

# **FINANCIAL STATEMENTS**

*For Beginners*

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FINANCIAL STATEMENTS FOR BEGINNERS





# ACKNOWLEDGEMENT

All praise to Allah subhanahu wa Ta'ala whose help and guidance has sustained us to bring this book to completion. We sincerely hope that this book will be a valuable aid and reference to all Commerce Department student's throughout all polytechnics in Malaysia.

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Finally, we wish to express our deepest gratitude to everybody who is always helpful in giving us an idea towards the publication of this book. Without cooperation and support from all parties involved, none of this will ever come true.

LAILA |AZREEN|HUDA





Financial Statements for Beginners designs to provide a frame of beginner reference to who wants to learn about basic of financial statements that can be used as a reference. On the other hands, students who majoring in business, management, finance or related courses may use this book in a way to help them enhancing their knowledge in fundamentals of accounting hence preparing the financial statements.

Basically this book focused on financial statements and the adjustments entries that will guide the related parties the required technical competencies in preparing financial statements.

In addition, to make better understanding on the topics presented throughout this book, a summary and relevant illustrations are provided in the end of the notes given that comes with additional SELF TRY questions that provide users with sample review questions in order to inforce the learning process.

Finally, this book be beneficial to all the student and other related parties who directly or indirectly used this book as a reference. Hope this book be beneficial in helping all parties to achieve the objective either excellent in the examination or as a good reference in preparing financial statements.

# The FOREWORD



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SELF TRY

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# **FINANCIAL STATEMENTS**



## 1.0 FINANCIAL STATEMENTS INTRODUCTION

The information obtained from the Trial Balance is used for the preparation of financial statements. In other way, financial statements also known as final accounts which is generally used to inform about the financial status of a business.

There are four (4) main financial statements which are:

- i. Income Statement/ Statement of Comprehensive Income  
(Trading, Profit & Loss Statement)
- ii. Statement of Financial Position (Balance Sheet)
- iii. Statement of Cash Flows
- iv. Notes to Accounts

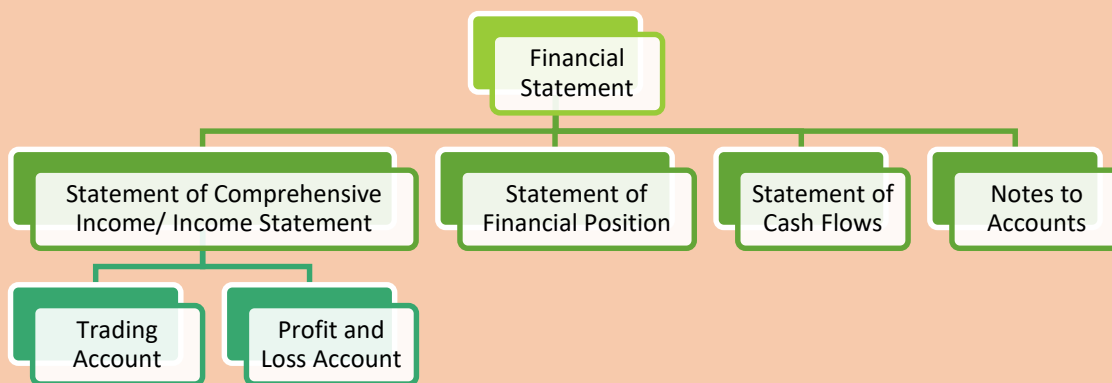
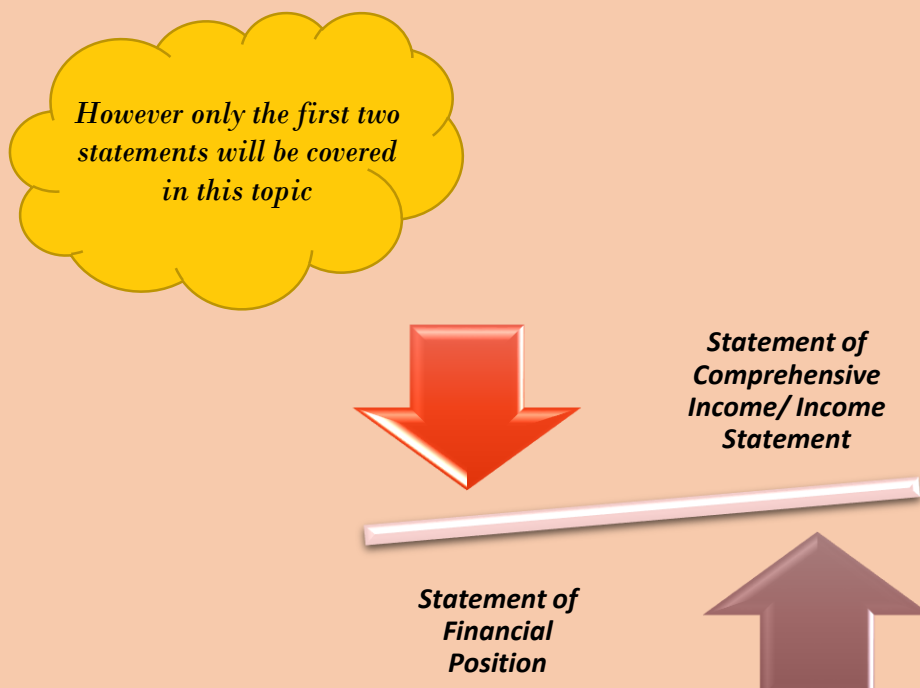


Figure 1: Financial Statements





## 2.0 THE PURPOSE OF FINANCIAL STATEMENTS

Basically, financial statements present information about an entity's financial position, performance, changes in financial position and others. The summary illustrated as below.



*Figure 2 : The purpose of financial statements*



### 3.0 PREPARATION OF STATEMENT OF COMPREHENSIVE INCOME

The Statement OF Comprehensive Income (SoCI) should have a heading which includes three (3) pieces of information namely:

- i. The name of the business
- ii. The title of the statement
- iii. The time period covered by the statement

The body of the SoCI consists of two main components:

- i. Revenue items
- ii. Expenses items

*The formula*

Profit (P) = Revenues earned (R) – Expenses incurred (E)

A **negative profit** called a **loss**.

### 4.0 PREPARATION OF STATEMENT OF FINANCIAL POSITION

The Statement of Financial Position (SoFP) should have a heading which includes three (3) pieces of information lists as below:

- i. The name of the business
- ii. The title of the statement
- iii. The given date/ a point in time covered by the statement

While, the body of the SoFP consists of three main components states as:

- i. Assets
- ii. Liabilities
- iii. Owner's Equity

*The formula*

Assets (A) = Liabilities (L) – Owner's Equity (OE)

## 5.0 LINK BETWEEN STATEMENT OF COMPREHENSIVE INCOME AND STATEMENT OF FINANCIAL POSITION

The SoCI 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

## 6.0 PREPARATION OF FINANCIAL STATEMENTS BASED ON THE INFORMATION IN THE TRIAL BALANCE

ACCOUNTS	NORMAL BALANCE	CLOSING DESCRIPTION	FINANCIAL STATEMENTS
Sales	Credit	Transfer to Trading A/C	SoCI
Sales return	Debit		
Opening inventories	Debit		
Purchase	Debit		
Purchase return	Credit		
Purchase expenses: Wages Import duties Insurance on purchases Freight inwards	Debit		
Closing inventories			SoCI & SoFP
Revenues	Credit	Transfer to Profit & Loss	SoCI
Expenses	Debit		
Assets: Non-Current Assets Current Assets	Debit	Balance c/d	SoFP
Liabilities: Non-Current Liabilities Current Liabilities	Credit		
Capital	Credit		
Drawing	Debit		



## 7.0 FORMAT OF STATEMENT OF COMPREHENSIVE INCOME

NAME OF BUSINESS  
STATEMENT OF COMPREHENSIVE INCOME (SoCI) FOR THE YEAR ENDED  
31 DECEMBER 202X

Item	RM	RM	RM
Sales		XXXX	
(-) Return Inwards/ Sales Returns		(XXX)	
(-) Discount Allowed		(XXX)	
<b>Net Sales</b>			<b>XXXX</b>
<b>Cost of Sales/Cost of goods sales:</b>			
Opening Stock/Inventories		XXX	
Purchases	XXX		
(-) Returns Outwards/Purchase Returns	(XX)		
(-) Discounts Received	(XX)		
<b>Net Purchase</b>	<b>XXX</b>		
<b>(+) Buying Expenses/Purchases Expenses:</b>			
Packaging	XXX		
Import Duties/ Custom Duties	XXX		
Carriage Inwards/ Freight Inwards	XXX		
Insurance on purchases	XXX		
Wages on purchases	XXX		
<b>Purchases Costs</b>		<b>XXX</b>	
<b>Cost of goods available for sales</b>		<b>XXX</b>	
(-) Closing Stock/Inventories		(XXX)	
<b>Cost of Sales/Cost of Goods Sales</b>			<b>(XXX)</b>
<b>GROSS PROFIT/ (LOSS)</b>			<b>XXX/(XXX)</b>
<b>(+) Other Revenues:</b>			
Interest received		XXX	
Rental received		XXX	
Bad debts recovery		XXX	
Profit on assets disposal		XXX	
Decrease in provision for doubtful debts		XXX	
			<b>XXX</b>
<b>Total Income</b>			<b>XXXX</b>
<b>(-) Expenses:</b>			
Stationeries		XXX	
Carriage outwards/ Freight outwards		XXX	
Utilities		XXX	
General/ Sundry/ Miscellaneous expenses		XXX	
Administrative expenses		XXX	
Doubtful debt expenses		XXX	
Increase in provision for doubtful debts		XXX	
Depreciation		XXX	
Interest on loan/ Interest on overdraft		XXX	
Salaries		XXX	
Bad debt expenses		XXX	
Advertising		XXX	
Insurance		XXX	
Commission paid/ expenses		XXX	
Rental paid/ expenses		XXX	
<b>Total Expenses</b>			<b>(XXX)</b>
<b>NET PROFIT/ (LOSS)</b>			<b>XXXX</b>

REVENUE

DIRECT  
COST

Add: OS + Purchase Costs

Minus: Net Sales - COGS  
Net Sales > COGS = Gross Profit @  
Net Sales < COGS = Gross LossOS+PURCHASE COSTS=  
COGS  
COGS - CS= COGSADD ALL  
OTHER INCOMEADD ALL  
EXPENSES

COMPARE  
between Cost  
vs Net sales  
COGS < NS =  
G.Profit  
COGS > NS =  
G.Loss

Total Revenues  
> Total expenses =  
Net Profit

## 8.0 FORMAT OF STATEMENT OF FINANCIAL POSITION



Depreciation Method:  
STRAIGHT LINE METHOD

PDD will reduce amount of  
Debtors (either Increase or  
decrease PDD)

Total Assets =  
Total OE + Total Liabilities  
BALANCING FIGURE

Apply Accounting Equation  
Concept  
 $A = L + OE$  -- ?BINGO

NAME OF BUSINESS			
STATEMENT OF FINANCIAL POSITION (SoFP) AS AT 31 DECEMBER 20XX			
Item	RM	RM	RM
<b>NON CURRENT ASSETS</b>			
<i>Properties, Plant &amp; Equipment</i>			
Land		XXX	Add all item in non-current assets
Building/ Premises		XXX	
Motor Vehicles	XXX		
(-) Provision for depreciation	(XX)		
Net Book Value		XXX	
Plant and Machinery	XXX		
(-) Provision for depreciation	(XX)		
Net Book Value		XXX	
Investment		XXX	
Goodwill		XXX	
			XXXX
<b>CURRENT ASSETS</b>			
Closing inventories		XXX	Add all item in current assets
Debtors/ Account Receivables (Net Debtors= AR – Add Bad Debts)	XXX		
(-) Provision for doubtful debt (Current PDD)	(XX)		
(-) Provision for allowable discount	(XX)		
NET DEBTORS		XXX	
Prepayment expenses		XXX	Add NON CA and CA
Accrued revenues		XXX	
Cash at bank		XXX	
Cash in hand		XXX	
			XXXX
<b>TOTAL ASSETS</b>			XXXX
<b>Financed By:</b>			
<b>Owner's Equity:</b>			
Opening Capital		XXXX	
Net Profit (or - Net Loss)		XXX/(XXX)	
Drawings		(XXX)	
Closing Capital			XXXX
<b>Non-Current Liabilities:</b>			
Long-Term Loans		XXXX	
Mortgage		XXXX	
			XXXX
<b>Current Liabilities:</b>			
Creditors/Account Payable		XXXX	Add NON CL and CL
Accrued expenses		XXXX	
Advanced Revenues		XXXX	
Bank Overdraft		XXXX	
			XXXX
<b>TOTAL O.E + LIABILITIES</b>			XXXX

Balancing  
Figure

Add NON CL and CL



## SELF TRY

Accounting  
period:  
31/12/2018

### QUESTION 1

From the following data, prepare the **Statement of Comprehensive Income** for the year ended **31 December 2019** for JAL Enterprise.

	RM
Capital	8,820
Drawings	250
Leasehold Premises	1,000
Machinery	2,600
Repairs to machinery	400
Investments	1,000
Dividends on investments	28
Accounts Receivable	3,500
Accounts Payable	960
Bills Receivable	976
Bills Payable	167
Wages and Salaries expenses	2,248
Trade expenses	105
Rent expense	75
Discounts received	130
Carriage inwards	113
Fire insurance expense	10
Inventory (beginning)	2,100
Purchases	4,653
Sales	9,730
Return inwards	34
Return outwards	15
Bad debts expense	57
Bank interest revenue	150
Cash in hand	50
Cash at bank	829



Inventory on hand on **31 December 2019** amounted to RM2,680.

Refer as  
Closing  
Inventory

Classified:  
Asset  
Liabilities  
Revenues  
Expenses



Remember the formula of  
SOCL:

Net Sales  
COGS  
Gross Profit/Loss  
Total Revenues  
Operating Expenses  
Net Profit/Loss



Strengthen your knowledge  
on:

- Accounting cycle
- Double entries





## QUESTION 2

Below is a list of account balances extracted on **31 July 2019** by Cindy Lee, a sole trader who runs a boutique, Cindy Designs Arcade.

Understand accounting period  
Starting: 1 /08/2018  
Closing: 31/7/2019

	RM
Inventory at 1 August 2018	36,250
Debtors	11,450
Creditors	10,230
Freehold Land & Buildings	380,000
Car (office use only)	25,000
Office Machines	40,000
Capital at 1 August 2018	46,940
Salaries and wages expenses	15,000
Carriage inwards	460
Carriage outwards	270
Office expenses	1,390
Insurance on office machines	2,500
Stationery expense	400
Repairs charges on car	160
Mortgage on land and buildings	90,000
Loan from Naga Bank (5 years loan)	30,000
Drawings	3,000
Electricity expense	1,200
Water expense	400
Rates expense	4,500
Bad debts expense	100
Sales returns	10,000
Purchase returns	8,000
Purchases	210,000
Sales	629,000
Taxes	5,800
Miscellaneous expenses	210
Fixtures and fittings	12,400
Discount allowed	2,000
Discount received	3,500
Interest expense on loan from Naga Bank	10,800
Cash at bank	15,000
Cash in hand	3,570
Preliminary expenses	6,800
Patents	10,000
Copyrights	6,000
Salesmen's commissions	3,000

Classified  
Debit and  
Credit side  
(by determine  
types of  
accounts)



Inventory on hand on **31 July 2019** was valued at RM28,000.

**Required:**



Draw up the **Statement of Comprehensive Income** of Cindy Boutique Arcade for the year ended 31 July 2019.



Draw up the **Statement of Financial Position** as at the date.



Remember the formula of  
SOPF

Accounting Equation:  
**TOTAL ASSETS =  
TOTAL LIABILITIES +  
OWNERS EQUITY**



Strengthen your knowledge  
on:

- Effects to the accounts
- $A = L + OE$





**QUESTION 3**

The following is The Trial Balance of Aisy Enterprise as at 31 December 2020.

	RM	RM
Premises	40,000	
Machinery	15,000	
Cash at bank	6,800	
Cash in hand	250	
Capital 1 Jan 2020		51,882
Bad debts	185	
Purchases & Sales	25,400	38,740
Discount	105	124
Return	138	116
Water & Electricity	368	
Drawings	160	
Mortgage		10,000
Debtors & Creditors	2,460	1,680
Stock 1 Jan 2020	3,600	
Vehicle	10,200	
Office Equipment	6,200	
Carriage outwards	140	
Maintenance expenses	210	
Insurance	362	
Commission received		240
Rent received		8,220
Stationeries	288	
Interest received		864
	111,866	111,866

Stock at 31 December 2020 was RM5,860.

**You are required to:**

-  Draw up the **Statement of Comprehensive Income** of Aisy Enterprise for the year ended 31 December 2020.
-  Draw up the **Statement of Financial Position** as at the date.







**QUESTION 4**

The following trial balance was extracted from the books of Deena, a grocer as at 30 June 2019.

	Dr (RM)	Cr (RM)
<b>Capital</b>		<b>46,914</b>
<b>Purchases and sales</b>	40,368	<b>70,491</b>
<b>Stock 1<sup>st</sup> July 2018</b>	16,950	
<b>Motor vehicles</b>	18,000	
<b>Returns</b>	957	<b>1,167</b>
<b>Discounts</b>	1,068	<b>834</b>
<b>Debtors and Creditors</b>	15,900	<b>9,540</b>
<b>Carriage outwards</b>	2,640	
<b>Carriage inwards</b>	2,025	
<b>Salaries</b>	12,640	
<b>Wages</b>	1,340	
<b>Premises</b>	25,500	
<b>Drawings</b>	2,280	
<b>Stationery</b>	1,230	
<b>Import duty</b>	675	
<b>Shop insurance</b>	654	
<b>Rent</b>		<b>3,600</b>
<b>Cash</b>	969	
<b>Utility Bills</b>	5,340	
<b>Bank</b>		<b>15,270</b>
<b>Commission</b>		<b>720</b>
	<b>148,536</b>	<b>148,536</b>

Stock at 30<sup>th</sup> June 2019 was RM17,800.

**You are required to:**

-  Draw up the Income Statement of Deena for the year ended 30 June 2019.
-  Draw up the Statement of Financial Position as at the date.



**QUESTION 5**




The following is the Trial Balance of Setia Bestari Enterprise as at 30 June 2020.

	RM
Capital, 1 July 2019	29,700
Sundry expenses	380
Purchases	36,450
Sales	58,980
Loan	6,000
Salaries	7,480
Vehicle	16,000
Discounts allowed	210
Discounts received	370
Office equipments	7,600
Rental	7,700
Bank overdraft	2,200
Sales commissions	350
Debtors	6,840
Creditors	5,970
Commissions received	240
Cash	550
Loan interest	100
Return inwards	680
Return outwards	540
Insurance	1,330
Investment	8,750
Bad debts	230
Stock 1 July 2019	8,550
Carriage outward	190
Drawings	140
Carriage inward	470

*Additional information:*

Stock as at 30 June 2020 is worth RM5080.

**You are required to:**

-  Draw up the Trial Balance for Setia Bestari Enterprise as at 30 June 2020.
-  Draw up the Income Statement for Setia Bestari Enterprise for the year ended 30 June 2020.
-  Draw up the Statement of Financial Position as at the date.







**QUESTION 6**

The following is the Trial Balance of Fantasia & Co. as at 31 December 2020.

	RM	RM
<b>Capital, 1 January 2020</b>		<b>30,000</b>
Premises	36,100	
Furniture	7,500	
Stock, 1 January 2018	3,100	
Purchases and Sales	45,200	<b>76,900</b>
Returns	1,600	<b>850</b>
Bank		<b>5,000</b>
Debtors and Creditors	2,600	<b>3,910</b>
Petty cash	150	
Cash	8,000	
Loan		<b>10,000</b>
Import duties	300	
Carriage inwards	200	
Carriage outwards	100	
Discounts	250	<b>350</b>
Salaries	9,940	
Insurance	560	
Rent	14,400	<b>6,580</b>
Drawings	460	
Commissions	270	<b>300</b>
Bad debts	390	
Stationeries	320	
Water and electricity	1,440	
Loan interest	900	
Maintenance expenses	110	
	<b>133,890</b>	<b>133,890</b>

Stock as at 31 December 2020 is worth RM2,100.

**You are required to prepare:**

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





**QUESTION 7**

The following is the Trial Balance of Perniagaan Erin as at 30 June 2020.

	Debit (RM)	Credit (RM)
<b>Capital, 1 July 2019</b>		<b>19,410</b>
<b>General expenses</b>	550	
<b>Purchases and Sales</b>	10,800	<b>38,720</b>
<b>Loan from Jaswan</b>		<b>6,000</b>
<b>Interest on loan</b>	400	
<b>Returns</b>	70	<b>80</b>
<b>Insurance</b>	520	
<b>Bank</b>	18,500	
<b>Bad debts</b>	180	
<b>Stock 1 July 2019</b>	1,230	
<b>Carriage on sales</b>	220	
<b>Drawings</b>	170	
<b>Office equipments</b>	6,500	
<b>Debtors and Creditors</b>	4,300	<b>5,760</b>
<b>Commissions</b>		<b>610</b>
<b>Cash</b>	450	
<b>Duty on purchases</b>	260	
<b>Discounts</b>	450	<b>370</b>
<b>Furnitures</b>	4,600	
<b>Rent</b>	2,400	
<b>Interest on fixed deposit</b>		<b>450</b>
<b>Fixed deposits</b>	10,000	
<b>Wages and salaries</b>	9,800	
	<b>71,400</b>	<b>71,400</b>

Stock as at 30 June 2020 is worth RM2,680.

**You are required to:**

-  Draw up the Income Statement for Perniagaan Erin for the year ended 30 June 2020.
-  Draw up the Statement of Financial Position as at the date.







**QUESTION 8**

Metal Works Enterprise has the following Trial Balance as at 30 June 2021.

	Debit (RM)	Credit (RM)
Cash at bank	20,500	
Accounts Receivable and Accounts Payable	45,800	69,000
Inventories, 1 July 2020	12,000	
Equipment	36,000	
Freehold premises	321,000	
Capital		216,500
Drawings	15,700	
Purchases and Sales	125,000	369,500
Returns	25,000	5,000
Transportation inwards	2,200	
Insurance on purchases	900	
Marketing expenses	2,400	
Repairs and maintenance	1,600	
Wages and salaries expense	39,400	
Interest revenue		250
Commissions revenue		4,200
Discounts	12,800	2,400
Electricity expense	650	
Telephone expense	920	
Transportation outwards	3,000	
Miscellaneous expenses	1,150	
Audit services expense	830	
	<b>666,850</b>	<b>666,850</b>

Inventories at 30 June 2021 was estimated at RM15,300.

**You are required to:**

-  Draw up the Income Statement for Metal Works Enterprise for the year ended 30 June 2021.
-  Draw up the Statement of Financial Position as at the date.



### QUESTION 9

The following is the trial balance of R. Woody as at 30 September 2020.

	<u>Debit (RM)</u>	<u>Credit (RM)</u>
Stock 1 October 2019	2,368	
Purchases	12,389	
Sales		18,922
Salaries and wages	3,862	
Rent and rates	504	
Insurance	78	
Motor expenses	664	
Printing and stationery	216	
Light and heat	166	
General expenses	314	
Premises	5,000	
Motor vehicles	1,800	
Fixtures and fittings	350	
Debtors	3,896	
Creditors		1,731
Cash at bank	482	
Drawing	1,200	
Capital		12,636
	<b>33,289</b>	<b>33,289</b>

The stock at 30 September 2020 is valued at RM2,946.

You are required to prepare a Trading and Profit and Loss account for the year ended 30 September 2020 and Statement of Financial Position/ Balance Sheet as at the date.





**QUESTION 10**

On 31 December 2020, the trial balance of Jeeytuys showed the following accounts and balances:

	<u>Debit (RM)</u>	<u>Credit (RM)</u>
Bank	500	
Capital		75,000
Bank loan		22,000
Inventory	12,000	
Purchases	108,000	
Sales		167,000
Rent, rates and insurance	15,000	
Plant and machinery at cost	70,000	
Office furniture and fittings at cost	24,000	
Discount allowed	1,600	
Bank interest	400	
Discount received		3,000
Wages and salaries	13,000	
Light and heat	9,000	
Drawings	10,000	
Return outwards		4,000
Return inwards	1,000	
Creditors		16,000
Debtors	22,500	
	<b>287,000</b>	<b>287,000</b>

*You are given the following information:*

The inventory at 31 December 2020 was valued at RM19,500.



**You are required to prepare a Statement of Comprehensive Income for the year ended 31 December 2020 and Statement of Financial Position/ Balance Sheet as at the date.**



# **ADJUSTMENTS ACCOUNTS**

## 1.0 ADJUSTMENT ENTRIES

Adjustment entries are **journal entries** made at the **end of the accounting period** to allocate **revenue and expenses** to the period in which they actually are applicable.

Adjustment entries are required because normal journal entries are based on actual transactions, and the date on which these transactions occur may not be the date required to fulfill the matching principle of accrual accounting.

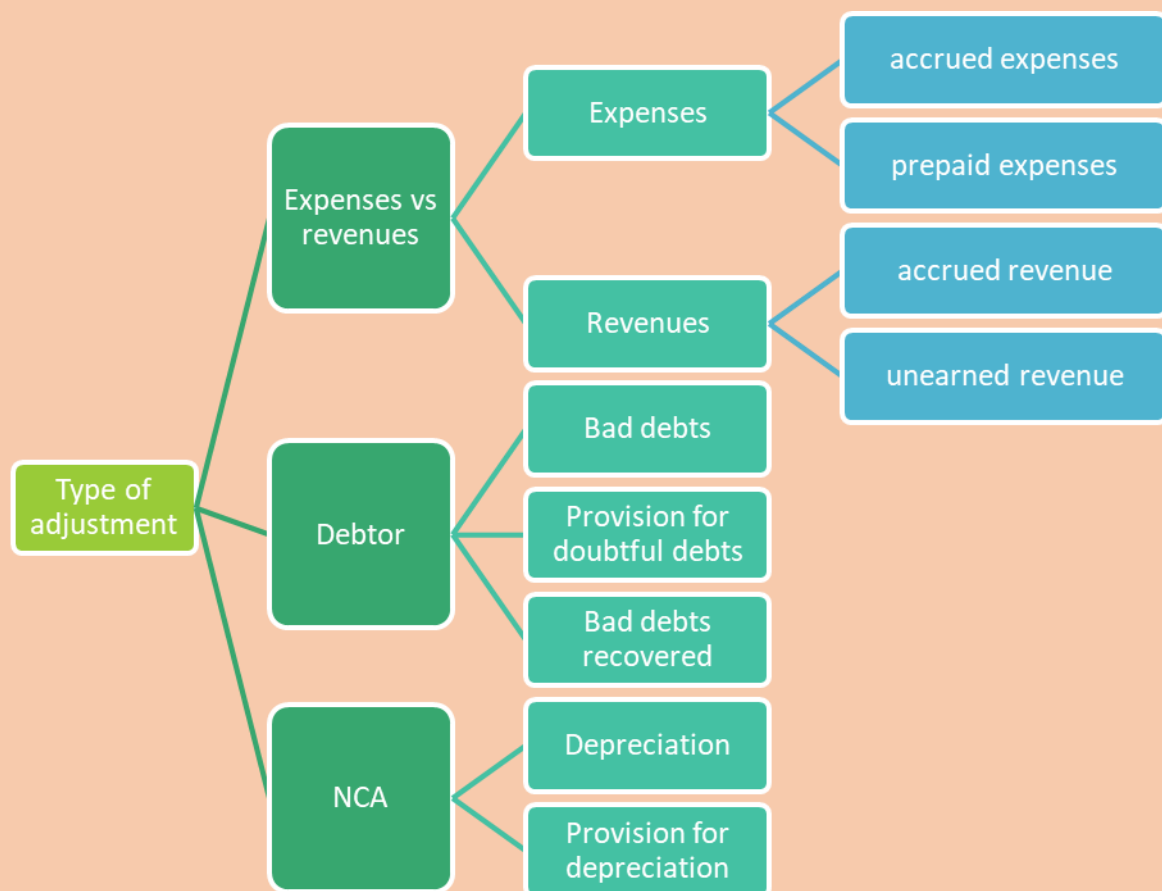


Figure 3: Type of adjustments



## 2.0 ACCRUAL BASIS VS CASH BASIS

In **accrual basis** accounting, income is reported in the **fiscal period it is earned**, regardless of when it is received, and expenses are deducted in the fiscal period they are incurred, whether they are paid or not.

In other words, using accrual basis accounting, you record both **revenues and expenses when they occur**.

In **cash-basis** accounting, all transactions in the books are recorded when cash actually changes hands, meaning when cash payment is **received** by the company from customers or **paid** out by the company for purchases or other services.

Cash receipt or payment can be in the form of cash, check, credit card, electronic transfer, or other means used to pay for an item.

The difference between the two types of accounting is when revenues and expenses are recorded. In **cash basis accounting**, revenues are recorded when cash is actually received and expenses are recorded when they are actually paid (no matter when they were actually invoiced).

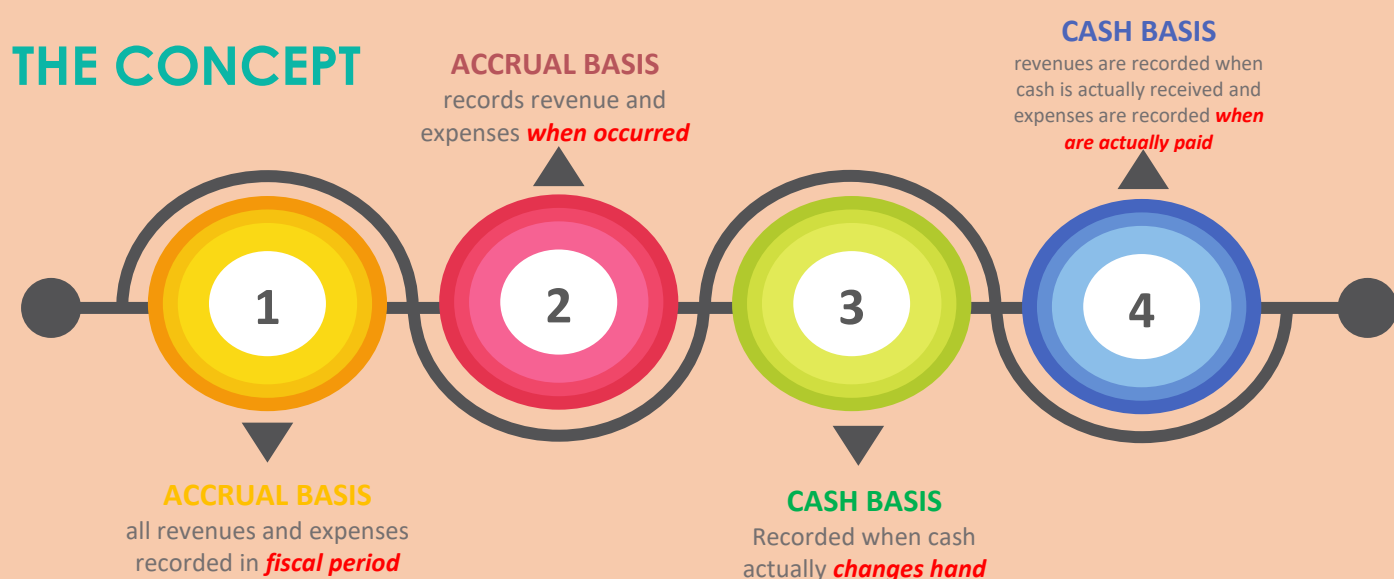


Figure 4: The concept of accrual vs cash basis

### 3.0 ACCRUALS AND PREPAYMENTS

#### 3.1 THE CONCEPT

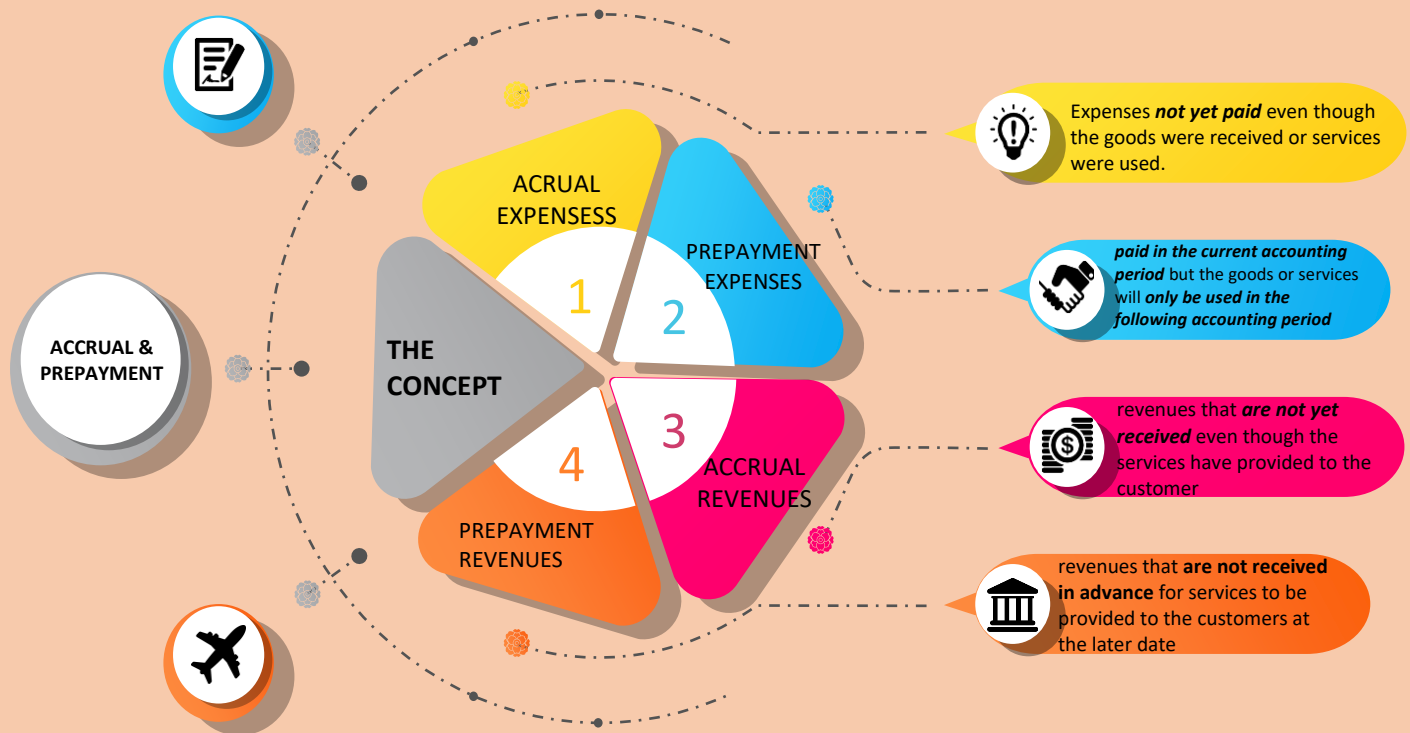


Figure 5: The concept of accruals and repayments

#### ACCRUED EXPENSES

Expenses that **are not yet paid** even though the goods were received or services were used. Accrued expenses occur when total expenses paid are less than the amount that should have been paid. It must be **added to the expenses** account before it is transferred to the SOCI and reported in SOFP as a **current liability**.

#### PREPAID EXPENSES

Expenses that **were paid in the current accounting period** but the **goods or services will only be used in the following accounting period**. On the other hands, prepaid expenses occur when total expenses paid exceeds the amount that should have paid. It must be **deducted from the expenses** account before it is transferred to the SOCI and reported as a **current asset** in SOFP.

## ACCRUED REVENUE

Revenues that **are not yet received** even though the services have provided to the customer. Accrued revenues are created when the actual revenue received is less than the total that should have been received. It must be **added to the revenue** account before it is transferred to the SOCI and reported in SOFP as a **current asset**.

## PREPAYMENT REVENUE

Prepayment Revenue also known as *unearned revenue* **which are** revenues **received in advance** for services to be provided to the customers at the later date. Prepayment revenue are created when the actual revenue received exceeds the amount that should have been received. It must be **deducted from the revenue** account before it is transferred to the SOCI and reported as a **current liability** in SOFP.

ACCRUED EXPENSES	PREPAID EXPENSES	ACCRUED REVENUE	PREPAYMENT REVENUE
<ul style="list-style-type: none"> <li>• Expenses that <b>are not yet paid</b> even though the goods were received or services were used</li> <li>• occur when total <b>expenses paid less</b> than the amount that should have been paid</li> <li>• It must be <b>added to the expenses</b> account before it is transferred to the SOCI and reported as a <b>current liability</b> in SOFP</li> </ul>	<ul style="list-style-type: none"> <li>• Expenses that were paid in the current accounting period but the goods or services will only be used in the following accounting period</li> <li>• occur when total <b>expenses paid exceeds</b> the amount that should have paid</li> <li>• It must be <b>deducted from the expenses</b> account before it is transferred to the SOCI and reported as a <b>current asset</b> in SOFP</li> </ul>	<ul style="list-style-type: none"> <li>• Revenues that are not yet received even though the services have provided to the customer</li> <li>• created when the <b>actual revenue received less</b> than the total that should have been received</li> <li>• It must be <b>added to the revenue</b> account before it is transferred to the SOCI and reported as a <b>current asset</b> in SOFP</li> </ul>	<ul style="list-style-type: none"> <li>• revenues received in advance for services to be provided to the customers at the later date</li> <li>• created when the <b>actual revenue received exceeds</b> the amount that should have been received</li> <li>• It must be <b>deducted from the revenue</b> account before it is transferred to the SOCI and reported as a <b>current liability</b> in SOFP</li> </ul>

Figure 6: The summary of accruals and repayments

### 3.2 THE TRANSACTIONS

The adjusting entries for the accrual and prepayments are illustrate in the table below.

	ADJUSTING ENTRY	CLOSING ACCOUNT
<b>ACCRUED EXPENSES</b>	<b>Dr Expenses A/C</b> <i>(added to prior amount in Trial Balance)</i>	<b>Dr SoCI</b>
	<b>Cr Accrued Expenses A/C</b> <i>(as a Current Liability)</i>	<b>Cr Expenses A/C</b> <i>(to close the expenses A/C)</i>
<b>PREPAID EXPENSES</b>	<b>Dr Prepaid Expenses A/C</b> <i>(as a Current Asset)</i>	<b>Dr SoCI</b>
	<b>Cr Expenses A/C</b> <i>(deducted from prior amount in Trial Balance)</i>	<b>Cr Expenses A/C</b> <i>(to close the expenses A/C)</i>
<b>ACCRUED REVENUE</b>	<b>Dr Accrued revenue A/C</b> <i>(as a Current Asset)</i>	<b>Dr Revenue A/C</b> <i>(to close the revenue A/C)</i>
	<b>Cr Revenue A/C</b> <i>(added to prior amount in Trial Balance)</i>	<b>Cr SoCI</b>
<b>PREPAYMENT REVENUE</b>	<b>Dr Revenue A/C</b> <i>(deducted from prior amount in Trial Balance)</i>	<b>Dr Revenue A/C</b> <i>(to close the revenue A/C)</i>
	<b>Cr Unearned revenue A/C</b> <i>(as a Current Liabilities)</i>	<b>Cr SoCI</b>

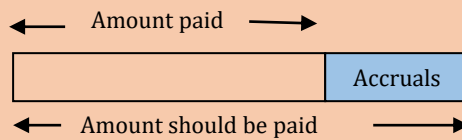
Table 1: Transactions entries for accrual and repayment



### 3.3 SUMMARY FOR ACCRUALS AND PREPAYMENTS

#### ACCRUED EXPENSES

SoCI : Amount paid + amount accrued (not payable)  
 SoFP : Amount accrued → Current Liability



THE  
FORMULA

Amount should be paid (SoCI)  
 = Amount paid + amount accrued

#### ADJUSTING ENTRIES

Dr Expenses  
 Cr Accrued expenses

xx

xx

ACCRUALS AMOUNT

#### Entries in SoCI:

SoCI f.t.y.e...			
	Expenses	xx	
+	Accrued expenses	xx	
			xx

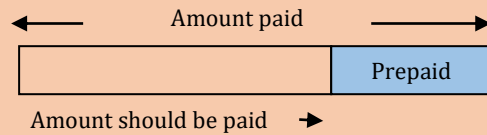
#### Entries in SoFP:

SoFP as at..	
<i>Current Liability:</i>	
Accrued expenses	xx



**PREPAID EXPENSES**

SoCI : Amount paid – prepaid amount  
 SoFP : Prepaid amount → Current Asset



THE  
FORMULA

Amount should be paid (SoCI) =  
 = Amount paid - amount prepaid

**ADJUSTING ENTRIES**

Dr Prepaid expenses  
 Cr Expenses

xx

xx

**PREPAID AMOUNT****Entries in SoCI:**

SoCI f.t.y.e...	
Expenses	xx
- Prepaid expenses	(xx)
	xx

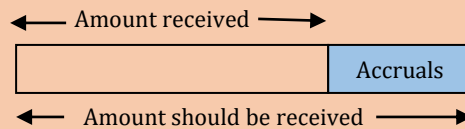
**Entries in SoFP:**

SoFP as at..	
Current Asset:	
Prepaid expenses	xx



**ACCRUED REVENUE**

SoCI : Amount received + amount accrued (not receivable)  
 SoFP : Amount accrued → Current Asset



**THE FORMULA** ← Amount should be received (SoCI)  
 = Amount received + amount accrued

**Adjusting entries:**

Dr Accrued revenue  
 Cr Revenue

xx

xx

**ACCRUALS AMOUNT****Entries in SoCI:**

SoCI f.t.y.e...	
Revenue	xx
+ Accrued revenue	xx
	xx

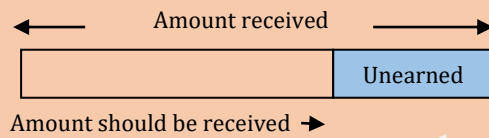
**Entries in SoFP:**

SoFP as at..	
<i>Current Asset:</i>	
Accrued revenue	xx



**UNEARNED REVENUE**

SoCI : Amount received - unearned amount (receive in advance)  
 SoFP : Amount unearned → Current Liability



THE  
FORMULA

Amount should be received (SoCI)  
 = Amount received – unearned amount

**ADJUSTING ENTRIES**

Dr Revenue  
 Cr Unearned revenue

xx

xx

**UNEARNED AMOUNT****Entries in SoCI:**

SoCI f.t.y.e...	
Revenues	xx
- Unearned revenues	(xx)
	xx

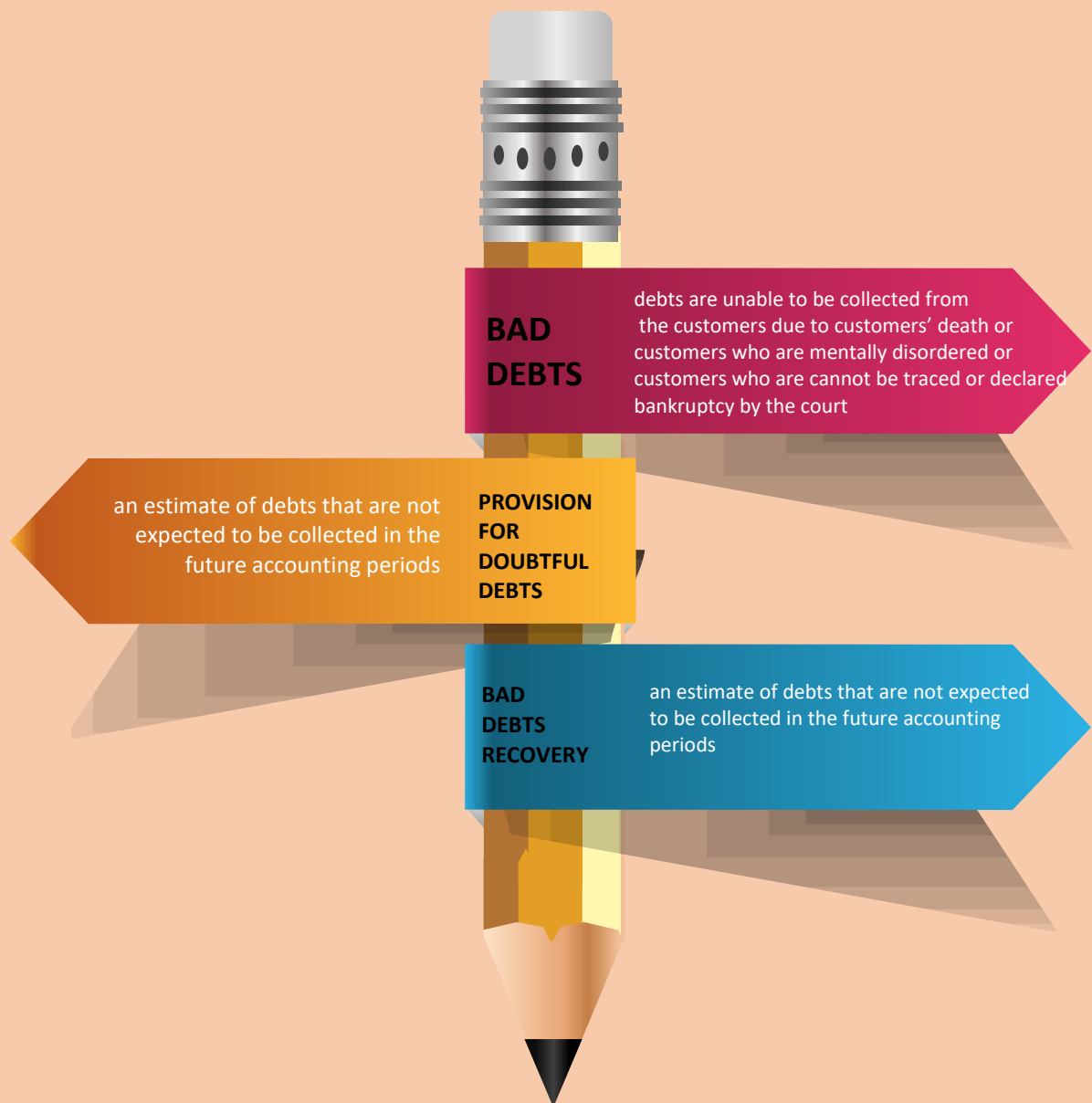
**Entries in SoFP:**

SoFP as at..	
<i>Current Liability:</i>	
Unearned revenue	xx





## 4.0 BAD DEBTS, PROVISIONS FOR DOUBTFUL DEBTS AND BAD DEBTS RECOVERY



*Figure 7: The definitions*

#### 4.1 BAD DEBTS

Debts are unable to be collected from the customers due to customers' death or customers who are mentally disordered or customers who are cannot be traced or declared bankruptcy by the court.

Bad debts represent a **loss to a company** and will be recorded as an expense in SoCI, also **reduce the amount of debtors.**

#### ADJUSTING ENTRIES

01

Dr Bad Debts A/C

Cr Debtor/ Account Receivable

02

*(to close the bad debts A/C)*

Dr SoCi

Cr Bad Debts A/C

*tips*

When bad debts occur??? How to record???

Bad debts occur **before balancing date (year end)**:

1. Prepare ledger account → Bad debt A/C  
Debtor's A/C
2. Transfer Bad Debt A/C to SoCI
3. SoFP → show debtors at net balances

Bad debts occur **on the balancing date (year end)**:

1. Direct transfer the amount of bad debts to SoCI
2. SoFP → show debtors amount deduct with the amount of bad debts

## 4.2 BAD DEBTS RECOVERY

Debts are repaid by customers after the debts have been written off as bad debts. Bad debts recovery **represents an unexpected gain** and are **considered as a revenue**.

### ADJUSTING ENTRIES

**01** Dr Debtor/ Account Receivable  
Cr Bad debts recovery A/C

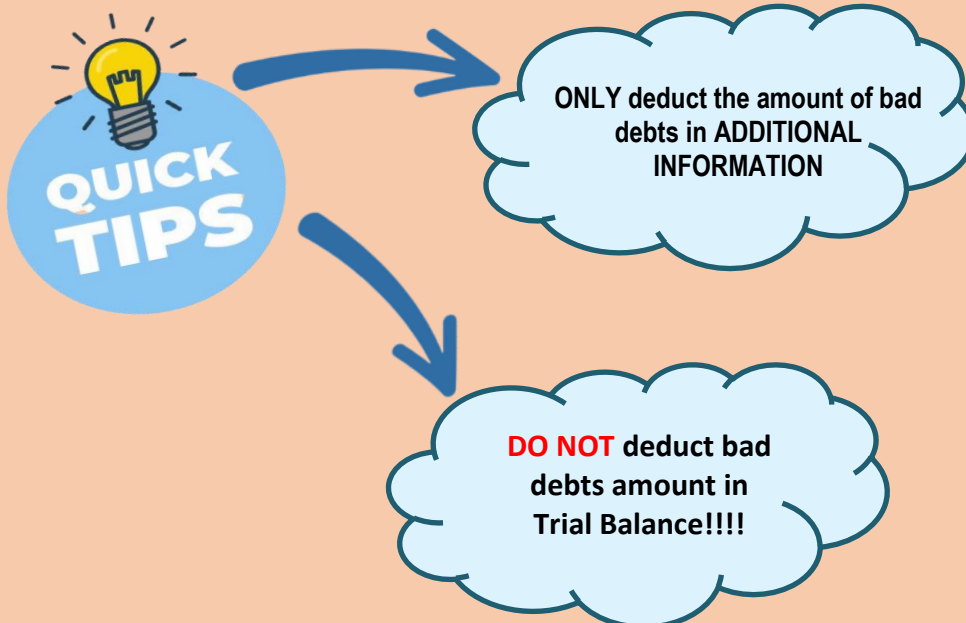
**02** Dr Cash/ Bank  
Cr Debtor/ Acc Receivable A/C

## 4.3 PROVISION FOR DOUBTFUL DEBTS

An estimate of debts that are not expected to be collected in the future accounting periods. The provision for doubtful debts is only determined and adjusted after the trial balance is prepared.

**Provision for doubtful debts = % x (Debtors – additional bad debts)**

THE  
FORMULA



## 4.4 CREATING PROVISION FOR DOUBTFUL DEBTS

## RECORD WHOLE AMOUNT OF THE PROVISION FOR DOUBTFUL DEBTS

ADJUSTING  
ENTRIES

Dr SoCI

Cr Provision for doubtful debts A/C

*(record **whole amount** of the provision for doubtful debts)*

Provision for Doubtful Debt					
			Bal b/d	-	<i>no beginning balance</i>
<i>refer to additional information (% x debtors)</i>	Bal c/d	x	Prov for DD or doubtful debts	xx	<i>bal b/d &lt; bal c/d</i>
		xxx		xxx	
	record in SoFP		record in SOCI (expense)		

## INCREASE IN PROVISION FOR DOUBTFUL DEBTS

ADJUSTING  
ENTRIES

Dr SoCI

Cr Provision for doubtful debts A/C

*(record the **increase amount** of the provision for doubtful debts)*

Provision for Doubtful Debt					
			Bal b/d	xx	<i>refer to balance in Trial Balance</i>
<i>refer to additional information (% x debtors)</i>	Bal c/d	x	Increase in Prov for DD	xx	<i>bal b/d &lt; bal c/d</i>
		xxx		xxx	
	record in SoFP		record in SOCI (expense)		

## DECREASE IN PROVISION FOR DOUBTFUL DEBTS

ADJUSTING  
ENTRIES

Dr Provision for doubtful debts A/C

Cr SoCI

*(record the **decrease amount** of the provision for doubtful debts)*

Provision for Doubtful Debt					
<i>bal b/d &gt; bal c/d</i>	Decrease in Prov for DD	xx	Bal b/d	xx	<i>refer to balance in Trial Balance</i>
<i>refer to additional information (% x debtors)</i>	Bal c/d	x			
		xxx		xxx	
	record in SoFP		record in SOCI (revenue)		



#### 4.6 SUMMARY FOR BAD DEBTS, PROVISIONS FOR DOUBTFUL DEBTS AND BAD DEBTS RECOVERY

##### ENTRIES IN SoCI

SoCI f.t.y.e...			
Revenues:			
Bad debt recovery		xx	
Increase in provision for doubtful debt		xx	
Expenses:			
Bad debt expenses	xx		
+ Additional bad debt	xx		
		xx	
Provision for doubtful debts		xx	
(or Doubtful debt expenses)			
Increase in provision for doubtful debts		xx	

how to  
**RECORD**

##### ENTRIES IN SoFP

SoFP as at..		
<i>Current Assets:</i>		
Debtors/ Account Receivables	x	
- Additional bad debts	(x)	
- Provision for doubtful debt	(x)	
- Provision for allowable discount	(x)	
		x

## 5.0 DEPRECIATION AND PROVISION FOR DEPRECIATION

**Depreciation** is the reduction of the value of non-current assets after being used in business operations through its useful life. Depreciation is the costs of assets that considered as expenses. It will be debited to the profit and loss account; thus it will reduce the net profit. Depreciation represents how much of an asset's value has been used up. Depreciating assets helps companies earn revenue from an asset while expensing a portion of its cost each year the asset is in use.

On the other hands, **Provision for Depreciation** is the amount of non-current assets costs allocated to a particular accounting period. The longer the non-current assets are used, the higher the amount of the provision for depreciation will be and the lower the book value of the asset. Provision for depreciation normally accumulated from year to year.

Furthermore, provision for depreciation also known as **accumulated depreciation**.

Usually provision for depreciation has a credit balance, and deducted from the cost of asset in the Statement of Financial Position.

### THE FORMULA

$$\text{NET BOOK VALUE} = \text{COST} - \text{PROVISION FOR DEPRECIATION}$$



## 5.2 METHODS OF DEPRECIATION

There are three methods for deprecation namely

- i. **Straight line method**
- ii. **Reducing balance method**
- iii. **Sum of year digits**

However, two methods will be covered in this chapter.

### STRAIGHT LINE METHOD

The total depreciation of an asset is fixed and the amount is equal for each accounting period over the asset's useful life.

THE  
FORMULA =

$$\frac{\text{ASSET COST} - \text{SCRAP VALUE}^*}{\text{ESTIMATED USEFUL LIFE OF AN ASSET}}$$

\* Scrap value → the selling price of an asset as scrap at the end of its estimated useful life.

OR

$$\text{ANNUAL DEPRECIATION} = \% \text{ DEPRECIATION} \times \text{COST OF ASSET}$$

### REDUCING BALANCE METHOD

Also known as a net book value method. According to this method, an asset is depreciated based on the book value of the asset at the beginning of an accounting period. The longer the asset is used, the lesser the yearly depreciation charges will be.

THE  
FORMULA =

$$\text{ANNUAL DEPRECIATION} = \% \text{ DEPRECIATION} \times \text{NET BOOK VALUE OF ASSET}$$

#### NET BOOK VALUE

Cost – accumulated depreciation

#### ACCUMULATED DEPRECIATION

current year depreciation

+

previous year depreciation

#### ADJUSTING ENTRIES

Dr Depreciation A/C

Cr Provision for depreciation A/C

Dr SoCI

Cr Depreciation A/C  
(to close the depreciation A/C)

### 5.3 SUMMARY FOR DEPRECIATION AND ACCUMULATED DEPRECIATION (OR PROVISION FOR DEPRECIATION)



#### Entries in SoCI

SoCI f.t.y.e...	
Expenses:	
Depreciation expenses - PPE	xx
Depreciation expenses - Motor vehicles	xx

#### Entries in SoFP



SoFP as at..	
<i>Non-Current Assets:</i>	
Properties, Plant & Equipment (PPE)	x
- Provision for depreciation	(x)
	xx
Motor vehicles	
	(x)
- Provision for depreciation	(x)
	xx



## 6.0 SUMMARY FOR ALL RELATED ADJUSTMENTS

NAME OF BUSINESS  
STATEMENT OF COMPREHENSIVE INCOME (SoCI) FOR THE YEAR ENDED  
31 DECEMBER 202X

Item	RM	RM	RM
Sales		XXXX	
(-) Return Inwards/ Sales Returns		(XXX)	
(-) Discount Allowed		(XXX)	
<b>Net Sales</b>			<b>XXXX</b>
<b>Cost of Sales/Cost of goods sales:</b>			
Opening Stock/Inventories		XXX	
Purchases	XXX		
(-) Returns Outwards/Purchase Returns	(XX)		
(-) Discounts Received	(XX)		
<b>Net Purchase</b>	<b>XXX</b>		
<b>(+) Buying Expenses/Purchases Expenses:</b>			
Packaging	XXX		
Import Duties/ Custom Duties	XXX		
Carriage Inwards/ Freight Inwards	XXX		
Insurance on purchases	XXX		
Wages on purchases	XXX		
<b>Purchases Costs</b>		<b>XXX</b>	
<b>Cost of goods available for sales</b>		<b>XXX</b>	
(-) Closing Stock/Inventories		(XXX)	
<b>Cost of Sales/Cost of Goods Sales</b>			<b>(XXX)</b>
<b>GROSS PROFIT/ (LOSS)</b>			<b>XXX/(XXX)</b>
<b>(+) Other Revenues:</b>			
Interest received		XXX	
Rental received		XXX	
Bad debts recovery		XXX	
Profit on assets disposal		XXX	
Decrease in provision for doubtful debts		XXX	
			<b>XXX</b>
<b>Total Income</b>			<b>XXXX</b>
<b>(-) Expenses:</b>			
Stationeries		XXX	
Carriage outwards/ Freight outwards		XXX	
Utilities		XXX	
General/ Sundry/ Miscellaneous expenses		XXX	
Administrative expenses		XXX	
Doubtful debt expenses		XXX	
Increase in provision for doubtful debts		XXX	
Depreciation		XXX	
Interest on loan/ Interest on overdraft		XXX	
Salaries		XXX	
Bad debt expenses		XXX	
Advertising		XXX	
Insurance		XXX	
Commission paid/ expenses		XXX	
Rental paid/ expenses		XXX	
<b>Total Expenses</b>			<b>(XXX)</b>
<b>NET PROFIT/ (LOSS)</b>			<b>XXXX</b>

REVENUE

DIRECT  
COST

Add: OS + Purchase Costs

Minus: Net Sales - COGS  
Net Sales > COGS = Gross Profit @  
Net Sales < COGS = Gross LossOS+PURCHASE COSTS=  
COGAS  
COGAS - CS= COGSADD ALL  
OTHER INCOMEADD ALL  
EXPENSES

COMPARE  
between Cost  
vs Net sales  
COGS<NS =  
G.Profit  
COGS>NS =  
G.Loss

Total Revenues  
>Total expenses =  
Net Profit

NAME OF BUSINESS  
STATEMENT OF FINANCIAL POSITION (SoFP) AS AT 31 DECEMBER 20XX

Item	RM	RM	RM
<b>NON-CURRENT ASSETS</b>			
<b>Properties, Plant &amp; Equipment</b>			
Land		XXX	Add all item in non-current assets
Building/ Premises		XXX	
Motor Vehicles	XXX		
(-) Provision for depreciation	(XX)		
Net Book Value		XXX	
Plant and Machinery	XXX		Add all item in non-current assets
(-) Provision for depreciation	(XX)		
Net Book Value		XXX	
Investment		XXX	
Goodwill		XXX	
			<b>XXXX</b>
<b>CURRENT ASSETS</b>			
Closing inventories		XXX	Add all item in current assets
Debtors/ Account Receivables (Net Debtors= AR – Add Bad Debts)	XXX		
(-) Provision for doubtful debt (Current PDD)	(XX)		
(-) Provision for allowable discount	(XX)		
<b>NET DEBTORS</b>		XXX	
Prepayment expenses		XXX	Add NON-CA and CA
Accrued revenues		XXX	
Cash at bank		XXX	
Cash in hand		XXX	
			<b>XXXX</b>
<b>TOTAL ASSETS</b>			<b>XXXX</b>
<b>Financed By:</b>			
<b>Owner's Equity:</b>			
Opening Capital		XXXX	Add NON-CL and CL
Net Profit (or - Net Loss)		XXX/(XXX)	
Drawings		(XXX)	
Closing Capital		XXXX	
<b>Non-Current Liabilities:</b>			
Long-Term Loans		XXXX	Add NON-CL and CL
Mortgage		XXXX	
			<b>XXXX</b>
<b>Current Liabilities:</b>			
Creditors/Account Payable		XXXX	Add NON-CL and CL
Accrued expenses		XXXX	
Advanced Revenues		XXXX	
Bank Overdraft		XXXX	
			<b>XXXX</b>
<b>TOTAL O.E + LIABILITIES</b>			<b>XXXX</b>

Depreciation Method:  
STRAIGHT LINE METHOD

PDD will reduce amount of Debtors (either Increase or decrease PDD)

Total Assets =  
Total OE + Total Liabilities  
BALANCING FIGURE

Apply Accounting Equation Concept  
A=L+OE --BINGO

Balancing Figure

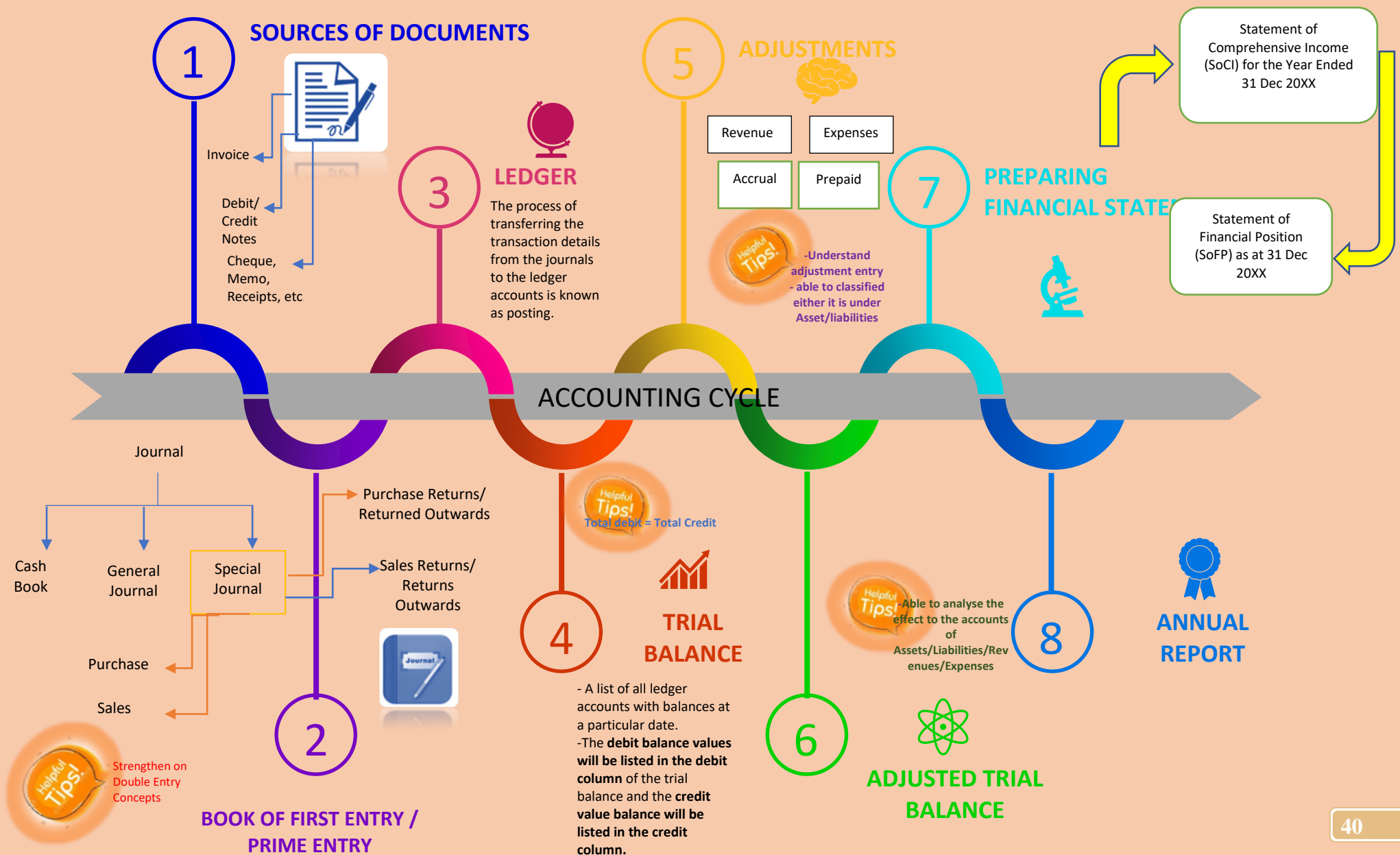
Add NON-CL and CL

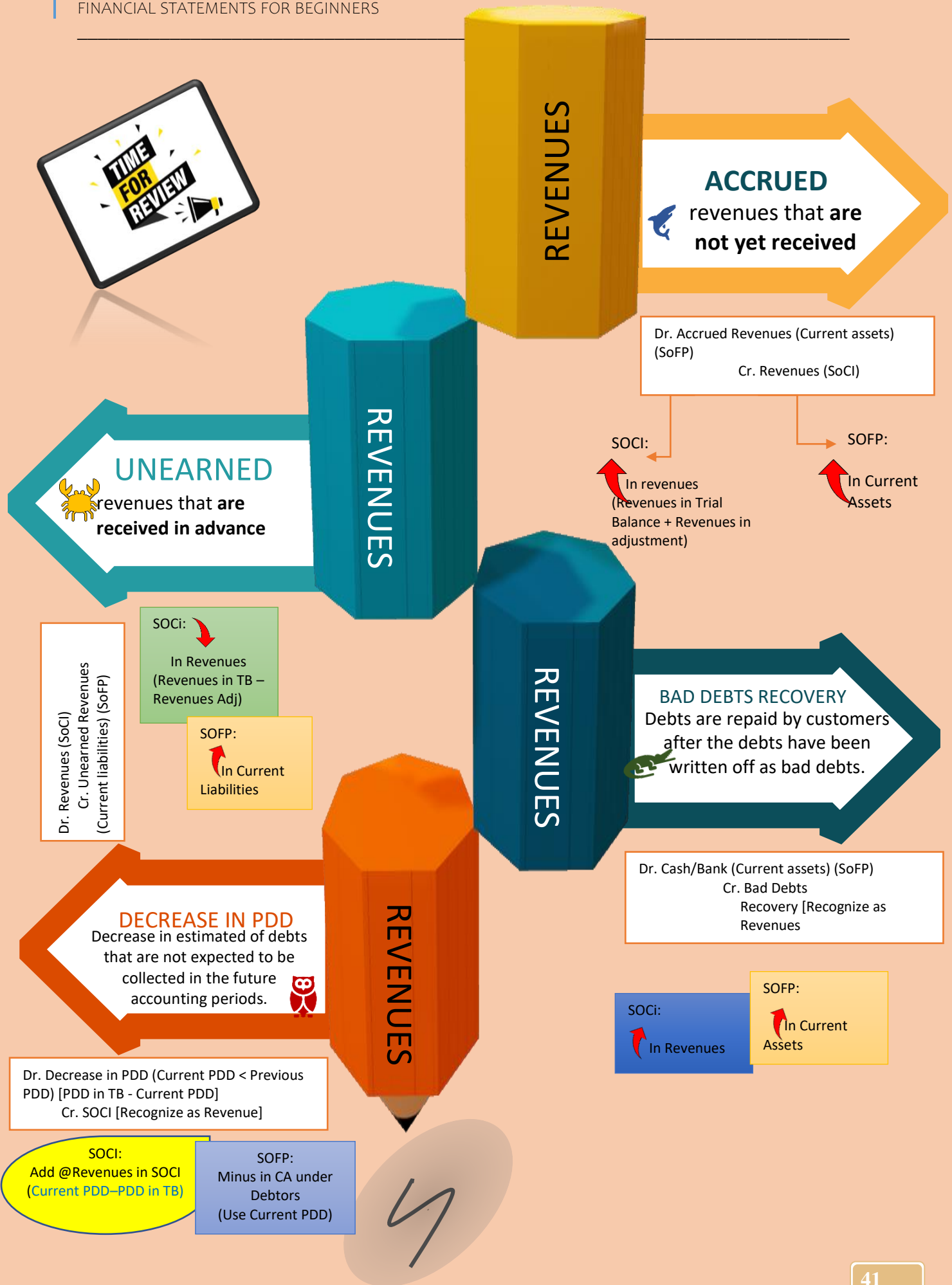


# THE SUMMARY

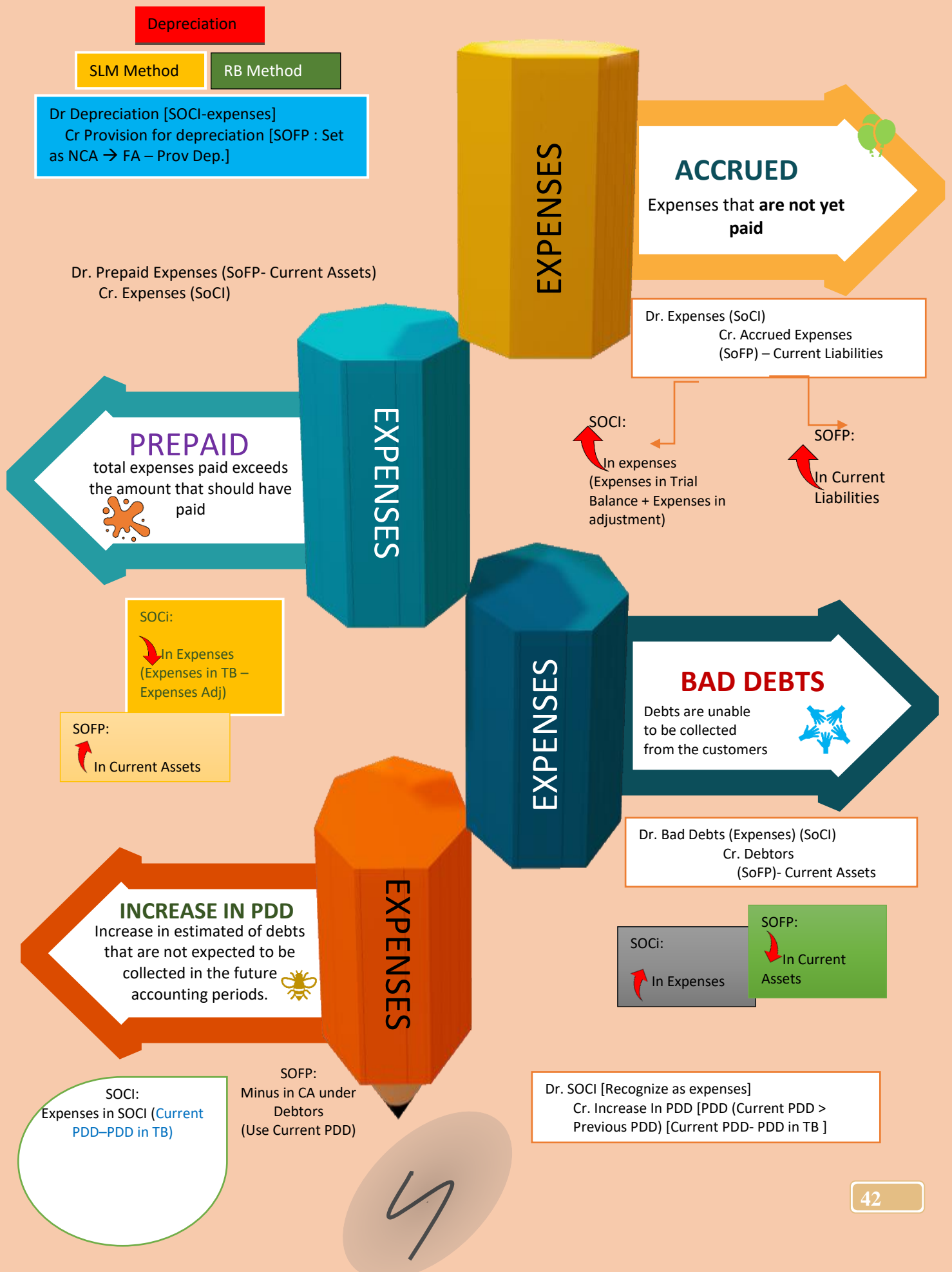
## LET'S RECAP

FINANCIAL STATEMENTS FOR BEGINNERS











Step 1:  
Identified the  
accounting period

## ILLUSTRATION ANSWER:

Following are the balance from PFK ENTERPRISE accounting book for the year ended 31 December 2020.

## PFK ENTERPRISE

## Trial Balance As At 31 December 2020

Descriptions		RM
Sales	Main Income	206,860
Purchases	Cost of Sales	125,000
Returns Outwards	Cost of Sales	1,100
Insurance on Purchase		1,270
Opening Inventory		12,350
Utility Bills	Operating Expenses	3,010
Rental		2,480
Salary		13,400
Rent Receive	Other Revenue	1,130
Accounts receivable	CA	17,730
Accounts payable	CL	18,000
Short term loan	CL	12,000
Bank	CA	19,700
Cash	CA	11,800
Motor vehicle	NCA	60,000
Office Equipment	NCA	25,500
Capital	OE	54,950
Drawings	OE	1,800

Step 2

Analyze  
and  
classified  
the Trial  
Balance

Recheck the trial balance

**Additional Information:**

- i. Inventory as at 31 December 2019 was RM12,950.
- ii. Depreciation for motor vehicle is charged at 10% using straight line method.
- iii. Accrued salary was RM400.
- iv. Utility bills includes prepaid utility RM10.

Step 4

Analyse the adjustment

Item	Adjustment entries	Debit	Credit	Effects to the:	
				SOCI	SOFP
i	Closing			<b><u>COGS:</u></b> OS (+) Cost of purchase (-) CS = RM12 950	<b><u>CA:</u></b> Closing Inventory = RM 12 950
ii	1. Method of depreciation = SLM  2. 10% x COA (Motorcycle)  = RM 6 000	Depreciation = RM 6 000	Provision of Depreciation = RM 6 000	<b><u>Operating Expenses:</u></b> Depreciation expenses = RM 6 000	<b><u>NCA:</u></b> Motorcycle = RM 60 000 (-) Prov. For depreciation (RM 6 000) = NBV RM 54 000
iii	<b>Salary (<i>Operating expenses</i>):</b> RM 13 400 (in TB) - Accrued salary (unpaid salary) RM 400)	Salary Expenses = RM 400	Accrued Salary = RM 400	<b><u>Operating Expenses:</u></b> Salary (RM 13 400 + 400) = RM 13 800	<b><u>CL:</u></b> Accrued Salary RM 400
iv	<b>Utility bills (<i>Operating expenses</i>):</b> RM 3 010 (in TB) - Prepaid Utility bills (paid in advance RM 10)	Prepaid Utility Bills = RM 10	Utility Bills = RM 10	<b><u>Operating Expenses:</u></b> Utility Bills (rm 3010 – RM 10) = RM 3 000	<b><u>CA:</u></b> Prepaid utility bills = RM 10

**You are required to prepare the:**

- (a) Statement of Comprehensive Income for the year ended 31 December 2020.
- (b) Statement of Financial Position for PFK ENTERPRISE as at 31 December 2020.

**Step 5**

**Prepare the statement**

**Answer (a):**

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

	RM	RM	RM
Sales			206,860
Less: Cost of Sales			
Opening inventory		12,350	
Purchases	125,000		
Less: Returns outwards	(1,100)		
		123,900	
Insurance on Purchase		1,270	
Cost of goods available for sale		137,520	
Less: Closing inventory		(12,950)	
COGS			124,570
<b>Gross Profit</b>			<b>82,290</b>
Add: Revenue			
Rent received			1,130
			83,420
Less: Operating expenses			
Utility Bills		3,000	
Rental		2,480	
Salary		13 800	
Depreciation MV		6,000	
			(25,280)
<b>Net Profit</b>			<b>58,140</b>

Adjustments items

**Answer (b):****PFK ENTERPRISE****Statement of Financial Position as at 31 December 2020**

	RM	RM	RM
<b>Non – current Assets</b>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Motor vehicle	60,000	6000	54,000
Office Equipment	25,500	0	25,500
			<b>79,500</b>
<b>Current Assets</b>			
Closing inventory		12,950	
Accounts receivable		17,730	
Utilities Bill prepaid		10	
Bank		19,700	
Cash		11,800	62,190
			<b>141,690</b>
<b>Financed by:</b>			
<b>Owner's Equity</b>			
Capital			54,950
Add: Net Profit			58,140
Less: Drawings			(1,800)
Capital			<b>111,290</b>
<b>Current Liabilities</b>			
Short term loan		12,000	
Salary accrued		400	
Accounts payable		18,000	30,400
			<b>141,690</b>

Adjusted



## SELF TRY



### QUESTION 1

The following Trial Balance is extracted from the books of Free Trade Enterprise as at 31 December 2020:

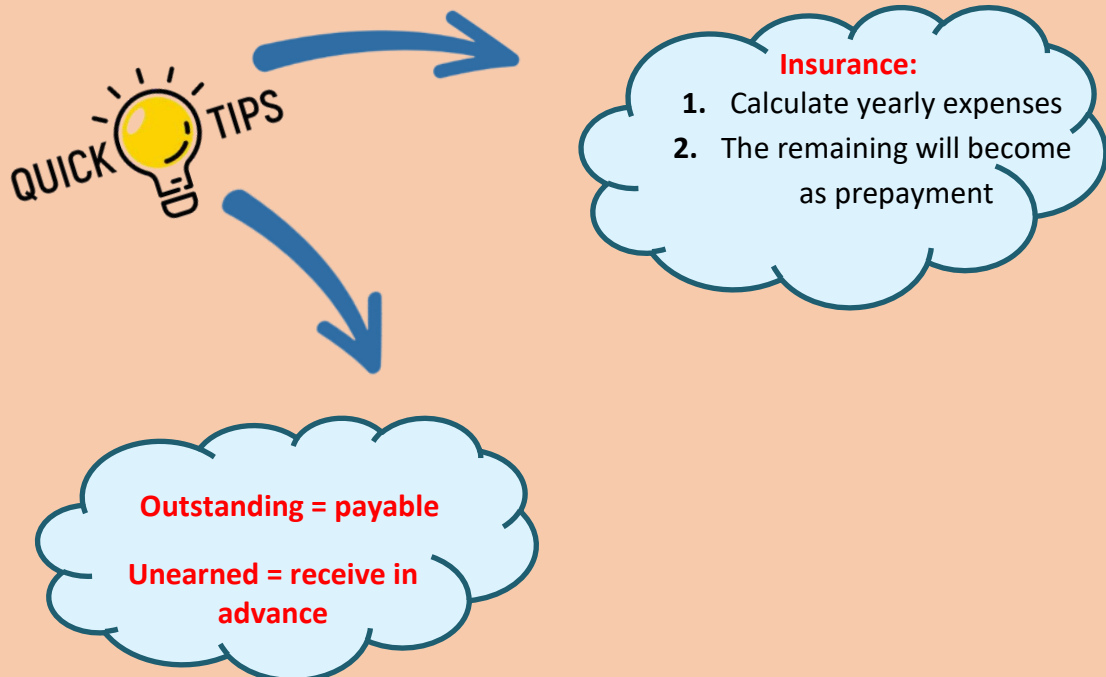
Account Balances	Debit (RM)	Credit (RM)
Capital		155,000
Building (net book value)	100,000	
Office equipment (net book value)	45,000	
Bank	48,000	
Purchases and Sales	96,655	159,350
Return inwards and Return outwards	5,400	3,400
Bad debts	5,500	
Opening stock	45,690	
Carriage outwards	3,000	
Carriage inwards	2,500	
Insurance	5,000	
Salaries	20,055	
Loan		60,000
Debtors and Creditors	44,000	50,000
Rental		2,000
Commission received		4,000
Discount Allowed and Discount received	2,330	1,430
Motor expenses	2,550	
Cash	9,500	
	435,180	435,180

**Additional information for the year ending 31 December 2020:**

- ✚ Stock as at 31 December 2020 is RM23,000.
- ✚ Insurance was paid for RM400 per month for year end 31 December 2020.
- ✚ The outstanding bills of salaries amounted to RM2,000.
- ✚ Commission receivable was RM1,400.
- ✚ Unearned rental was RM500.

**Prepare:**

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



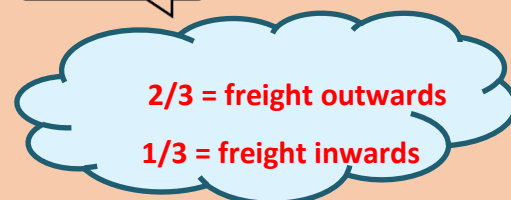
**QUESTION 2**

The following Trial Balance is taken from the book of a sole trader Laura on 31 August 2020:

Account Balances	Debit (RM)	Credit (RM)
Motor vehicles	48,400	
Provision for depreciation for motor vehicles		24,200
Fixtures and fittings	11,800	
Cash	3,500	
Bank	4,800	
Inventory 1.9.2019	30,240	
Loan – Farid		17,680
Debtors and Creditors	26,400	26,276
Capital		13,484
Provision for doubtful debts		1,500
Sales and Purchase	123,220	196,740
Discount	2,600	600
Returns	600	
Freight	1,008	
Electricity and water	1,492	
Salary expenses	24,140	
Drawings	1,340	
Insurance	420	
Motor vehicle repair expenses	520	
	280,480	280,480

**Additional information:**

- ✚ Inventory on 31 August 2020 is RM20,952.
- ✚ 2/3 of freight charges are for freight outwards.
- ✚ Interest 5% per annum on loan: Farid is still outstanding.
- ✚ Insurance paid includes personal insurance of RM100.
- ✚ Electricity and water bill for the month of August of RM92 are still not paid.
- ✚ Advanced discount received of RM100.

**Prepare:**







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

**QUESTION 3**

The following Trial Balance is extracted from the books of Binggo as at 31 December 2020:

Account Balances	Debit (RM)	Credit (RM)
Capital Account		18,000
Drawings	1,600	
Debtors and creditors	4,000	3,800
Sales		12,000
Purchases	6,500	
Rent and rates	800	
Light and heat	700	
Salaries and wages	1,400	
Bad debts	350	
Provision for doubtful debts, 1 January 2020		280
Stock in trade, 1 January 2020	4,000	
Insurance	850	
General expenses	400	
Bank balance	2,500	
Motor vehicles (net book value)	4,000	
Land and building (net book value)	7,580	
Rent received		600
	34,680	34,680

The following matters are to be taken into account:

-  Stock in trade at 31 December 2020 is RM3,500.
-  Rent and rates paid in advance RM200.
-  Rent receivable due at 31 December 2020 RM600.
-  Light and heat outstanding RM100.
-  Additional bad debts RM100.
-  Provision for doubtful debts to be increased to RM400.

You are required to prepare:

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



**Provision for doubtful debts:**

Increase in provision = expense

Decrease in provision = revenue

**Debtors**

The amounts of debtors  
in SoFP = after deducting  
with additional bad  
debts and Provision for  
doubtful debts c/d

What's  
next?



**QUESTION 4**

The following is the Trial Balance of Lina Trading on 31 December 2020:



Account Balances	Debit (RM)	Credit (RM)
Vehicles at cost	26,600	
Fixtures at cost	11,480	
Premises at cost	84,000	
Accumulated provision for depreciation - Vehicles		5,320
- Fixtures		1,148
- Premises		5,740
Stock on 1 January 2020	5,200	
Purchases and Sales	25,920	37,440
Debtors and Creditors	3,160	1,011
Return	355	56
Discounts	288	474
Salary	3,840	
Carriage inwards	960	
Rates	640	
Insurance	360	
Bad debts	240	
Cash in hand	1,440	
Cash at bank	10,906	
Provision for doubtful debts		200
Capital on 1 January 2020		124,000
	175,389	175,389

**Additional information:**

- ✚ Stock on 31 December 2020 was RM4,640 and worker's salaries are RM400 a month.
- ✚ Insurance has been paid for a year beginning 1 October 2020.
- ✚ A debtor of RM350 should be considered as a bad debt.
- ✚ Bad debts have been recovered by cash of RM420.
- ✚ Provision for doubtful debt is 4%.
- ✚ Depreciation for vehicles and fixtures are 10% per annum using straight line method and premises were depreciated by 10% per annum using reducing balance method.

**You are required to prepare:**

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



### QUESTION 5

The following is the Trial Balance of Rashid Trading on 31 December 2020:

Account Balances	Debit	Credit
	RM	RM
Capital		37,630
Drawings	8,850	
Premises	49,000	
Equipment on cost	10,000	
Provision for depreciation - equipment		4,000
Stock on 1 January	3,980	
Purchases	43,200	
Return		140
Carriage inwards	390	
Sales		87,500
Salary	5,660	
Water & electricity	1,320	
Insurance	1,980	
General expenses	130	
Bad debts	300	
Creditors		5,200
Debtors	7,100	
Cash	2,560	
	134,470	134,470

#### Additional information:

- ✚ Stock on 31 December 2020 is RM5,690.
- ✚ Water and electricity has not been paid on 31 December 2020 is RM70.
- ✚ Insurance that has been paid for year 2020 is RM120.
- ✚ Commission for year 2020 that not yet received is RM1,400.
- ✚ Provision of doubtful debts is 10% on debtors' balance.
- ✚ Equipment is depreciated at a rate of 20% p.a. on cost.

#### Required to demonstrate:







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

**QUESTION 6**

The followings are balances in the book of Chew Trading on 31 December 2020:

<b>Account Balances</b>	<b>Debit</b>	<b>Credit</b>
	<b>RM</b>	<b>RM</b>
Capital		51,640
Drawings	11,280	
Shop buildings	50,000	
Vehicles at cost	20,000	
Provision for depreciation – vehicles		8,000
Stock on 1.1.2020	6,280	
Purchases	44,900	
Carriage inwards	450	
Sales		87,460
Returns	130	90
Salary	4,580	
Commission		1,600
Water & electricity	1,290	
Rental	3,200	
General expenses	430	
Bad debts	510	
Discounts	250	190
Creditors		5,700
Debtors	7,500	
Bank	3,880	
	<b>154,680</b>	<b>154,680</b>

**Additional information:**

-  Stock on 31 December 2020 is RM8,240.
-  Accrued expenses: Water and electricity RM220 and general expenses RM30.
-  Rental that has paid for year 2020 is RM800.
-  Commission for 2020 has not been received yet is RM460.
-  Vehicle is depreciated at a rate of 10% per annum on cost.
-  Provision of doubtful debts is 5% on debtors' balance.

**Required to illustrate:**






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

**QUESTION 7**

The following is Trial Balance of Daud as at 31 December 2020:

Account Balances	Debit	Credit
	RM	RM
Cash in hand	120	
Stock 1 January 2020	5,130	
Purchases and Sales	9,885	17,890
Returns	240	345
Carriage Inwards	460	
Insurance on Purchases	120	
Salary	2,440	
Carriage Outwards	447	
Discounts	558	463
Drawings	1,200	
Rental	1,560	
Commission Received		382
Office Equipment	1,800	
Debtors and Creditors	1,750	1,990
Utilities	730	
Fixed Deposit	6,000	
Interest on Fixed Deposit		180
Premises Insurance	320	
Stationeries	302	
Balance at bank	1,688	
Capital 1 January 2020		13,500
	<b>34,750</b>	<b>34,750</b>

**Additional information:**

-  Stock on 31 December 2020 was RM6,220.
-  Salary of RM285 has not yet paid.
-  Insurance paid included RM40 for year 2021.
-  Accrued utilities were RM35.
-  Rental of RM160 was still accrued.







You are required to prepare Statement of Comprehensive Income for the year ended 31 December 2020 and Statement of Financial Position as at the date.

**QUESTION 8**

Ahmad is a businessman. On 30 June 2021, the ledger showed the following balances:

Account Balances	RM
Capital	15,547
Drawings	1,490
Stock 1 July 2020	7,525
Purchases and Imported Goods	23,575
Sales	35,950
Import Duty on Purchases	2,370
Salesperson Commission	1,385
Salary	2,454
Motor Vehicle Expenses	1,233
Cash at Bank	1,930
Cash in Hand	35
Shop Buildings	7,800
Motor Vehicle	3,500
Debtors	3,900
Return Inwards	450
Creditors	5,800
Commission Received	1,110
Profit on Disposal of Asset	350
Discount Allowed	600
Utilities	120
General Expenses	190
Insurance	200

**Additional Information:**

-  Stock on 30 June 2021 was RM8,595.
-  Motor vehicle is depreciated on 20% per annum.
-  A provision for discount allowed was recognized at 3% on debtors' balance.
-  It was estimated that one third of the motor vehicle expenses was for carried in goods into a warehouse.
-  Commission of RM135 has not been received yet.
-  Prepaid insurance was RM20.

You are required to demonstrate the Statement of Comprehensive Income for the year ended 30 June 2021 and the Statement of Financial Position as at the date by considering the above adjustment.

**QUESTION 9**

Badrul is on a business of selling and repairing radios. The following is the Trial Balance on 30 September 2020:

Account Balances	Debit	Credit
	RM	RM
Capital on 1 October 2019		5,377
Purchase of Radio	1,348	
Purchase of Spare Parts	262	
Sales of Radio		3,408
Receipts for Repairing Radio		1,450
Stock on 1 October 2019:		
Radio	1,420	
Spare Parts	196	
Workshop Expenses	124	
Shop and Office Expenses	150	
General Expenses	20	
Creditors		350
Salary	250	
Debtors	475	
Drawings	315	
Workshop Equipment	1,140	
Shop and Office Fittings	2,220	
Cash in Hand	15	
Cash at Bank	2,530	
Rental	120	
	10,585	10,585

The following information should be considered:

- ✚ Stock on 30 September 2020:
  - Radio                RM1,500
  - Spare Parts      RM 125
- ✚ Rental was divided between workshop and shop at a ratio of 1:2.
- ✚ Accrued shop expenses were RM15.
- ✚ Accrued salary was RM50.
- ✚ Workshop equipment and shop and office fittings were depreciated at a rate of 10% per annum respectively.

(All expenses incurred in the workshop should be charged into the Trading Account).

**Required to illustrate:**

- a) Statement of Comprehensive Income for the year ended 30 September 2020.  
(the Gross Profit for shop and workshop needs to be shown separately).
- b) Statement of Financial Position as at that date.



**QUESTION 10**

Pak Choo is a retailer and the following balances were extracted from his book on 30 June 2021:

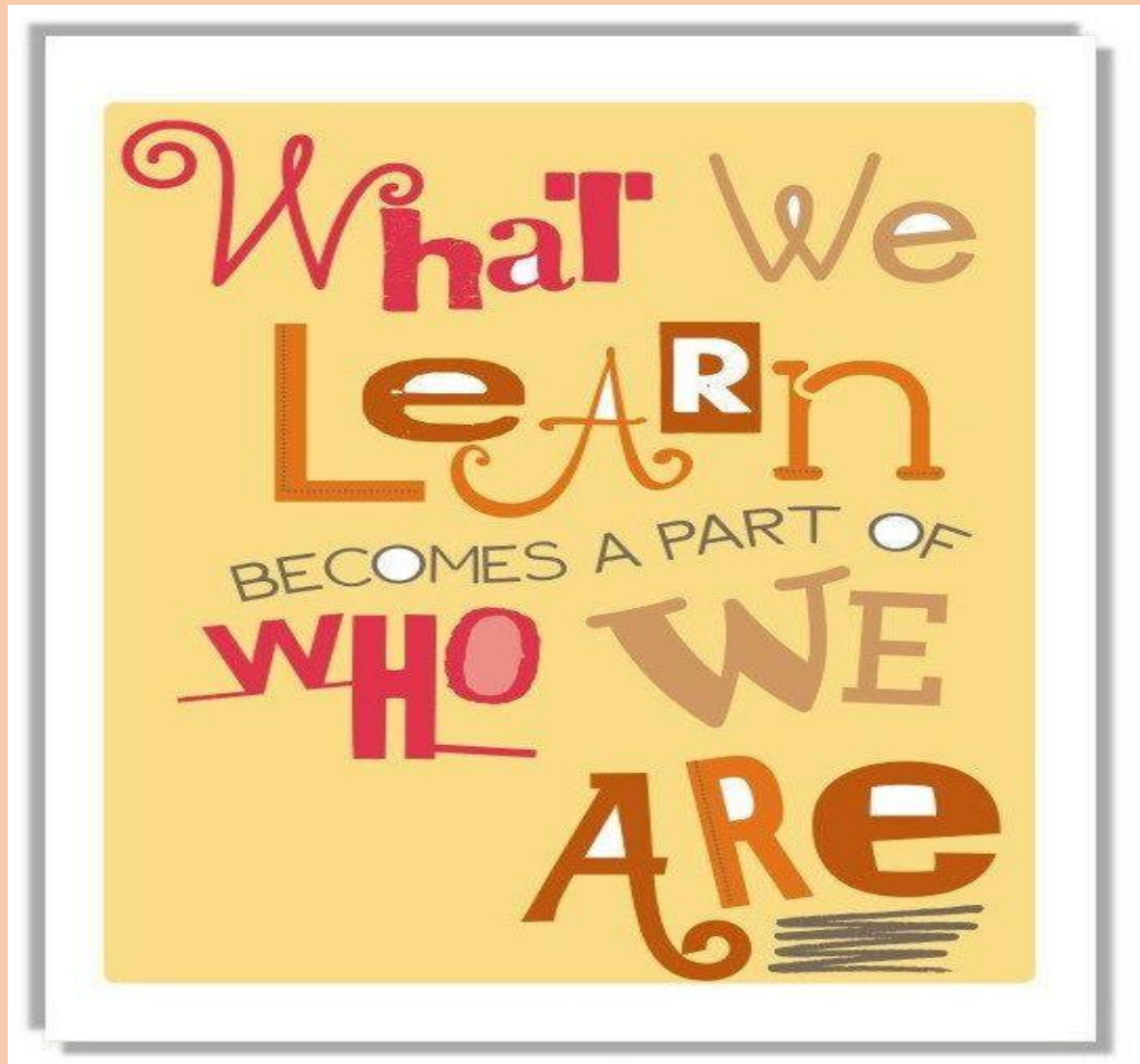
Account Balances	RM
Capital 1 July 2020	9,005
Drawings	1,590
Office Equipment	780
Commission Received	88
Cash in Hand	30
Carriage on Purchases	150
Purchases	21,080
Sales	30,200
Insurance on Purchases	170
Return Inwards	52
Return Outwards	150
Stock on 1 July 2020	4,100
Vehicles	7,500
Salary	1,800
Loss on Disposal of Assets	300
Rental	700
Electricity Expenses	250
Cash at Bank	540
Sundry Expenses	390
Debtors	1,545
Creditors	2,004
Advertising Expenses	600
Discount Received	250
Insurance	120

**Additional information:**

- ✚ Closing stock was RM3,950.
- ✚ Pak Choo took goods from stock of RM110 for his family use but the transaction has not been recorded yet.
- ✚ Vehicles were depreciated at a rate of 10% p.a.
- ✚ Rental of RM120 has been paid for a half year period until 30 September 2021.
- ✚ Electricity bills for the month of June worth RM55 has still not been paid yet.
- ✚ A provision of doubtful debts of RM72.

**Required:**

- a) Income Statement for the year ended 30 June 2021.
- b) Statement of Financial Position as at the date.



*thank you!*

# THE WRITERS



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**LIFE  
IS LIKE  
ACCOUNTING  
EVERYTHING  
MUST BE  
BALANCED**