LIABILITIES</u>			
Creditors			34,000
<u>NON CURRENT LIABILITIES</u>			
Loan			-
			170,400



PRACTICE EXERCISES

QUESTION 1

The following Trial Balance was taken from the book of Waris Trading on 31 March 2017.

WARIS TRADING
Trial Balance as at 31 March 2017

	DEBIT (RM)	CREDIT (RM)
Capital		149,000
Bank		10,595
Cash	1,400	
General expenses	4,320	
Inventory, 1 April 2016	6,650	
Vehicles	60,000	
Warehouse	90,000	
Stationery	320	
Mortgage Loan		65,000
Furniture	2,000	
Purchases and Sales	32,735	53,570
Returns	1,345	
Freight Inwards	1,472	
Freight Outwards	2,398	
Office Equipment	9,000	
Rental	3,600	1,780
Insurance expenses	2,940	
Account Receivable and Account Payable	43,250	30,000
Drawings	1,360	
Salaries and wages	4,700	
Commission	1,480	612
Interest on Overdraft	1,050	
Discount	1,743	1,959

Assessment rate	600	
Investment	40,000	
Bad debt recovered		442
Interest on investment		1,750
Staff allowances	2,345	
	314,708	314,708

Additional information:

- i. Inventory on 31 March 2017 is RM10,360 at cost price and RM14,710 at the market price.

You are required to prepare:

- a) Statement of Comprehensive Income for the year ended 31 March 2017.
- b) Statement of Financial Position as at 31 March 2017.

Answers: SOCI: Gross Profit-RM21,944, Net Profit-RM2,775; SOFP-RM256,010

QUESTION 2

The following Trial Balance is extracted from the books of Qaisara Bhd, a sole trader.

	Debit (RM)	Credit (RM)
Capital		89,700
Sales		315,000
Purchases	222,000	
Sales returns	5,000	
Purchase returns		3,000
Inventory at 1 st January 2017	45,000	
Wages and salaries	12,500	
Miscellaneous expenses	500	
Electricity and water	440	
Telephone	300	
Insurance	900	
Shop premises	100,000	
Fixtures and fittings (at cost)	30,000	
Van (at cost)	13,000	
Debtors	6,200	
Creditors		10,900
Bad debts	200	
Cash	1,000	
Bank	8,180	
Drawings	700	
Carriage inwards	430	
Carriage outwards	550	
Import duties	200	
Discounts	200	600
Rental income		550
Long term loan		25,000
Fixed deposit	5,000	
Interest revenue from fixed deposit		250
Accumulated depreciation:		
Fixtures and fittings		6,000
Van		1,300
	452,300	452,300

Additional information:

- i. Closing inventory as at 31 December 2017 is worth RM38,000.

You are required:

- a. Statement of Comprehensive Income for the year ended 31 December 2017.
- b. Statement of Financial Position as at 31 December 2017.

Answers: SOCI: Gross Profit-RM83,770 Net Profit-RM69,180 ;SOF-RM194,080.

QUESTION 3

From the following trial balance of Al Fateh Trading, you are asked to draw up an income statement for the year ended 31st March 2016.

Al Fateh Trading
Trial Balance as at 31st March 2016

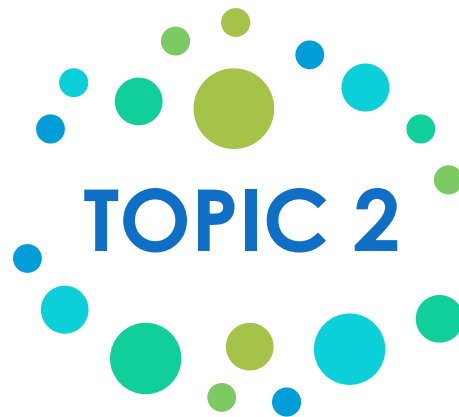
Accounts	Debit (RM)	Credit (RM)
Sales		52,000
Purchases	23,000	
Inventory as at 1 April 2015	8,550	
Premises	75,000	
Equipment	18,000	
Return inwards	340	
Bank	1,280	
Wages	5,600	
Insurance	390	
Advertising	260	
Capital		94,660
Drawings	11,800	
Return outwards		450
Debtors	6,500	
Creditors		4,960
Rent	1,350	
	152,070	152,070

Inventory at 31st March 2016 was valued at RM7,200.

You are required to prepare:

- Statement of Comprehensive Income for the year ended 31st March 2016.
- Statement of Financial Position as at 31st March 2016.

Answers: Gross Profit-RM27,760, Net Profit-RM20,160.SOFP-RM107,980



FINANCIAL STATEMENTS WITH YEAR END ADJUSTMENTS

**LEARNING
OUTCOME**

Describe The Accrual Basis and Cash Basis Accounting

Provide explanation on the Accruals and Prepayments

Provide explanation on Bad Debts, Provision For Doubtful Debts, and Bad Debts Recovered

Define the depreciation of plant, property and equipment (PPE)

2.0 FINANCIAL STATEMENTS WITH YEAR END ADJUSTMENTS

2.1 Describe The Accrual Basis and Cash Basis Accounting

2.1.1 Accrual Basis and Cash Basis Accounting

- Accounting recording system is based on the principle of revenue and expenses recognition
- **REVENUE** and **EXPENSES** that are recognized will be recorded according to cash basis or accrual basis
- Relates to **MATCHING** principles, the **REVENUE** earned in an accounting period must be matched against the **EXPENSES** incurred in order to generate revenues in the same period.

Accrual Basis Accounting

- Revenues are recorded when goods or services were sold regardless of whether cash has been received or not.
- Expenses were recorded when goods or services are used regardless whether they were paid or not.
- In other word, in accrual basis accounting, both revenues and expenses are recorded when they occur.

Cash Basis Accounting

- Revenues was recorded when cash was received.
- Expenses was recorded when cash was paid.

2.2 Provide explanation on the Accruals and Prepayments

2.2.1 Accruals and Prepayments

- After the Trial Balance has been drawn up, there are adjustments that must be made to the balances found in the Trial Balance.
- The balances of expenditure and revenue which are shown in the Trial Balances are those of expenditure that have been paid and revenue where cash has been received.
- Adjustments must be made for the following:

Accrued
expenses

Prepayment
expenses

Accrued
revenue

Unearned
revenue

	PREPAYMENT	ACCRUALS
EXPENSES	• EXPENSES were paid in the current accounting period but the goods or services will only be used in the following accounting period. • Occurs when the total expenses paid exceeds the amount that should have been paid. • Must be deducted from the expenses account. • CURRENT ASSETS Dr Prepaid Expenses Cr Expenses	• EXPENSES that are not yet paid even though the goods were received or services were used. • Occur when total expenses paid are less than the amount that should have been paid • Must be added to the expenses account. • CURRENT LIABILITIES Dr Expenses Cr Accrued Expenses

REVENUE	• REVENUE is money received in advance for services to be provided to the customers at a later due. • Created when the total revenue received exceeds the amount that should have been received. • Must be deducted from the revenue account. • CURRENT LIABILITIES Dr Revenue Prepaid Revenue	• REVENUE is money not yet received even though the services have been provided to the customer. • Created when the actual revenue received is less than the total that should have been received. • Must be added to the revenue account • CURRENT ASSETS Dr Accrued Revenue Cr Revenue
---	---	---

ACCRUED EXPENSES

Example:

The following information was taken from Bestari Trading. The accounting period is one year.

Bestari Trading

Trial Balance as at 31 December 2020

Account	Debit RM	Credit RM
Salary	2,000	

Additional information:

- a. Salary is RM 200 per month.

Working:

Salary = RM200 x 12 months

= **RM2,400** (Total salary that should have been paid).

♠ Therefore:

Accrued salary

= Salary that should have been paid - Salary that has been paid

= RM2,400 – RM2,000

= **RM400**

The adjusting entry:

a. Journal entries

Date	Particulars	Debit (RM)	Credit (RM)
2020 Dec 31	Dr. Salary Cr. Accrued Salary (Salary not yet paid)	400	400
31	Dr. SOCI Cr. Salary (Closing entry)	2,400	2,400

b. General ledgers

Salary Account					
2020 Dec 31	Balance b/d	2,000	2020 Dec 31		
	Accrued salary	<u>400</u>		SOCI	<u>2,400</u>
		<u>2,400</u>			<u>2,400</u>

Accrued Salary Account					
2020 Dec 31	Balance c/d	<u>2,400</u> <u>2,400</u>	2020 Dec 31	Salary	<u>2,400</u> <u>2,400</u>
				Balance b/d	2,400

Bestari Trading

**Statement of Comprehensive Income for the year ended 31
December 2020**

	RM	RM
<u>Expenses:</u>		
Salary	2,400	

Bestari Trading

Statement of Financial Position as at 31 December 2020

	RM	RM
<u>Current Liabilities:</u>		
Accrued Salary		2,400

Note:

RM2,000 of the salary was paid, but the total amount transferred to the Statement of Comprehensive Income (SOCl) is the salary that should have been paid, which is RM2,400. This amount includes RM400, which was accrued and not yet paid. This accrued expense is recorded as a Current Liability in the Statement of Financial Position (SOFp).

PREPAID EXPENSES

Example:

The following information was extracted from the book of Bestari Trading.

Bestari Trading Trial Balance as at 31 December 2020

Account	Debit RM	Credit RM
Insurance	6,000	

Additional information:

- a. Insurance covered for the period of 1st March 2020 to 28 February 2021.

Working:

Insurance for the year = RM6,000 X 10/12 months

= RM5,000

(total insurance covered for the period ended 31 Dec 2020)

♠ Therefore:

Prepaid insurance

= Actual expenses paid – Actual expenses incurred

= RM6,000 – RM5,000

= RM1,000

The adjusting entry:

a. Journal entries

Date	Particulars	Debit (RM)	Credit (RM)
2020 Dec 31	Dr. Prepaid Insurance	1,000	

	Cr. Insurance (Salary not yet paid)		1,000
31	Dr. SOCI	5,000	
	Cr. Insurance (Closing entry)		5,000

b. General ledgers

Insurance Account					
2020 Dec 31			2020 Dec 31	Prepaid Insurance SOCI	1,000 5,000 6,000
	Balance b/d	<u>6,000</u>			
		<u>6,000</u>			

Prepaid Insurance Account					
2020 Dec 31	Insurance	<u>1,000</u>	2020 Dec 31	Balance c/d	<u>1,000</u>
		<u>1,000</u>			<u>1,000</u>
	Balance b/d	1,000			

Bestari Trading

Statement of Comprehensive Income for the year ended 31

December 2020

	RM	RM
<u>Expenses:</u>		
Insurance	5,000	

Bestari Trading**Statement of Financial Position as at 31 December 2020**

	RM	RM
<u>Current Assets:</u>		
Prepaid Insurance	1,000	

Note:

The insurance paid during the accounting period was RM6,000 but total amount transfer to Statement of Comprehensive Income (SOCl) was RM5,000 which is the actual amount should be recognized into SOCl. The prepaid insurance which is RM1,000 is for the next accounting period. The prepaid insurance will be recorded as current asset in Statement of Financial Position (SOFP) and will be recognized as an expense in the next accounting period.

ACCRUED REVENUE

Example:

The following information is obtained from Bestari Trading.

Bestari Trading

Trial Balance as at 31 December 2020

Account	Debit RM	Credit RM
Fixed Deposit	100,000	

Additional information:

- Fixed deposit interest rate at 3% per annum.

Working:

Fixed deposit interest for the year = RM100,000 x 3%

= **RM3,000**

(Total deposit interest income should be recognized).

♠ Therefore:

Accrued interest on fixed deposit received

= Actual income recognized – Actual income received

= 0 – RM3,000

= **RM3,000**

The adjusting entry:

a. Journal entries

Date	Particulars	Debit (RM)	Credit (RM)
2020 Dec 31	Dr. Accrued Interest on Fixed Deposit received Cr. Interest on Fixed Deposit received	3,000	3,000

	(Interest on Fixed Deposit received for the year)		
31	Dr. Interest on Fixed Deposit received Cr. SOCI (Closing entry)	3,000	3,000

b. General ledgers

Interest on Fixed Deposit received Account					
2020 Dec 31			2020 Dec 31	Accrued Interest on Fixed Deposit received	
	SOCI				
		<u>3,000</u>			<u>3,000</u>
		<u>3,000</u>			<u>3,000</u>

Accrued Interest on Fixed Deposit received Account					
20120 Dec 31	Interest on Fixed Deposit received Account		2020 Dec 31		
		<u>3,000</u>			
		<u>3,000</u>			
	Balance b/d	3,000		Balance c/d	<u>3,000</u>
					<u>3,000</u>

Bestari Trading
Statement of Comprehensive Income for the year ended 31
December 2020

	RM	RM
<u>Revenues:</u>		
Interest on Fixed Deposit received Account		3,000

Bestari Trading
Statement of Financial Position as at 31 December 2020

	RM	RM
<u>Current Assets:</u>		
Accrued Interest on Fixed Deposit received Account	3,000	

UNEARNED/PREPAID REVENUE

Example:

The following information is obtained from Bestari Trading.

Bestari Trading

Trial Balance as at 31 December 2020

Account	Debit RM	Credit RM
Rental		19,500

Additional information:

- a. Rental income per month is RM1,500.

Working:

Rental income = RM1,500 x 12 months
= RM18,000 (Total rental income for the year).

♠ Therefore:

Unearned rental income

$$\begin{aligned}
 &= \text{Actual income received} - \text{actual income recognized} \\
 &= \text{RM19,500} - \text{RM18,000} \\
 &= \text{RM1,500}
 \end{aligned}$$

- This means that the amount RM1,500 is the rental revenue that was received in advance, also known as advance revenue.

The adjusting entry:

a. Journal entries

Date	Particulars	Debit (RM)	Credit (RM)
2020 Dec 31	Dr. Rental received Cr. Prepaid rental received (To record unearned rental revenue)	1,500	1,500
31	Dr. Rental Received Cr. SOCI (closing entry)	18,000	18,000

b. General ledgers

Rental Received Account

2020 Dec 31	Prepaid Rental Revenue SOCi	1,500 <u>18,000</u> <u>19,500</u>	2020 Dec 31	Balance b/d	<u>19,500</u> <u>19,500</u>
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Prepaid Rental Received Account

20120 Dec 31	Balance c/d	<u>1,500</u> <u>1,500</u>	2020 Dec 31	Rental Received Balance b/d	<u>1,500</u> <u>1,500</u> 1,500
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Bestari Trading
Statement of Comprehensive Income for the year ended 31
December 2020

	RM	RM
<u>Revenues:</u>		
Rental received		18,000

Bestari Trading
Statement of Financial Position as at 31 December 2020

	RM	RM
<u>Current Liabilities:</u>		
Prepaid rental received	1,500	

EXAMPLE 2.1

Below is the trial balance of Jauhariku Enterprise as at 31 December 2020.

	Debit (RM)	Credit (RM)
Capital		60,000
Land	112,500	
Vehicle at cost	90,000	
Long term loan		70,500
Sales		321,500
Purchases	128,750	
Return Inwards	5,250	
Return Outwards		2,250
Carriage Inwards	1,500	
Carriage Outwards	4,500	
Inventories on 1 January 2020	42,000	
Salary	39,000	
Insurance	9,000	
Electricity	6,450	
Advertisement	7,500	
Vehicle maintenance expenses	18,000	
General Expenses	4,500	
Debtors	31,500	
Creditors		25,500
Bank	26,000	
Cash	1,300	
Bad debts	4,500	
Commission received		52,500
	532,250	532,250

Additional information:

- Inventories on 31 December 2020 at a cost of RM45,000.
- Accrued general expenses at RM3,000.
- Prepaid insurance worth RM 2,250.

You are required to prepare:

- Statement of Comprehensive Income for the year ended 31 December 2020.
- Statement of Financial Position as at 31 December 2020.

FULL ANSWERS:

Jauhariku Enterprise Statement of Comprehensive Income for the year ended 31 December 2020			
	RM	RM	RM
Sales		321,500	
(-)Return inwards		(5,250)	
Net Sales			316,250
Less : Cost of goods sold			
Opening inventory		42,000	
Purchase	128,750		
(-) Returns	(2,250)		
Net purchase		168,500	
Carriage Inwards		1,500	
Cost of goods available for sale		170,000	
(-) Closing inventory		(45,000)	
Cost of sales			(125,000)
GROSS PROFIT			191,250
+ REVENUE			
Commission received			52,500
(-) EXPENSES			
Carriage Outwards		4,500	
Salary		39,000	
Insurance (9,000-2,250)		6,750*	
Electricity		6,450	
Advertisement		7,500	
Vehicle maintenance expenses		18,000	
General Expenses (4,500+3,000)		7,500*	
Bad debts		4,500	(94,200)

NET PROFIT			149,550

Jauhariku Enterprise Statement of Financial Position as at 31 December 2020			
	RM	RM	RM
NON CURRENT ASSETS			
Land		112,500	
Vehicle		90,000	202,500
CURRENT ASSETS			
Closing inventories		45,000	
Debtors		31,500	
Cash at bank		26,000	
Cash in hand		1,300	
Prepaid Insurance		2,250	106,050
Total Assets			308,550
Financed by:			
OWNER'S EQUITY			
Opening capital		60,000	
+ net profit / - net loss		149,550	
Closing capital			209,550
CURRENT LIABILITIES			
Creditors		25,500	
Accrued general expenses		3,000	
			28,500
NON CURRENT LIABILITIES			
Long term Loan			70,500
			308,550

2.3 Provide explanation on Bad Debts, Provision for Doubtful Debts, and Bad Debts Recovered

2.3.1 Bad Debts

- Debts that are unable to be collected from the customers, due to:

customers' death	customers who are mentally incapacitated
cannot be traced	declared bankrupt by the court

- Represent **LOSS** to a company and will be recorded as an **EXPENSES**.
- Listed in **DEBIT** side in **TRIAL BALANCE**.

DOUBLE ENTRY	CLOSING ENTRY
Dr Bad Debts Expenses Cr A/C Receivables	Dr SOCI Cr Bad Debts Expenses

EXAMPLE BAD DEBTS

Example:

DATE	PARTICULARS	AMOUNT (RM)
2020	Account Receivable: Amir	500
Jan 1	Account Receivable: Bala	1,500
	Account Receivable: Chong	200

Additional information:

- a. On 24 January 2020, Amir passed away and company decided to write off Amir's debts.
- b. Show the related entries for the above transaction in the:
 - i. General Journal
 - ii. General Ledger
 - iii. Financial Statements

The adjusting entry:

a. General Journal

Date	Particulars	Debit (RM)	Credit (RM)
2020 Jan 24	Dr. Bad debts expenses Cr. Account Receivable: Amir (To record bad debts expenses)	500	500
31	Dr. SOCI Cr. Bad debts expenses (closing entry)	500	500

b. General ledgers

A/C Receivable: Amir					
2020 Jan 1	Balance b/d	<u>500</u>	2020 Dec 31	Bad debts	<u>500</u>
		<u>500</u>			<u>500</u>

Bad debts expenses					
2020 Jan 24	A/C Receivable: Amir	<u>500</u>	2020 Dec 31	SOCI	<u>500</u>
		<u>500</u>			<u>500</u>

Bestari Trading

**Statement of Comprehensive Income for the year ended 31
December 2020**

	RM	RM
<u>Expenses:</u>		
Bad debts	500	

Bestari Trading

Statement of Financial Position as at 31 December 2020

	RM	RM
<u>Current Assets:</u>		
Account Receivable: Bala	1,500	
Account Receivable: Chong	200	

2.3.2 Bad Debts Recovered

- Debts repaid by customers after the debts have been written off as bad debts.
- Represent an **UNEXPECTED GAIN** and are considered as **REVENUE**.
- Listed in **CREDIT** side in **TRIAL BALANCE**.

DOUBLE ENTRY	CLOSING ENTRY
Dr Cash/Bank Cr Bad debts recovered	Dr Bad debts recovered Cr SOCI

EXAMPLE BAD DEBTS RECOVERED

Example:

DATE	PARTICULARS	AMOUNT (RM)
2020 Jan 1	Account Receivable: Kassim Account Receivable: Julia	1,500 500

Additional information:

- On 15 March 2020, the debt of Kassim was written off as bad debts because he could not be traced.
- Kassim repaid his bad debts by cheque for RM1,000 on 20 October 2020.
- Show the related entries for the above transaction in the:
 - General Journal
 - General Ledger
 - Financial Statements

The adjusting entry:

a. General Journal

Date	Particulars	Debit (RM)	Credit (RM)
2020 Mar 15	Dr. Bad debts expenses Cr. Account Receivable: Kassim (To record bad debts expenses)	1,500	1,500
Oct 20	Dr. Bank Cr. Bad debts recovered (closing entry)	1,000	1,000
Dec 31	Dr. SOCI Cr. Bad debts expenses (closing entry)	1,500	1,500
Dec 31	Dr. Bad debts recovered Cr. SOCI (closing entry)	1,000	1,000

b. General ledgers

A/C Receivable: Kassim					
2020 Jan 1	Balance b/d	<u>1,500</u>	2020 Dec 31	Bad debts	<u>1,500</u>
		<u>1,500</u>			<u>1,500</u>

Bad debts expenses					
2020 Mar 15	A/C Receivable: Kassim	<u>1,500</u>	2020 Dec 31	SOCI	<u>1,500</u>
		<u>1,500</u>			<u>1,500</u>

Bad debts recovered					
2020 Dec 31	SOCI	<u>1,000</u>	2020 Oct 20	Bank	<u>1,000</u>
		<u>1,000</u>			<u>1,000</u>

Bestari Trading

**Statement of Comprehensive Income for the year ended 31
December 2020**

	RM	RM
<u>Revenue:</u>		
Bad debts recovered		1,000
<u>Expenses:</u>		
Bad debts	1,500	

Bestari Trading

Statement of Financial Position as at 31 December 2020

	RM	RM
<u>Current Assets:</u>		
Bank	1,000	
Account Receivable: Julia	500	

2.3.3 Allowance/Provision for Doubtful Debts (PFDD)

- An estimate of debts that are not expected to be collected in the future accounting periods.
- Only determined and adjusted after the trial balance is prepared.
- PFDD/AFDD can be calculated using the following formula:

$$\text{PFDD/AFDD} = \% \text{ provisions for doubtful debts} \times \text{Net Debtors}$$

$$\text{Net Debtors} = [\text{Debtors (as per TB)} - \text{Unadjusted bad debts (if any)}]$$

- Normally has a **CREDIT** balance and will be **DEDUCTED** from **DEBTORS A/C** in **SOFP**.

CREATING	INCREASE	DECREASE
Dr. Doubtful debts Cr. PFDD	Dr. Doubtful debts Cr. PFDD	Dr. PFDD Cr. Doubtful debts

EXAMPLE PROVISION FOR DOUBTFUL DEBTS

Example:

The following information was extracted from Bestari Trading on 31 December for the year starting 2018.

Year	Account Receivable A/C (RM)
2018	10,000
2019	15,000
2020	12,000

Additional information:

- a. Starting in year 2018, the company decided to create provisions for doubtful debts account at 4% of the Account Receivable balance at the end of each year.
- b. Prepare the following entries for the year starting 2018:
 - i. Trial Balance
 - ii. General Journal
 - iii. General Ledger
 - iv. Financial Statements

Calculations:

Year	Account Receivable	Provision for Doubtful Debts	Adjustment	
			Increase (Debit)	Decrease (Credit)
2018	10,000	$4\% \times 10,000 = 400$	400	
2019	15,000	$4\% \times 15,000 = 600$	200	
2020	12,000	$4\% \times 12,000 = 480$		120

The adjusting entry:

- a. Trial Balance

Trial Balance as at 31 December 2018		
Account	Debit RM	Credit RM
Doubtful debts	400	
Provision for doubtful debts		400

Trial Balance as at 31 December 2019		
Account	Debit RM	Credit RM
Doubtful debts	200	
Provision for doubtful debts		600
Trial Balance as at 31 December 2020		
Account	Debit RM	Credit RM
Doubtful debts		120
Provision for doubtful debts		480

b. General Journal

Date	Particulars	Debit (RM)	Credit (RM)
2018 Dec 31	Dr. Doubtful Debts Cr. Provisions for Doubtful Debts (Creating Provision for Doubtful Debts)	400	400
2019 Dec 31	Dr. Doubtful Debts Cr. Provisions for Doubtful Debts (Increase Provision for Doubtful Debts)	200	200
2020 Dec 31	Dr. Provisions for Doubtful Debts Cr. Doubtful Debts	120	120

(Decrease Provision for
Doubtful Debts)

c. General ledgers

Provisions for Doubtful Debts					
2018			2018		
Dec	Balance c/d	<u>400</u>	Dec	Doubtful	<u>400</u>
31		<u>400</u>	31	Debts	<u>400</u>
2019			2019		
Dec			Jan 1	Balance b/d	400
31	Balance c/d	<u>600</u>	Dec	Doubtful	<u>200</u>
		<u>600</u>	31	Debts	<u>600</u>
2020			2020		
Dec	Doubtful	120	Jan 1		
31	Debts	<u>480</u>		Balance b/d	<u>600</u>
	Balance c/d	<u>600</u>			<u>600</u>
			2021		
			Jan 1	Balance b/d	480

Bestari Trading

**Statement of Comprehensive Income for the year ended 31
December 2018, 2019 and 2020**

	RM	RM
<u>Revenue:</u>		
Bad debts recovered		1,000
<u>Expenses:</u>		
Bad debts	1,500	

Bestari Trading**Statement of Financial Position as at 31 December 2020**

	RM	RM
<u>Current Assets:</u>		
Bank	1,000	
Account Receivable: Julia	500	

EXAMPLE 2.2

The following are the balances from the ledger of Purnama Berduri Trading as at 31 December 2020.

	Debit (RM)	Credit (RM)
Vehicles	20,000	
Equipment	8,000	
Purchases / Sales	31,000	69,800
Return	400	250
Capital		31,000
Stock at 1 January 2020	4,650	
Bank	15,000	
Debtors / Creditors	18,000	8,070
Provision for doubtful debts		300
Wages on purchase	840	
Salary	6,300	
Insurance	1,620	
Commission	1,500	
Import duties	260	
Drawings	1,850	
	109,420	109,420

Additional information:

- Closing stock at 31 December 2020 worth RM8,320 at market price and RM8,500 at cost price.
- Provision for doubtful debts is 2% from debtors.
- RM120 from the total insurance paid is for the January and February 2021.
- Accrued expenses for the period are:

Commission RM200

Salary RM500

You are required to prepare:

- c) Statement of Comprehensive Income for the year ended 31 December 2020.
- d) Statement of Financial Position as at 31 December 2020. -

FULL ANSWERS:

Purnama Berduri Trading Statement of Comprehensive Income for the year ended 31 December 2020			
	RM	RM	RM
Sales		69,800	
(-)Return inwards		(400)	
Net Sales			69,400
Less : Cost of goods sold			
Opening inventory		4,650	
Purchase	31,000		
(-) Returns	(250)		
Net purchase		30,750	
Wages on purchase	840		
Import duties	260	1,100	
Cost of goods available for sale		36,500	
(-) Closing inventory		(8,320)	
Cost of sales			(28,180)
GROSS PROFIT			41,220
+ REVENUE			
(-) EXPENSES			
Salary		6,800	
Insurance		1,500	
Commission		1,700	
PFDD		60	(10,060)
NET PROFIT			31,160

Purnama Berduri Trading Statement of Financial Position as at 31 December 2020			
	RM	RM	RM
NON CURRENT ASSETS			
Vehicle		20,000	
Equipment		8,000	28,000
CURRENT ASSETS			
Closing inventory		8,320	
Debtors		17,640	
Bank		15,000	
Prepaid insurance		120	41,080
Total Assets			69,080
Financed by:			
OWNER'S EQUITY			
Opening capital		31,000	
+ net profit / - net loss		31,160	
(-) Drawings		(1,850)	
Closing capital			60,310
CURRENT LIABILITIES			
Creditors		8,070	
Accrued commission		200	
Accrued salary		500	8,770
			69,080

2.4 Define the depreciation of plant, property and equipment (PPE)

2.4.1 Depreciation

- Depreciation is reduction of the value of non-current assets after being used in business operations.
- Costs of assets that are considered as **EXPENSES**.
- Listed in **DEBIT** side in **SOCI**.
- It will **REDUCE** the **NET PROFIT**.

2.4.2 Accumulated depreciation

- Amount of the non-current asset costs allocated to a particular accounting period.
- Usually **ACCUMULATED** from year to year.
- The book value of assets is the net value of the asset after **deduction of COST** and **ACCUMULATED DEPRECIATION**.

NET BOOK VALUE ASSETS
= COST OF ASSETS – ACCUMULATED DEPRECIATION

- Usually has a **CREDIT** balance and listed in **SOFP**.

METHODS OF DEPRECIATION

STRAIGHT LINE METHOD
(at cost)

REDUCING BALANCE METHOD
(at net book value)

STRAIGHT LINE METHOD (at cost)

- The formula to calculate depreciation:

$$\text{Annual Depreciation} = \frac{\text{Cost} - \text{Scrap Value}}{\text{Estimated Useful Life}}$$

OR

$$\text{Annual Depreciation} = \% \text{ Provision for depreciation} \times \text{Cost of Assets}$$

- Total depreciation is fixed and the amount is same for each accounting period.
- Scrap value is the selling price of an asset as scrap at the end of its estimated useful life.

REDUCING BALANCE METHOD (at net book value)

- An asset is depreciated according to the book value of the asset at the beginning of an accounting period.
- The longer the asset is used, the less the yearly depreciation charge will be.
- The formula to calculate depreciation:

$$\text{Annual Depreciation} = \% \text{ Provision for depreciation} \times \text{Net Book Value of Assets (opening balance)}$$

DOUBLE ENTRY

Dr Depreciation of Assets
Cr Acc Dep of Assets

CLOSING ENTRY

Dr SOCI
Cr Depreciation of Assets

EXAMPLE DEPRECIATION 1**Example:**

On 1st December 2020, Bestari Trading purchased a machine for RM26,000 by cheque. The machine has an estimated useful life of 4 years and expect to sell the machine at the end of its life for RM8,000 in cash.

Additional information:

- a. Show the related entries for the above transaction in the:
- General Journal
 - General Ledger
 - Financial Statements

Calculations:

$$\begin{aligned}
 \text{Depreciation of machine} &= \frac{\text{Cost} - \text{Scrap Value}}{\text{Estimated Useful Life}} \\
 &= \frac{\text{RM26,000} - \text{RM8,000}}{4 \text{ years}} \\
 &= \text{RM4,500}
 \end{aligned}$$

The adjusting entry:**a. General Journal**

Date	Particulars	Debit (RM)	Credit (RM)
2020 Dec 31	Dr. Depreciation of machine Cr. Accumulated depreciation of machine	4,500	4,500

	(To record depreciation of machine)		
Dec 31	Dr. SOCI Cr. Depreciation of machine (closing entry)	4,500	4,500

b. General ledgers

Depreciation of Machine					
2020 Dec 31	Acc Dep of machine	<u>4,500</u> <u>4,500</u>	2020 Dec 31	SOCI	<u>4,500</u> <u>4,500</u>

Accumulated Depreciation of Machine					
2020 Dec 31	Balance c/d	<u>4,500</u> <u>4,500</u>	2020 Dec 31	Depreciation of Machine	<u>4,500</u> <u>4,500</u>

Bad debts recovered					
2020 Dec 31	SOCI	<u>1,000</u> <u>1,000</u>	2020 Oct 20	Bank	<u>1,000</u> <u>1,000</u>

Bestari Trading

Statement of Comprehensive Income for the year ended 31

December 2020

	RM	RM
<u>Expenses:</u>		
Depreciation of machine	4,500	

Bestari Trading

Statement of Financial Position as at 31 December 2020

	RM	RM
<u>Non-Current Assets:</u>		
Machine at Cost	26,000	
(-) Accumulated depreciation of machine	<u>(4,500)</u>	
Net Book Value		21,500

EXAMPLE DEPRECIATION 2

Example:

Bestari Trading purchased a lorry costing RM100,000 on 1 January 2020. The lorry is depreciated at a rate of 10% per annum on cost.

Additional information:

- a. Show the related entries for the above transaction in the:
 - i. General Journal
 - ii. General Ledger
 - iii. Financial Statements

Calculations:

$$\begin{aligned}
 \text{Depreciation of motor vehicles} &= \% \text{ Provision for depreciation} \times \\
 &\quad \text{Cost of Assets} \\
 &= 10\% \times \text{RM}100,000 \\
 &= \text{RM}10,000
 \end{aligned}$$

The adjusting entry:

a. General Journal

Date	Particulars	Debit (RM)	Credit (RM)
2020 Dec 31	Dr. Depreciation of motor vehicles Cr. Accumulated depreciation of motor vehicles (To record depreciation of motor vehicles)	10,000	10,000
Dec 31	Dr. SOCI Cr. Depreciation of motor vehicles (closing entry)	10,000	10,000

b. General ledgers

Depreciation of Motor Vehicle					
2020 Dec 31	Acc Dep of motor vehicle	<u>10,000</u> <u>10,000</u>	2020 Dec 31	SOCI	<u>10,000</u> <u>10,000</u>

Accumulated Depreciation of Motor Vehicle					
2020 Dec 31	Balance c/d	<u>10,000</u> <u>10,000</u>	2020 Dec 31	Depreciation of Motor Vehicle	<u>10,000</u> <u>10,000</u>

Bestari Trading
Statement of Comprehensive Income for the year ended 31
December 2020

	RM	RM
<u>Expenses:</u>		
Depreciation of motor vehicle	10,000	

Bestari Trading
Statement of Financial Position as at 31 December 2020

	RM	RM
<u>Non-Current Assets:</u>		
Motor Vehicle at Cost	100,000	
(-) Accumulated depreciation of motor vehicle	<u>(10,000)</u>	
Net Book Value		90,000

EXAMPLE DEPRECIATION 3

Example:

Bestari Trading
Trial Balance as at 31 December 2020

Account	Debit RM	Credit RM
Furniture	50,000	
Provision for depreciation of Furniture		10,000

Additional information:

- a. Provision of depreciation Furniture is 10% per annum on book value.
- b. Show the related entries for the above transaction in the:
 - i. General Journal
 - ii. General Ledger
 - iii. Financial Statements

Calculations:

$$\begin{aligned}
 \text{Depreciation of furniture} &= \% \text{ Provision for depreciation} \times \text{net book value} \\
 &= 10\% \times (\text{RM}50,000 - \text{RM}10,000) \\
 &= \text{RM}4,000
 \end{aligned}$$

The adjusting entry:

c. General Journal

Date	Particulars	Debit (RM)	Credit (RM)
2020 Dec 31	Dr. Depreciation of furniture Cr. Accumulated depreciation of furniture (To record depreciation of furniture)	4,000	4,000
Dec 31	Dr. SOCI Cr. Depreciation of furniture (closing entry)	4,000	4,000

d. General ledgers

Depreciation of Furniture					
2020 Dec 31	Acc Dep of furniture	<u>4,000</u> <u>4,000</u>	2020 Dec 31	SOCI	<u>4,000</u> <u>4,000</u>

Accumulated Depreciation of Furniture					
2020 Dec 31	Balance c/d	<u>14,000</u> <u>14,000</u>	2020 Jan 1 Dec 31	Balance b/d Depreciation of Furniture	10,000 <u>4,000</u> <u>14,000</u>

Bestari Trading

**Statement of Comprehensive Income for the year ended 31
December 2020**

	RM	RM
<u>Expenses:</u>		
Depreciation of furniture	4,000	

Bestari Trading

Statement of Financial Position as at 31 December 2020

	RM	RM
<u>Non-Current Assets:</u>		
Furniture at Cost	50,000	
(-) Accumulated depreciation of furniture	<u>(14,000)</u>	
Net Book Value		36,000

EXAMPLE 2.3

The following balances are taken from the ledger of Kedai Saya as at 31 December 2020.

	Debit (RM)	Credit (RM)
Capital		11,108
Opening stock	5,350	
Cash	1,000	
Equipment	3,600	
Debtors / creditors	2,400	1,200
Purchase / Sales	35,408	38,950
Provision for depreciation - Equipment		180
Carriage inwards	450	
Rental expenses	1,400	
Commission expenses	600	
Salary	1,000	
Discount received		210
General expenses	200	
Insurance expenses	240	
	51,648	51,648

Additional information:

- Closing stock at 31 December 2020 worth RM5,800.
- Accrued commission expenses is RM20.
- Depreciation rate for equipment is 10% on cost.
- One of the debtors with total debts RM200 was passed away.
- Drawings of cash RM100 by the owner for personal use are not recorded.

You are required to prepare:

- Statement of Comprehensive Income for the year ended 31 December 2020.
- Statement of Financial Position as at 31 December 2020.

FULL ANSWERS:

Kedai Saya Statement of Comprehensive Income for the year ended 31 December 2020			
	RM	RM	RM
Sales			38,950
Less : Cost of goods sold			
Opening inventory		5,350	
Purchase	35,408		
(-) Discount received	(210)		
Net Purchase		35,198	
Carriage Inwards		450	
Cost of goods available for sale		40,998	
(-) Closing inventory		(5,800)	
Cost of sales			35,198
GROSS PROFIT			3,752
+ REVENUE			-
(-) EXPENSES			
Salary		1,000	
Insurance		240	
Commission		620	
General expenses		200	
Rental expenses		1,400	
Depreciation : Equipment		360	
Bad debts		200	(4,020)
NET LOSS			(268)

Kedai Saya Statement of Financial Position as at 31 December 2020			
	RM	RM	RM
NON CURRENT ASSETS			
Equipment		3,600	
(-) Accumulated depreciation		(540)	
Total Non-Current Asset			3,060
CURRENT ASSETS			
Closing inventory		5,800	
Debtors	2,400		
(-) bad debts	(200)		
		2,200	
Cash (1,000-100)		900	8,900
Total Assets			11,960
Financed by:			
OWNER'S EQUITY			
Opening capital		11,108	
+ net profit / - net loss		(268)	
(-) Drawings		(100)	
Closing capital			10,740
CURRENT LIABILITIES			
Creditors		1,200	
Accrued commission		20	
			1,220
			11,960

COMPREHENSIVE EXAMPLE

Jerami Enterprise has the following balances on 30 June 2019:

JERAMI ENTERPISE TRIAL BALANCE AS AT 30 JUNE 2019		
PARTICULARS	DEBIT (RM)	CREDIT (RM)
Capital		9,900
Drawings	4,189	
Vehicles	7,000	
Accumulated depreciation – Vehicles		2,100
Sales and Purchases	28,569	41,149
Stock at 1 July 2018	3,876	
Carriage inwards	322	
Carriage outwards	437	
Return	128	136
Salary	2,957	
Car maintenance expenses	465	
Water & Electricity	867	
Commission		1,295
Insurance	694	
Bad debts	529	
Provision for doubtful debts		455
Discount	265	172
Sundry expenses	317	
Creditor and Debtors	4,950	2,254
Bank	1,875	
Cash	21	
	57,461	57,461

Additional information:

- i. Stock at 30 June 2014 worth RM4,128.
- ii. Accrued expenses:

Water & Electricity	RM93
Sundry expenses	RM22

- iii. Prepaid insurance RM105.
- iv. A bad debt is RM150. Provision for doubtful debts is 5% on net debtor.
- v. Depreciation for vehicles is 20% on cost.
- vi. Commission has not received for the month of June worth RM245.

You are required to prepare:

- a. Statement of Comprehensive Income for the year ended 30 June 2019.
- b. Statement of Financial Position as at 30 June 2019.

FULL ANSWER:

Jerami Enterprise Statement of Comprehensive Income for the year ended 30 June 2019			
	RM	RM	RM
Sales		41,149	
(-) Sales return		(128)	
(-) Discount Allowed		(265)	
Net sales			40,756
Less : Cost of goods sold			
Opening stock		3,876	
Purchases	28,569		
(-) Purchase return	(136)		
(-) Discount received	(172)		
Net purchases		28,261	
<u>Add : Purchase expenses</u>			
Carriage inwards		322	
Cost of goods available for sale		32,459	
(-) Closing inventories		(4,128)	
Cost of sales			(28,331)
GROSS PROFIT			12,425

Add : Revenue			
Decrease in doubtful debts		215	
Commission received		1,540	1,755
			14,180
Less : Expenses			
Carriage outwards		437	
Salaries		2,957	
Car maintenance expenses		465	
Water & Electricity		960	
Insurance		589	
Bad debts		679	
Sundry expenses		339	
Depreciation of Vehicle		1,400	(7,826)
NET PROFIT			6,354

Jerami Enterprise Statement of Financial Position as at 30 June 2019			
	RM	RM	RM
NON CURRENT ASSETS			
Vehicles		7,000	
(-) Accumulated depreciation of Vehicles		(3,500)	
Net Book Value of Vehicles			3,500
CURRENT ASSETS			
Closing inventories		4,128	
Debtors	4,950		
(-) Bad debts (additional)	(150)		
(-) Provision for doubtful debt	(240)		
Net debtors		4,560	
Prepaid Insurance		105	
Accrued commission received		245	
Cash at bank		1,875	
Cash in hand		21	10,934
Total Assets			14,434

Financed by:			
OWNER'S EQUITY			
Opening capital		9,900	
+ net profit		6,354	
- Drawings		(4,189)	
Closing capital			12,065
CURRENT LIABILITIES			
Creditors		2,254	
Accrued water & electricity		93	
Accrued sundry expenses		22	2,369
			14,434



PRACTICE EXERCISES

QUESTION 1

The following is the Trial Balance of Markonah Trading as at 31 December 2020.

Markonah Trading Trial Balance as at 31 December 2020		
	Debit (RM)	Credit (RM)
Opening capital		16,080
Drawings	2,500	
Bank	20,000	
Cash	2,500	
Sales		135,000
Purchase	85,700	
Sales returns	475	
Purchase returns		1,025
Wages on purchase	500	
Interest	350	870
Opening stock	4,700	
Carriage inwards	400	
Carriage outwards	700	
Debtors	53,000	
Creditors		45,000
Commission	2,000	1,200
Motor vehicles	13,000	
Salaries	5,000	
Rental expenses	2,600	
Utility bills	750	
Fixtures & fittings	3,500	
Advertising	1,420	
Discount	450	370
	199,545	199,545

Additional information:

- a. Closing stock on 31 December 2020 was RM4,350 at market price and RM3,800 at cost.
- b. Accrued salaries RM1,200.
- c. Accrued commission revenue RM260.
- d. Prepaid rental expenses RM750.
- e. Prepaid interest revenue RM200.

You are required to prepare:

- a) Statement of Comprehensive Income for The Year Ended 31 December 2020.
- b) Statement of Financial Position as at 31 December 2020.

Answers: SOCI: Gross Profit-RM48,05, Net Profit-RM36,830; SOFP-RM96,810

QUESTION 2

The following Trial Balance was taken from the book of Hai Wai Trading on 31 March 2020.

HAI WAI TRADING
Trial Balance as at 31 March 2020

	DEBIT (RM)	CREDIT (RM)
Capital		149,000
Bank		10,595
Cash	1,400	
General Expenses	4,320	
Inventory, 1 April 2019	6,650	
Vehicles	60,000	
Warehouse	90,000	
Stationery	320	
Mortgage Loan		65,000
Furniture	2,000	
Purchases and Sales	32,735	52,450
Returns	1,345	1,120
Freight Inwards	1,472	
Freight Outwards	2,398	
Office Equipment	9,000	
Rental	3,600	1,780
Insurance Expense	2,940	
Account Receivable and Account Payable	43,250	28,950
Drawings	1,360	
Salaries	4,700	
Commission	1,480	612
Discount	1,743	1,959
Investment	40,000	
Bad debt recovered		1592
Staff allowances	2,345	
	313058	313,058

Additional information:

- a. Inventory on 31 March 2020 is RM11,250 at cost price and RM13,700 at the market price.
- b. RM480 of salaries was paid in advance.
- c. Rental received amounting RM1,200 was still outstanding at the end of the accounting period.

You are required to prepare:

- a) Statement of Comprehensive Income for the year ended 31 March 2020
- b) Statement of Financial Position as at 31 March 2020.

Answers: SOCI Gross Profit-RM22,834, Net Profit-RM6,395.SOFP-RM258,580

QUESTION 3

Below is the trial balance of Super Bookstore as at 30 June 2020

	Debit (RM)	Credit (RM)
Capital		51,694
Premises	40,000	
Opening Inventories	14,890	
Sales Return	212	
Drawings	260	
Purchases & Sales	45,000	62,600
Commission		2,960
Salary	4,952	
Insurance	900	
General expenses	1,000	
Creditors		5,660
Debtors	8,326	
Vehicle	5,420	
Bank		976
Rent revenue		110
Motor Expenses	3040	
	124,000	124,000

Additional information:

- The closing Inventories are RM9,800.
- Accrued Insurance amounted RM250
- A debtor who owed RM1,250 was declared bankrupt by court.

You are required to prepare:

- Statement of Comprehensive Income for the year ended 30 June 2020.
- Statement of Financial Position as at 30 June 2020.

Answers: SOCI Gross Profit-RM12,298, Net Profit-RM3,976.SOFP-RM62,296

QUESTION 4

Below is the trial balance Super Sedap Trading as at 31 December 2020.

	Debit (RM)	Credit (RM)
Capital		41,720
Machine	30,000	
Accumulated depreciation – machine		3,000
Drawings	600	
Purchases & Sales	40,000	65,400
Return	420	360
Carriage inwards	300	
Discount	240	300
Inventories on 1 January 2020	13,040	
Salary	9,640	
Rent	1,560	
Provision for doubtful debt		350
Water & electricity expenses	3,400	
Debtors & Creditors	6,600	5,720
Bank	8,200	
Commissions		350
Duties on purchase	220	
Cash	450	
Carriage outward	380	
General expenses	1,300	
Advertising	850	
	117,200	117,200

Additional information:

- Inventories on 31 December 2020 has been valued at RM6,300 at cost and market price at RM11,000.
- One of debtors is unable to pay RM180.
- Accrued rent amounting to RM350.
- The provision for doubtful debts is to be adjusted to 5% of net debtors.

You are required to:

- a) Prepare a Statement of Comprehensive Income for the year ended 31 December 2020
- b) Prepare a Statement of Financial Position as at 31 December 2020

Answers: SOCI Gross Profit-RM18.140, Net Profit-RM859.SOFP-RM48,049

QUESTION 5

Below is the trial balance of Habibi Trading as at 30 September 2020.

	Debit (RM)	Credit (RM)
Capital		310,000
Land and Building	504,000	
Motor & Vehicle	200,000	
Accumulated depreciation of Motor & Vehicle		40,000
Drawings	8,000	
Purchases & Sales	345,000	800,000
Return	8,000	5,000
Carriage Inwards	2,000	
Carriage Outwards	3,000	
Inventories on 1 October 2019	56,000	
Salary	81,000	
Insurance	30,000	
Water & electricity expenses	10,000	
Mortgage/ Loan		200,000
Debtors & Creditors	225,000	125,000
Interest		24,000
Bank	41,200	
Provision for doubtful debt		9,200
	1,513,200	1,513,200

Additional information:

- The closing Inventories are RM30,500.
- Accrued Carriage Outwards amounted to RM 750, prepaid Salary is RM3,050.
- Interest received for the month of January until December 2020
- The provision for doubtful debts is to be adjusted to 5% of net debtors.

You are required to prepare:

- Statement of Comprehensive Income for the year ended 30 September 2020.
- Statement of Financial Position as at 30 September 2020.

Answers: SOCI Gross Profit-RM424,500, Net Profit-RM318,750 SOFP-RM952,500

QUESTION 6

Below is the trial balance of Olan Jaya as at 31 December 2020.

	Debit (RM)	Credit (RM)
Capital		675,000
Freehold Land	500,000	
Motor & Vehicle at cost	60,000	
Fixtures & Fittings at cost	80,000	
Drawings	7,000	
Purchases & Sales	250,000	400,000
Return	5,000	2,000
Carriage Inwards	1,000	
Carriage Outwards	2,000	
Inventories on 1 January 2020	90,000	
Salary	50,000	
Rates	4,000	
Telephone expenses	3,000	
Advertising	6,000	
Debtors & Creditors	8,000	15,000
Bad debts	1,000	
Bank	21,000	
Cash	4,000	
	1,092,000	1,092,000

Additional information:

- Inventories on 31 December 2020 has been valued at RM120, 000.
- Accrued salaries amounted to RM3,400.
- Rates amounting to RM450 was prepaid.
- Telephone expenses of RM320 are outstanding at 31 December 2020.
- Fixtures & Fittings are to be depreciated at 5% per annum at cost
- Motor & vehicle is to be depreciated at 10% per annum at cost

You are required to prepare:

- Statement of Comprehensive Income for the year ended 31 December 2020.
- Statement of Financial Position as at 31 December 2020.

Answers: SOCI Gross Profit-RM176,00, Net Profit-RM96,730 SOFP-RM783,450

QUESTION 7

Below is the trial balance of Maimon Enterprise as at 31 December 2019.

	Debit (RM)	Credit (RM)
Capital		60,000
Land	150,000	
Vehicle at cost	90,000	
Accumulated depreciation - vehicle		37,500
Long term loan		70,500
Sales		321,500
Purchases	128,750	
Return Inwards	5,250	
Return Outwards		2,250
Carriage Inwards	1,500	
Carriage Outwards	4,500	
Inventories on 1 January 2019	42,000	
Salary	39,000	
Insurance	9,000	
Electricity	6,450	
Advertisement	7,500	
Vehicle maintenance expenses	18,000	
General Expenses	4,500	
Debtors	31,500	
Creditors		25,500
Bank	26,000	
Cash	1,300	
Bad debts	4,500	
Commission received		52,500
	569,750	569,750

Additional information:

- Inventories on 31 December 2019 at a cost of RM35, 000.
- Accrued Electricity expenses at RM 2,600.
- Prepaid salary worth RM 1,350.
- Depreciation charges on vehicle are 20% on reducing balance.
- Madam M, the owner had taken RM780 from the office for her personal use.

You are required to:

- a) Prepare a Statement of Comprehensive Income for the year ended 31 December 2019
- b) Prepare a Statement of Financial Position as at 31 December 2019.

Answers: SOCI Gross Profit-RM181,250, Net Profit-RM128,550 SOFP-RM286,370

QUESTION 8

Below is the trial balance of Emak Cantik Enterprise as at 30 June 2019.

	Debit (RM)	Credit (RM)
Capital		155,000
Building	100,000	
Office equipment	45,000	
Accumulated depreciation - Office equipment		5,000
Long term loan		60,000
Sales		159,000
Purchases	94,200	
Return Inwards	5,400	
Return Outwards		3,500
Carriage Outwards	7,000	
Inventories on 1 July 2018	45,000	
Salary	33,000	
Insurance	6,000	
Motor expenses	2,500	
Discount	2,400	1,500
Debtors	44,000	
Creditors		56,000
Bank	35,000	
Cash	15,000	
Bad debts	5,500	
	440,000	440,000

Additional information:

- a. Inventories on 30 June 2019 at a cost of RM21,500.
- b. The outstanding salary which amounted to RM1,850
- c. Prepaid insurance worth RM 1,700.
- d. Depreciation charges on Building are 5% on cost and for office equipment at 10% on reducing balance method.

You are required to prepare:

- a) Prepare a Statement of Comprehensive Income for the year ended 30 June 2019.
- b) Prepare a Statement of Financial Position as at 30 June 2019.

Answers: SOCI Gross Profit-RM39,400, Net Loss-RM24,650 SOFP-RM248,200

QUESTION 9

The Trial Balance shown below was extracted from the books of Ria Enterprise on 31 March 2016.

**RIA ENTERPRISE
TRIAL BALANCE AS AT 31 MARCH 2016**

	DEBIT (RM)	CREDIT (RM)
Capital as at 1 April 2015		37,815
Cash	1,140	
Rental	9,600	
Carriage inwards	190	
Commission		1,360
Duty on purchases	1,460	
Motor Vehicles (cost)	19,000	
Bank	25,660	
Rates	985	
Sales and Purchases	56,730	109,375
Provision for Doubtful Debts		980
Debtors and Creditors	12,800	10,660
Stock as at 1 April 2015	12,500	
Promotion	780	
General expenses	640	
Returns	345	540
Bad debt recovered		1,080
Office Equipment (cost)	2,600	
Insurance	1,200	
Carriage outwards	890	
Salary	16,000	
Provision for depreciation - Motor Vehicles		950
Discounts	240	
	162,760	162,760

Additional information:

- a. Closing inventory was valued at RM16,400 as at 31 March 2016.

- b. Owner took goods amounting RM700 for promotion. This transaction was omitted from the records.
- c. Depreciation for Motor Vehicles is 10% per annum on cost
- d. Accrued commission was RM400.
- e. Provision for doubtful debts is to be adjusted to 5% on debtors.
- f. Accrued salaries was RM2,600.
- g. Insurance was paid for one year until 30 Jun 2013.

You are required to prepare:

- a. Statement of Comprehensive Income for the year ended 31 March 2016
- b. Statement of Financial Position as at 31 March 2016

Answers: SOCI: Gross Profit-RM55,550, Net Profit-RM23,735; SOFP-RM74,810

QUESTION 10

The Trial Balance shown below was extracted from the books of Kedai Aima on 31 March 2017.

KEDAI AIMA
TRIAL BALANCE AS AT 31 MARCH 2017

	DEBIT (RM)	CREDIT (RM)
Capital as at 1 April 2016		100,000
Furniture	17,020	
Motor Vehicles	40,000	
Purchase and Sales	82,100	189,000
Provision for Doubtful Debts		1,650
Stock as at 1 April 2016	20,530	
Debtors and Creditors	17,800	14,340
Salaries	18,000	
Bank	69,000	
Cash	2,100	
Drawings	1,320	
Rates	3,780	
Fixtures & Fittings	33,000	
Provision for depreciation		
- Motor vehicles		6,000
- Fixtures and fittings		3,300
Bad debts	270	
Carriage outwards	3,060	
Insurances	2,160	
Discounts		960
Returns	520	600
Commissions		400
Promotions	450	
Carriage inwards	640	
Rental	4,500	
	316,250	316,250

Additional information:

- a. Closing inventory was valued at RM22,490 as at 31 March 2017.
- b. Owner took office furniture amounting RM460 for family use. No record has been made to this transaction.
- c. Insurance was paid for one year ended 30 Jun 2017.
- d. Monthly rental was RM500.
- e. Depreciation for Motor Vehicles and Fixtures & Fittings is 10% per annum on reducing balance method.
- f. Included in carriage outwards is carriage inwards amounting RM550.
- g. Provision for doubtful debts is to be adjusted to 5% on debtors.

You are required to prepare:

- a) Statement of Comprehensive Income for the year ended 31 March 2017.
- b) Statement of Financial Position as at 31 March 2017

Answers: SOCI: Gross Profit-RM108,710, Net Profit-RM70,870; SOFP-RM184,930

QUESTION 11

The Trial Balance shown below was extracted from the books of Kekwa Enterprise on 30 June 2020.

**KEKWA ENTERPRISE
TRIAL BALANCE AS AT 30 JUNE 2020**

	DEBIT (RM)	CREDIT (RM)
Duty on purchases	1,460	
Motor vehicle (cost)	19,000	
Bank	24,300	
Rates	985	
Sales and Purchases	56,730	109,375
Provision for doubtful debts		980
Debtors and Creditors	12,800	10,660
Stocks as at 1 July 2019	12,500	
Promotion	780	
General expenses	640	
Returns	345	540
Bad debt recovered		1,080
Office equipment (cost)	2,600	
Insurance	1,200	
Carriage outwards	890	
Salary	16,000	
Accumulated depreciation Motor vehicle		950
Discount	240	
Capital as at 1 July 2019		36,665
Cash	1,140	
Rental	8,450	
Carriage inwards	190	
	160,250	160,250

Additional information:

- a. Closing inventory was RM13,210 at cost price and RM14,200 at market price.
- b. Depreciation is to be charged as follows:

- c. Motor Vehicles 10% per annum on reducing balance method
- d. Office Equipment 10% per annum on cost
- e. Included in carriage outwards is carriage inwards amounting RM360.
- f. Provision for doubtful debts is to be adjusted to 5% on debtors.
- g. Accrued salaries RM2,600.
- h. Rental was paid for 13 months.
- i. Owner took stocks value RM460 for promotion purpose. This transaction was omitted for record.
- j. Prepaid rates RM150.

You are required to prepare:

- a) Statement of Comprehensive Income for the year ended 30 June 2020.
- b) Statement of Financial Position as at 30 June 2020

Answers: SOCI: Gross Profit-RM51,760, Net Profit-RM20,270; SOFP-RM70,195

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