

# Financial Accounting 1



## DOUBLE ENTRIES PRINCIPLES

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ZULIANA ZAINAL ABIDIN  
SITI YUSNIDA MOHD YUSOF  
NOR AFZAN ABDUL GHANI



# **DOUBLE ENTRIES PRINCIPLES**

## **ACKNOWLEDGEMENT**

### **PATRON**

Mohamad Isa Bin Azhari  
Director, Politeknik Port Dickson

### **ADVISORS**

Dr. Nor Haniza Binti Mohamad  
Deputy Director (Academic), Politeknik Port Dickson  
Dr. Mohamad Siri bin Muslimin  
Head of Commerce Department, Politeknik Port Dickson

### **EDITOR**

Dr. Nurul Yasmin bin Ju Ahmad  
Head of Accountancy Programme, Politeknik Port Dickson

### **FACILITATORS**

Nin Hayati Binti Mohd Yusof

### **PELJ**

Zuliana binti Zainal Abidin

### **WRITERS**

Zuliana binti Zainal Abidin  
Siti Yusnida binti Mohd Yusof  
Nor Afzan binti Abdul Ghani

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## **PREFACE**

This e-book is designed mainly for students who need a clear understanding of Double Entries Principles. It is also suitable for those who are studying independently. Students are given an explanation about the double entries principles, assets, liabilities, owner's equity, revenues, expenses, inventories, discounts, posting of journal entries to the ledger accounts and balancing off accounts. Examples and a number of questions are given in order to enhance the understanding of the topic. At the end of the topic, students can view the solutions by scanning the QR code given. It is hope that the material in this e-book will benefit the educators and student.

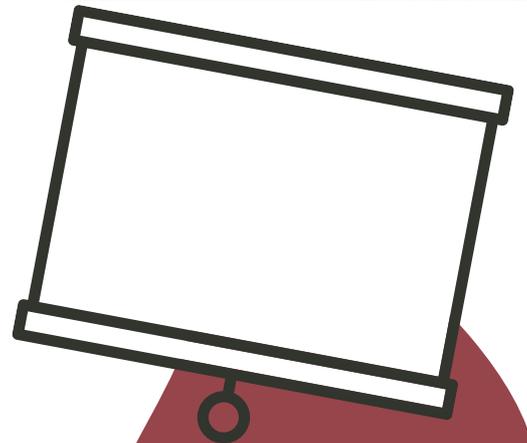
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Zuliana Zainal Abidin  
Siti Yusnida Mohd Yusof  
Nor Afzan Abdul Ghani



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**AT THE END OF THE LESSON, STUDENTS SHOULD BE ABLE TO:**

**1**

**APPLY THE DOUBLE-ENTRY RULES**

**2**

**PREPARE THE POSTING OF JOURNAL ENTRIES  
INTO THE RESPECTIVE LEDGER ACCOUNTS**

**3**

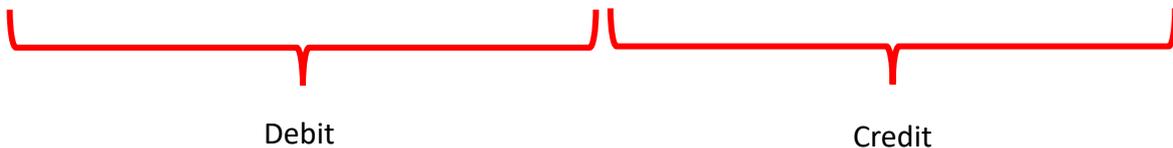
**SHOW THE BALANCING OFF THE ACCOUNTS**



**Double entries principles** means each transaction must be recorded in at least **two accounts**, one account is **debited** and another account is **credited**. The sum of debit must be **equal** to the sum of credit. Each account must have a **specific name** such as cash account, capital account or vehicle account. An account is an individual accounting record that shows either an **increase or decrease** in asset, liability, owner's equity, revenues and expenses.

An account consists of three parts; the title of the account, left side or debit and right side or credit. The format of an account is referred to the letter T. That is why an account is also known as T-account. Entering an amount on the **left** side of an account is called **debiting** the account and entry on the **right** side is **crediting** the account.

Name of Account					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)



### Explanation

- ✚ The name of the account is placed on top of the horizontal line at the centre.
- ✚ The dates column records the date of the transaction occur.
- ✚ The particulars column records the name of the other account involved in the transaction.
- ✚ The amount column records the amount involved in the transaction.

The example below show how a business transaction involving two accounts named as **Account X** and **Account Y** is recorded in the ledger.

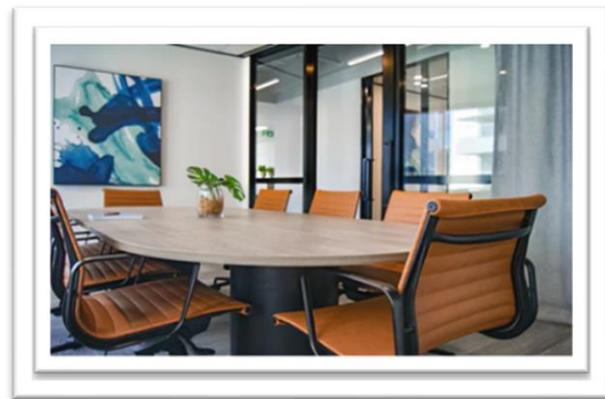
Account X					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020 July 7	Account Y	XXXXX			

Account Y					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
			2020 July 7	Account X	XXXXX

**Explanation**

- ✚ A ledger is a collection of accounts in which account transactions are recorded.
- ✚ The two account involves are Account X and Account Y.
- ✚ Account X is debited with Account Y and Account Y is credited with Account X.
- ✚ Particulars column record the name of other account involved.
- ✚ Total debit must be equal to total credit.

**Assets** are defined as **property** owned by a business and used to carry on the business. In other words, assets are resources which are expected to provide benefits to the business. Assets can be **tangible** and **intangible**. Tangible asset is a non-current asset that have **physical substance**. Examples of a tangible asset are office equipment, furniture, machinery, premise and vehicle. Intangible asset is a non-current asset with **no physical substance**. Intangible assets consist of copyrights, patents and trademarks.



Example of tangible asset



### Copyrights

Copyright is an exclusive right for protecting intellectual property in the form of literature, sound recordings, painting, books, poems or scripts. Example, books.

### Trademarks

Trademark is a name, logo, design, word, phrase, colour or brand that distinguishes one product from another in a trade or business. Example, Nike shoe. The word Nike and the logo are registered as their brands.

### Patents

A patent is an exclusive right granted to an invention, whether it is a product or a process for doing something new or a technical solution to a problem. Example, Microsoft patented their software such as Words, Excel, PowerPoint or Access.

**Assets** can be classified into two types that is **current assets** and **non-current assets**. The classification of assets into current assets or non-current assets depends on the **type of business** and the **business activity**. For example, if the business selling furniture, then the furniture is consider their current asset which is refer to their stock, while for a retail store, furniture is their non-current asset.

### CURRENT ASSETS

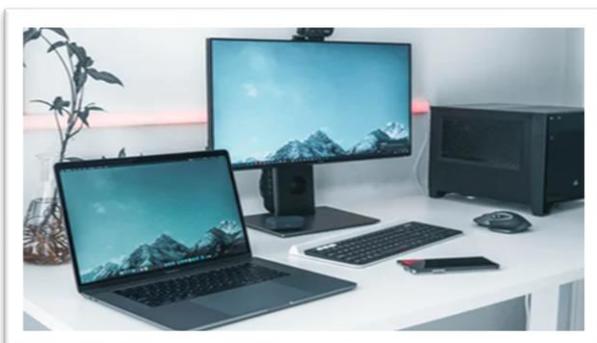
Current assets are assets that can be **converted into cash in the short term of less than a year**. Examples of current assets include cash in hand, cash at bank, stock, and account receivable which is also refer to debtors. Debtors are customers who owe the business for goods or services provided on credit.



Example of current asset

### NON-CURRENT ASSETS

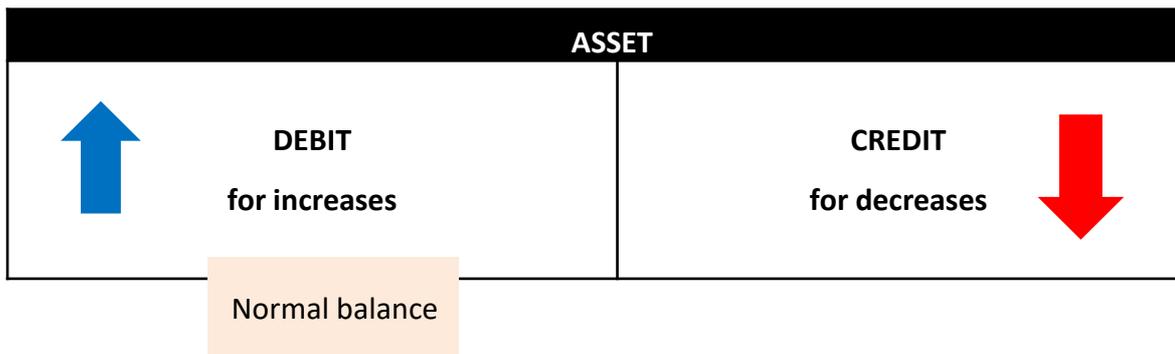
Non-current assets refer to assets **purchased to run a business**. Non-current assets are not meant for resale. Examples of non-current assets include land, premise (shop lot, warehouses), vehicle, machine, fittings and fixtures (air conditioning, fan, refrigerator), office equipment (computer, printer, fax machine) and furniture (bookshelves, table, cabinet).



Example of non-current asset

**DOUBLE ENTRIES PRINCIPLES FOR ASSETS**

- ✚ Increase for assets are recorded as debit.
- ✚ Decrease for assets are recorded as credit.
- ✚ Normal balances for assets are debit balances



**Example**

On 2 November 2020, Syarikat Cemerlang bought a van with the value of RM36,000 and paid by cash.

**Effects:**

An asset (vehicle) increased of RM36,000 – should be debited.

An asset (cash) decreased by RM36,000 – should be credited.

Vehicle					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020 Nov 2	Cash	36,000			

Cash					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
			2020 Nov 2	Vehicle	36,000

**Liability** is a **business debt** to an external party. It is an obligation that a business needs to fulfil. In other words, liability means credit. Business liability may occur due to the:

- ✚ business buying stock on credit from suppliers.
- ✚ business buying a non-current asset on credit.
- ✚ business obtaining loans from banks.

Business liability can be classified into two types which are **current liabilities** and **non-current liabilities**

## CURRENT LIABILITIES

Current liabilities are business debts that need to be **settled in short term period**, usually in one accounting period. Examples of current liabilities are:

- ✚ creditor- suppliers which selling goods on credit.
- ✚ bank overdraft - loans given by the bank to the current account holder.
- ✚ accrued expense - expenses that should have been paid during the current accounting period but are still unpaid. Examples, accrued sales commissions and accrued salaries.
- ✚ unearned revenue - revenue for the next accounting period but have been received during the current accounting period such as rental and interest received in advance.

## NON-CURRENT LIABILITIES

Non-current liabilities are business debts that can be **settled over a period of more than one accounting year**. Example of non-current liabilities are:

- ✚ bank loan - repayment period of more than one year.
- ✚ debenture - long term debt providing by bank to large companies and individuals.
- ✚ mortgage - loans from banks requiring collateral such as land and business premises.

**DOUBLE ENTRIES PRINCIPLES FOR LIABILITIES**

- ✚ Increase for liabilities are recorded as credit.
- ✚ Decrease for liabilities are recorded as debit.
- ✚ Normal balances for liabilities are credit balances.

LIABILITIES	
<p><b>DEBIT</b> for decreases</p>	<p><b>CREDIT</b> for increases</p>
<div style="background-color: #f4b084; padding: 5px; display: inline-block;"><b>Normal balance</b></div>	

**Example**

On 5 November 2020, Syarikat Cemerlang bought a machine on credit from Excel Trading amounting RM80,000.

**Effects:**

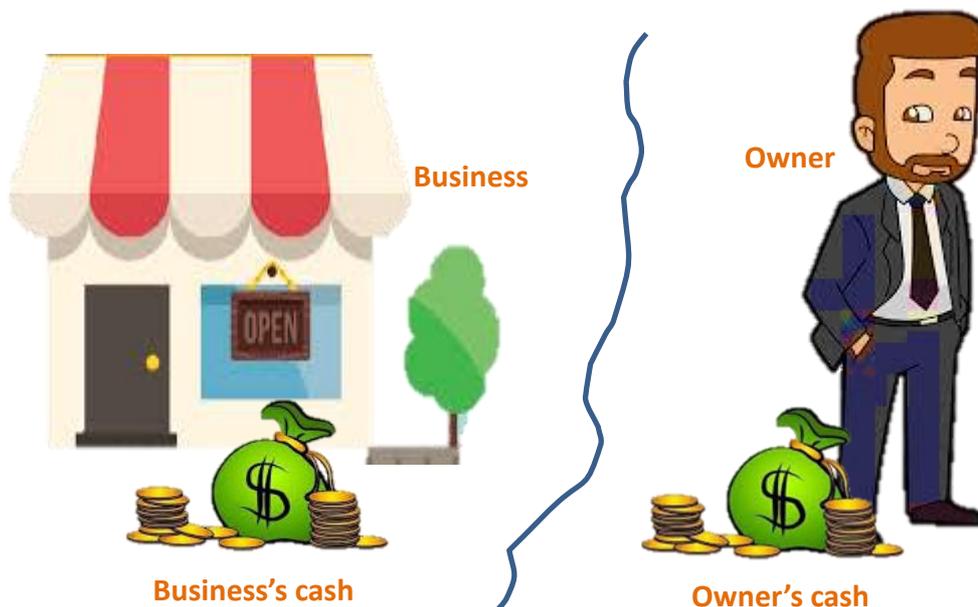
An asset (machine) increased of RM80,000 – should be debited.

Liability (creditor-Excel Trading) increased of RM80,000 – should be credited.

Machine					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020					
Nov 5	Excel Trading	80,000			

Excel Trading					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
			2020		
			Nov 5	Machine	80,000

The business entity concept states that business is separate from the owner. The business owner will invest a certain amount of money or assets into the business as the initial capital. The total amount of cash or assets initially invested belongs to the business owner. Thus, **owner's equity** is the **business's debts to the business owner** based on the amount invested by the business owner.

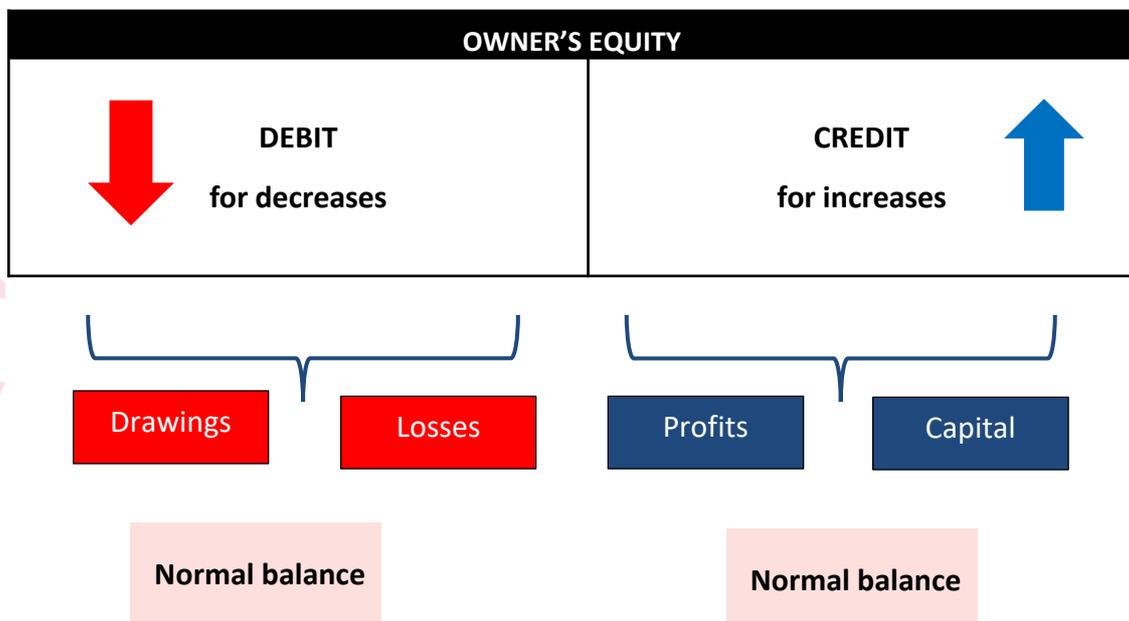


Under business entity concept, the business is view as separate from its owner.

The total amount of **owner's equity** is determined by **capital, drawings, profit** and **loss**. **Capital** is cash or asset brought into the business by the owner. It will **increase** the owner's equity. **Drawings** is cash or goods, or assets taken by the owner for personal use. It will **decrease** the owner's equity. Owner's equity is **increased** if business generates a **profit**. However, if a **loss** is obtained, the owner's equity will **decrease**.

## DOUBLE ENTRIES PRINCIPLES FOR OWNER'S EQUITY

- ✚ Increase for owner's equity are recorded as credit.
- ✚ Decrease for owner's equity are recorded as debit.
- ✚ Normal balances for capital and profit are credit balances.
- ✚ Normal balances for drawings and loss are debit balances.



### Example

On 1 November 2020, the owner started a business with RM40,000 cash at bank and RM20,000 cash in hand.

### Effects:

An asset (bank and cash) increased of RM40,000 and RM20,000 – should be debited.  
An owner's equity (capital) increased of RM60,000 – should be credited.

Bank					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020 Nov 1	Capital	40,000			

Cash					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020 Nov 1	Capital	20,000			

Capital					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
			2020 Nov 1	Bank Cash	40,000 20,000

**Revenue** is **income** generated either through business operations or non-business operations over an accounting period. It can be in the form of revenue received or revenue that will be received by the business. The revenues received by the business can be classified into two types which are **operating revenues** and **non-operating revenues**.

## OPERATING REVENUES

**Operating revenue** is revenue received from the business **main activities**. Example, if you are a textile retailer, the operating revenue is derived from the selling of the textile. If you own a law firm, the legal fees are consider your operating revenues which derives from your service.

## NON-OPERATING REVENUES

**Non-operating revenue** is a revenue earned from **side activity** unrelated to your business activities. Example, dividend from investments and profit on disposal of non-current assets.

## DOUBLE ENTRIES PRINCIPLES FOR REVENUES

- + Increase for revenues are recorded as credit.
- + Decrease for revenues are recorded as debit.
- + Normal balances for revenues are credit balances.

REVENUES	
 <b>DEBIT</b> for decreases	<b>CREDIT</b>  for increases <div style="border: 1px solid black; padding: 2px; display: inline-block; margin-top: 10px;">Normal balance</div>

**Example**

On 15 November 2020, Syarikat Cemerlang received commission amounting RM700 by cash.

**Effects:**

An asset (cash) increased of RM700 – should be debited.

Revenues (commission received) increased of RM700 – should be credited.

Cash					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020					
Nov 15	Commission received	700			

Commission received					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
			2020		
			Nov 15	Cash	700

**Expenses** are money that are paid and will be paid in the future to operate a business. In other words, expenses are the **outflow of cash or other assets** in the process of earnings the revenues.

The expenses paid by the business can be classified into two type which are **operating expenses** and **non-operating expenses**.

## OPERATING EXPENSES

**Operating expenses** is an expense that involved directly with the **business activities**. Example, salaries, insurance, utilities, general expenses and stationeries.

## NON-OPERATING EXPENSES

**Non-operating expenses** are expenses involved directly with the business activities. Example, interest on loan, interest on overdraft and loss on disposal of non-current assets.

## DOUBLE ENTRIES PRINCIPLES FOR EXPENSES

- ✚ Increase for expenses are recorded as debit.
- ✚ Decrease for expenses are recorded as credit.
- ✚ Normal balances for expenses are debit balances.

EXPENSES	
 <p><b>DEBIT</b> for increases</p>	<p><b>CREDIT</b> for decreases</p> 

Normal balance

**Example**

On 17 November 2020, the owner paid electricity bill amounting RM900 by cheque.

**Effects:**

An expense (electricity bill) increased of RM900 – should be debited.

An asset (bank) decreased by RM900 – should be credited.

Electricity bill					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020 Nov 17	Bank	900			

Bank					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
			2020 Nov 17	Electricity bill	900

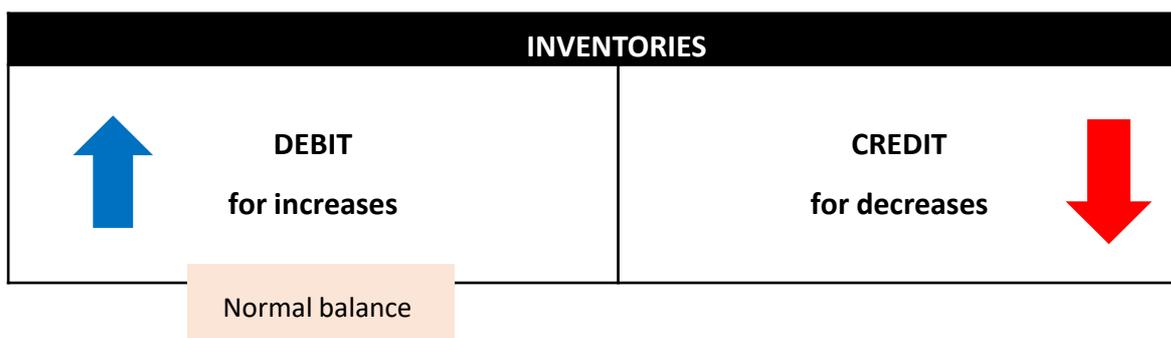
**Inventories** are **assets owned** by a business intended for **selling** to the customers. It can be an item, component parts and raw materials a company uses in production or sale. A business must ensure that they have enough inventories to keep the business running smoothly. Inventories are also known as **stock**. Inventories which are **sold during the current period** is treated as an **expense** which is known as the **cost of goods sold**. Inventories which is **unsold** at the end of a period is known as **closing inventories**.

Inventories can be classified into three types:

- ✚ Raw material – Raw materials like wood, cane, metal, leather, and fabrics are most used to produce a furniture.
- ✚ Work in process - The process of assembling case, circuit board and components for a cell phone is work in process.
- ✚ Finished goods - Goods that do not require any further processing and are ready to be sold. Example, shoes, cloth and computer.

## DOUBLE ENTRIES PRINCIPLES FOR INVENTORIES

- ✚ Increase for inventory are recorded as debit.
- ✚ Decrease for inventory are recorded as credit.
- ✚ Normal balances for inventory are debit balances.



## Example

On 19 November 2020, the owner bought goods RM3,500 by cash with the intention to sell them to a third party later.

## Effects:

An asset (inventories) increased of RM3,500 – should be debited.

An asset (cash) decreased by RM3,500 – should be credited.

Inventories					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020					
Nov 19	Cash	3,500			

Cash					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
			2020		
			Nov 19	Inventories	3,500

There are two types of **discounts** in a business which are **trade discounts** and **cash discounts**. The differences between trade discounts and cash discounts are explained below.

## TRADE DISCOUNT

- ✚ A trade discount is a reduction in the prices of inventories purchased or sold.
- ✚ Trade discounts are usually given by business to their customers to **encourage bulk (large quantities) purchases** of inventories.
- ✚ The amount of the discount does not appear anywhere in the accounting books or financial statements.

## CASH DISCOUNT

- ✚ A cash discount is a reduction in debts received from accounts receivable (debtors) or paid to accounts payable (creditors).
- ✚ Cash discounts are usually given by businesses to their customers to **encourage early settlement of debts**.

There are two types of cash discounts:

### ✚ **Discount received**

Discount received is a **revenue**. The discount received is received by the buyer from the seller. This means the buyer pays less than the amount owes to the seller.

### ✚ **Discount allowed**

Discount allowed is an **expense**. The discount allowed is given by the seller to the buyer. This means the seller receives less than the amount owed by the buyer.

**DOUBLE ENTRIES PRINCIPLES FOR TRADE DISCOUNT****Example**

On 21 November 2020, the owner bought goods from Sutera Store worth RM2,000 and received 10% of trade discount.

Purchase price = RM2,000 – (RM2,000 x 10%) = RM1,800

**Effects:**

An expense (purchases) increased of RM1,800 – should be debited.

Liability (creditor - Sutera Store) increased of RM1,800 – should be credited.

Purchases					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020 Nov 21	Sutera Store	1,800			

Sutera Store					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
			2020 Nov 21	Purchases	1,800

**DOUBLE ENTRIES PRINCIPLES FOR CASH DISCOUNT****DISCOUNT RECEIVED****Example**

On 23 November 2020, paid Syarikat Sejahtera RM1,900 by cheque and received 2% of cash discount.

Amount paid =  $RM1,900 - (RM1,900 \times 2\%) = RM1,862$

**Effects:**

Liability (creditor - Syarikat Sejahtera) decreased by RM1,900 – should be debited.

An asset (bank) decreased by RM1,862 – should be credited.

Revenue (discount received) increased of RM38 – should be credited.

Syarikat Sejahtera					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020					
Nov 23	Bank	1,862			
	Discount received	38			

Bank					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
			2020		
			Nov 23	Syarikat Sejahtera	1,862

Discount received					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
			2020		
			Nov 23	Syarikat Sejahtera	38

**DOUBLE ENTRIES PRINCIPLES FOR CASH DISCOUNT****DISCOUNT ALLOWED****Example**

On 25 November 2020, the owner received a cheque amounting RM3,000 from Medina with 2% cash discount.

Amount received = RM3,000 – (RM3,000 x 2%) = RM2,940

**Effects:**

An asset (bank) increased of RM2,940 – should be debited.

An expense (discount allowed) increased by RM60 – should be debited.

An asset (debtor - Medina) decreased by RM3,000 – should be credited.

Bank					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020					
Nov 25	Medina	2,940			

Discount allowed					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020					
Nov 25	Medina	60			

Medina					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
			2020		
			Nov 25	Bank	2,940
				Discount allowed	60

In recording business transaction, it will be easier to apply the principle of the double entries principles based on the following steps:

Identify the two accounts (or more) that should be prepared for each business transaction. To decide on the particular account, you need to identify the main activity of the business transaction.



Analyse the types of accounts and determine whether each account is increased or decreased.



Apply the double entries principles by recording the transactions on the debit or credit side of the accounts.

All business transactions are first recorded in the journal. This process is known as **journalising**. No transaction is recorded in the ledger unless it appears first in the journal. Thus, journal is referred to books of prime entry while the ledger is known as books of final entry. The process of transferring entries in the journal into the accounts in the ledger is referred to **posting**. Posting to ledger makes it easier to find mistakes in accounting records. Journal can be classified into two types:

- ✚ Special journal
- ✚ General journal

### SPECIAL JOURNALS

The special journals that are usually used by a business are purchases journal, sales journal, purchases return journal and sales return journal.

#### **Purchases Journal**

A purchases journal is used to record **purchases of goods on credit**. It is recorded based on the invoices received from the supplier.

#### **Sales Journal**

A sales journal is used to record **sales of goods on credit**. It is recorded based on the invoices issued to customers.

#### **Purchases Returns (Returns Outwards) Journal**

A purchase returns journal is used to record the return of goods by the business to the supplier. It is documented based on the credit notes received from the suppliers.

#### **Sales Returns (Returns Inwards) Journal**

A sales returns journal is used to record the return of goods from the customer to the business. It is documented based on the credit notes sent to the customers.

## POSTING OF JOURNAL ENTRIES TO THE LEDGER ACCOUNTS

The examples below show the process of transferring entries from the **purchase journal** into the accounts in the ledger.

### Journalise the transaction

Purchase journal		
Date	Particulars	Amount (RM)
2020		
Jan 15	Creditors	XXX
31	Purchase account (debit)	XXX

### Posting to ledger

Purchases					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020					
Jan 15	Creditor	XXX			

Creditor					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
			2020		
			Jan 15	Purchase	XXX

## POSTING OF JOURNAL ENTRIES TO THE LEDGER ACCOUNTS

The examples below show the process of transferring entries from the **sales journal** into the accounts in the ledger.

### Journalise the transaction

Sales journal		
Date	Particulars	Amount (RM)
2020		
Jan 15	Debtors	XXX
31	Sales account (credit)	XXX

### Posting to ledger

Debtors					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020					
Jan 15	Sales	XXX			

Sales					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
			2020		
			Jan 15	Debtors	XXX

**EXAMPLE 1**

Purchased goods amounting RM800 from Syarikat Mega on 12 January 2020.

Purchase journal		
Date	Particulars	Amount (RM)
2020		
Jan 12	Syarikat Mega	800
31	Purchase account (debit)	800

**Effects:**

Expenses (purchases) increased of RM800 – should be debited.

Liabilities (creditor-Syarikat Mega) increased of RM800 – should be credited.

Purchases					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020					
Jan 12	Syarikat Mega	800			

Syarikat Mega					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
			2020		
			Jan 12	Purchase	800

**EXAMPLE 2**

Sold goods amounting RM1,200 to Syarikat Sinar on 19 January 2020.

Sales journal		
Date	Particulars	Amount (RM)
2020		
Jan 19	Syarikat Sinar	1,200
31	Sales account (credit)	1,200

**Effects:**

Assets (debtor-Syarikat Sinar) increased of RM1,200 – should be debited.

Revenues (sales) increased of RM1,200 – should be credited

Syarikat Sinar					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020					
Jan 19	Sales	1,200			

Sales					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
			2020		
			Jan 19	Syarikat Sinar	1,200

**EXAMPLE 3**

Returned goods to Syarikat Mega amounting RM200 on 22 January 2020.

Purchases return journal		
Date	Particulars	Amount (RM)
2020		
Jan 22	Syarikat Mega	200
31	Purchases return account (credit)	200

**Effects:**

Liabilities (creditor-Syarikat Mega) decreased of RM200 – should be debited.

Expenses (purchases) decreased of RM200 – should be credited.

Purchases return will decrease the purchases amount. Therefore, **purchases return** account is a **contra to purchases** account.

Syarikat Mega					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020					
Jan 22	Purchases return	200			

Purchases return					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
			2020		
			Jan 22	Syarikat Mega	200

**EXAMPLE 4**

Syarikat Sinar returned goods amounting RM100 on 25 January 2020.

Sales return journal		
Date	Particulars	Amount (RM)
2020		
Jan 25	Syarikat Sinar	100
31	Sales return account (debit)	100

**Effects:**

Revenues (sales) decreased of RM100 – should be debited.

Assets (debtor-Syarikat Sinar) decreased of RM100 – should be credited.

Sales return will decrease the sales amount. Therefore, **sales return** account is a **contra to sales** account.

Sales returns					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020					
Jan 25	Syarikat Sinar	100			

Syarikat Sinar					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
			2020		
			Jan 25	Sales return	100

## GENERAL JOURNALS

All transactions that cannot be recorded in any special journal will be recorded in the general journal. Examples of transactions recorded in a general journal are:

- + Opening entries
  - Opening entries are made to record assets, liabilities and owner's equity (capital) for purpose of:
    - Starting an existing business accounting records for a new accounting period.
    - Starting business records for a newly established business.
- + Credit purchases of non-current assets.
- + Credit sales of non-current assets.
- + Additional capital.
- + Drawings of goods and non-current assets.
- + Closing entries
- + Adjusting entries
- + Correction of errors

The examples below show the process of transferring entries from the general journal (journalise the transaction) into the accounts in the ledger (posting to ledger).

### Journalise the transaction

Journal		
	Debit	Credit
Account A	xx	
Account B		xx

### Posting to ledger

Account A	
Account B	xx

Account B	
Account A	xx

**EXAMPLE 1**

The owner started a business with cash at bank RM4,000 on 1 January 2020.

**Effects:**

Asset (bank) increased of RM4,000 – should be debited.

Owner's equity (capital) increased of RM4,000 – should be credited.

Journal			
Date	Particulars	Debit (RM)	Credit (RM)
2020 Jan 1	Bank  Capital  (Capital contributed by owner)	4,000	4,000

Bank					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020 Jan 1	Capital	4,000			

Capital					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
			2020 Jan 1	Bank	4,000

**EXAMPLE 2**

Purchased office equipment RM7,800 and paid by cheque on 3 January 2020.

**Effects:**

Asset (office equipment) increased of RM7,800 – should be debited.

Asset (bank) decreased of RM7,800 – should be credited.

Journal			
Date	Particulars	Debit (RM)	Credit (RM)
2020	Office equipment	7,800	
Jan 3	Bank (Purchased an asset)		7,800

Office equipment					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020					
Jan 3	Bank	7,800			

Bank					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
			2020		
			Jan 3	Office equipment	7,800

**EXAMPLE 3**

Obtain a loan RM80,000 from Berjaya Bank on 7 January 2020.

**Effects:**

Asset (bank) increased of RM80,000 – should be debited.

Liability (loan) increased of RM80,000 – should be credited.

Journal			
Date	Particulars	Debit (RM)	Credit (RM)
2020 Jan 7	Bank  Loan  (Obtain a loan from bank)	80,000	80,000

Bank					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020 Jan 7	Loan	80,000			

Loan					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
			2020 Jan 7	Bank	80,000

**EXAMPLE 4**

Bought stationery RM900 and paid by cheque on 12 January 2020.

**Effects:**

Expenses (stationery) increased of RM900 – should be debited.

Asset (bank) decreased of RM900 – should be credited.

Journal			
Date	Particulars	Debit (RM)	Credit (RM)
2020	Stationery	900	
Jan 12	Bank (Bought stationery by cheque)		900

Stationery					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020					
Jan 12	Bank	900			

Bank					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
			2020		
			Jan 2	Stationery	900

**EXAMPLE 5**

Received interest RM600 by cheque on 18 January 2020.

**Effects:**

Asset (bank) increased of RM600 – should be debited.

Revenue (interest received) increased of RM600 – should be credited.

Journal			
Date	Particulars	Debit (RM)	Credit (RM)
2020 Jan 18	Bank  Interest received  (Received interest by cheque)	600	600

Bank					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020 Jan 18	Interest received	600			

Interest received					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
			2020 Jan 18	Bank	600

**EXAMPLE 6**

Withdrew cash from bank for office use RM2,000 on 21 January 2020.

**Effects:**

Asset (cash) increased of RM2,000 – should be debited.

Asset (bank) decreased of RM2,000 – should be credited.

Journal			
Date	Particulars	Debit (RM)	Credit (RM)
2020 Jan 21	Cash  Bank  (Withdrew cash for office use)	2,000	2,000

Cash					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020 Jan 21	Bank	2,000			

Bank					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
			2020 Jan 21	Cash	2,000

Any entry which affects both cash and bank accounts are called a contra entry.

**BALANCING OFF ACCOUNTS**

Accounts are normally balanced off at the end of each month. The purpose of balancing off the accounts is to determine the balance left in each account. To determine the balance, the debit and the credit sides of an account are compared. If the **total debit is more than the total credit**, the account is said to have a **debit balance**. If the **total credit is more than the total debit**, the account has a **credit balance**. However, if the **total debit is equal to the total credit**, the account has a **zero balance**. Steps in balancing off accounts are explain below.

**ACCOUNTS THAT HAVE ONLY ONE TRANSACTION**

Bank					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020			2020		
Mar 2	Sales	1,000	Mar 31	Balance c/d ③	1,000
		① 1,000			① 1,000
		②			②
Apr 1	Balance b/d ④	1,000			

**STEPS**

- ① Balance the amount in both debit and credit side of an account.
- ② Place a line in both debit and credit side.
- ③ The difference between the totals is known as the balancing figure. If only one item is found on one side of the account, the balancing is done by recording the same amount on the opposite side as balance carried down (c/d).
- ④ The balance brought down (balance b/d) is the same figure as the balance c/d but recorded on the opposite side of an account and shown immediately below the total figure on the next day.

## ACCOUNTS THAT HAVE DEBIT AND CREDIT TRANSACTION

Bank					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020			2020		
Mar 2	Sales	1,000	Mar 5	Furniture	2,400
	Loan	3,000	31	Balance c/d ③	1,600
		① 4,000			① 4,000
		②			②
Apr 1	Balance b/d ④	1,600			

## STEPS

- ① Add up the total both debit and credit side of an account. Write down the larger amount on both the debit and credit.
- ② Place a line in both debit and credit side.
- ③ The difference figure is placed on the side of the smaller total as the balance carried down (balance c/d).
- ④ The balance brought down (balance b/d) is the same figure as the balance c/d but recorded on the opposite side of an account and shown immediately below the total figure on the next day.

### ACCOUNTS THAT HAVE EQUAL AMOUNT OF DEBIT AND CREDIT

Creditor					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020			2020		
Mar 2	Purchase return	200	Mar 5	Purchases	4,000
	Bank	3,800			
		<b>①</b> 4,000			<b>①</b> 4,000
		<b>②</b>			<b>②</b>

#### STEPS

- ① Add up the total both debit and credit side of an account. The amount will be equal for both sides.
- ② Place a line in both debit and credit side.

#### STEPS TO REMEMBER

At the end of the accounting period, the ledger account needs to be balanced off in four steps as follows:

- ① Total both the debit and credit sides of the ledger account.
- ② Calculate the balance (the difference between the total debits and total credits).
- ③ Add a one-sided entry to make the totals on both sides of the account equal. This is referred to the balance carried down or balance c/d.
- ④ Complete the double entry with an equal and opposite entry below the totals. This is referred to the balance brought down or balance b/d.

The examples below show the process of balancing off accounts for assets, liabilities, owner's equity, revenues and expenses.

## Question

Amir, started a business with cash in hand RM2,000 and cash at bank RM4,000 on 1 January 2020. During the month of January, the following transactions took place.

Date	Particular	RM
2020		
Jan 5	Cash sales	1,000
7	Received cheque for commission	200
12	Paid stationery by cheque	500
15	Sold goods on credit to Sarah	1,500
19	Sarah returned goods due to wrong design	100
20	Cash purchases of goods	300
22	Withdrew cash for own use	200
23	Cash withdrawn from bank for office use	1,000
25	Sarah settled her account fully by cash	
27	Received cheque from Ibrahim RM 700, discount allowed 50	

## Solution

Cash					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020			2020		
Jan 1	Capital	2,000	Jan 20	Purchases	300
5	Sales	1,000	22	Drawings	200
23	Bank	1,000	31	Balance c/d	4,900
25	Sarah	1,400			
		<u>5,400</u>			<u>5,400</u>
Feb 1	Balance b/d	4,900			

## Solution

Bank					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020			2020		
Jan 1	Capital	4,000	Jan 12	Stationery	500
7	Commission	200	23	Cash	1,000
27	Ibrahim	700	31	Balance c/d	3,400
		<u>4,900</u>			<u>4,900</u>
Feb 1	Balance b/d	<u>3,400</u>			

Capital					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020			2020		
Jan 31	Balance c/d	6,000	Jan 1	Cash	2,000
		<u>6,000</u>		Bank	4,000
					<u>6,000</u>
			Feb 1	Balance b/d	6,000

Commission					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020			2020		
Jan 31	Balance c/d	200	Jan 7	Bank	200
		<u>200</u>			<u>200</u>
			Feb 1	Balance b/d	200

## Solution

Sales					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020			2020		
Jan 31	Balance c/d	2,500	Jan 5	Cash	1,000
			15	Sarah	1,500
		<u>2,500</u>			<u>2,500</u>
			Feb 1	Balance b/d	2,500

Stationery					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020			2020		
Jan 12	Bank	500	Jan 31	Balance c/d	500
		<u>500</u>			<u>500</u>
Feb 1	Balance b/d	500			

Sarah					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020			2020		
Jan 15	Sales	1,500	Jan 19	Sales return	100
			25	Cash	1,400 *
		<u>1,500</u>			<u>1,500</u>

\* sales – sales return = cash paid  
 RM1,500 - RM100 = RM1,400

## Solution

Sales return					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020			2020		
Jan 19	Sarah	100	Jan 31	Balance c/d	100
		<u>100</u>			<u>100</u>
Feb 1	Balance b/d	100			

Purchases					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020			2020		
Jan 20	Cash	300	Jan 31	Balance c/d	300
		<u>300</u>			<u>300</u>
Feb 1	Balance b/d	300			

Drawings					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020			2020		
Jan 22	Cash	200	Jan 12	Balance c/d	200
		<u>200</u>			<u>200</u>
Feb 1	Balance b/d	200			

**Solution**

Ibrahim					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020			2020		
Jan 22	Balance c/d	750	Jan 27	Bank	700
				Discount allowed	50
		750			750
		750	Feb 1	Balance b/d	750

Discount allowed					
Date	Particular	Amount (RM)	Date	Particular	Amount (RM)
2020			2020		
Jan 27	Ibrahim	50	Jan 12	Balance c/d	50
		50			50
		50	Feb 1	Balance b/d	50

**REMEMBER**

Assets and expenses normally have a debit balance. The exception to these principles applies to purchases returns. Purchases return has a credit balance since it is reductions to purchases and contra for expenses accounts. Liabilities, owner's equity and revenues normally have credit balance. The exception to these principles applies to sales returns and drawings. These accounts have a debit balance since they are reductions to sales and capital and contra for capital and revenue accounts.

**QUESTION ①**

For each of the transaction below, identify the account to be debited and account to be credited by a sign /.

Transaction	Account to be debited	Account to be credited
a) Withdrew goods for business promotion.		
b) Deposited business cash into the bank.		
c) Sold goods by cash to Amira.		
d) Brought in cash into the business as a capital.		
e) Paid rental by cash.		
f) Received loan from bank.		
g) Purchased goods from Sinaran Trading.		
h) Sold an old furniture and received cheque.		
i) Returned goods to Sinaran Trading.		
j) Paid amount owe to Sinaran Trading by cheque.		
k) Withdrew goods for personal use.		

**QUESTION ②**

Show the entries recorded in the ledger accounts for the following transactions (without balancing off the accounts)

Date	Transactions
2020	
Jan 1	Started business with cash RM5,000 and bank RM7,000.
5	Cash purchase of stationery worth RM200.
7	Sold goods on credit to Bella value at RM500.
11	The owner withdrew goods RM600 for personal use.
17	Obtained a loan of RM20,000 and was deposited into the bank account.
21	Purchase goods worth RM700 and paid by cheque.
25	Payment of salary RM2,000 by cheque.

**QUESTION ③**

Record the following transactions in an appropriate ledger.

- (a) On 18 June 2020, Deena bought goods RM5,000 on credit from Ameena Trading. She received 5% trade discount. Record the transaction in the ledger.
- (b) On 30 June 2020, Deena paid amount owed to Ameena Trading by cheque after receiving cash discount of 2%. Record the transaction in the ledger.
- (c) On 21 June 2020, Deena sold goods RM18,000 on credit to Marisa Trading. She gave her 5% of trade discount. Record the transactions in the ledger.
- (d) On 30 June 2020, Marissa settled her debt by cheque after being allowed for a cash discount of 2%. Record the transaction in the ledger.

**QUESTION ④**

The accounting information of Harun Enterprise is given as follows. You are required to record all the transactions in the appropriate ledgers and balance off the ledger account.

Date	Transactions
2020 January 1	Started business with cash RM5,000 and bank RM11,000.
2	Purchased goods from Ali Trading at RM3,500.
5	Sold goods to Musa at RM2,500. Give 5% of trade discount.
10	Paid rent RM1,000 by cheque.
15	Cash sales RM750.
20	Received cash RM2,300 as full settlement from Musa.
25	The owner withdrew RM500 cash for personal use.

**QUESTION ⑤**

The transactions below were carried by Anis Enterprise in the month of March 2020. Record all the transaction into ledgers and balance off the ledger account.

Date	Transactions
2020 March 1	Started business with RM2,500 in cash.
3	Bought goods RM150 for cash.
4	Bought goods RM500 on credit from Atilia Trading.
7	Sold goods to Cherry Trading on credit amounted to RM600.
8	Sold goods RM100 for cash and was transfer to bank in the same date.
10	Returned goods value RM70 to Atilia Trading.
11	Cherry Trading returned goods valued RM50.
12	Bought stationery RM45 by cash.
14	Paid full payment amounted RM430 to Atilia Trading by cash.
20	Cherry Trading paid all her debts RM550 by cheque.
25	Paid salary RM500 by cheque.

**QUESTION ⑥**

Humayra Batik Sdn. Bhd. commenced a business in the month of May 2020. Record the following transaction in the appropriate ledger and balance off the ledger account.

Date	Transactions
2020 May 1	Started business with cash RM15,000 and bank RM50,000.
4	Purchased batik RM20,000 from Zaleha Batik. Credit term 5/14.
7	Bought stationery RM200 by cash.
10	Paid rent RM1,200 by online banking.
13	Paid wages by cash RM800.
17	Sold batik to Amyra Trading on credit RM12,000 with a trade discount of 5%.
18	Paid Zaleha Batik all amount owing to her by cheque.
23	Humayra took two pair of batik valued RM200 from the business as a birthday gift to her friend.
27	Cash sales to Julia RM800.
29	Amyra Trading settled all her debts RM11,000 by cheque.

## QUESTION ⑦

The following balances are extracted from the book of Hanzolah Trading as at 1 January 2020.

	RM
Cash at bank	30,000
Cash in hand	500
Land and building	310,000
Debtor – Afifah Enterprise	16,000
Creditor- Cemerlang Trading	39,000
Capital	317,500

During the month of January, the following transactions took place. Record the transactions in the appropriate ledger and balance off the ledger account.

Date	Transactions
2020 Jan 3	Received cheque from Afifah Enterprise RM5,000. Cash discount RM300.
5	Owner brought in computer costing RM7,000 as additional capital.
8	Purchased goods RM6,500 on credit from Cemerlang Trading.
10	Sold goods RM8,000 on credit to Afifah Enterprise with trade discount 5%.
15	Owner withdrew cash RM1,500 from business bank for personal use.
20	Paid stationery RM400 by cash.
25	Owner took goods RM300 for personal use.
30	Withdrew business cash at bank RM300 for office use.

**QUESTION ⑧**

Atiqah Trading is a clothes supplier in Port Dickson. The following balances were obtained from the books on 1 March 2020.

	RM
Cash at bank	55,000
Cash in hand	500
Machines	9,000
Vehicles	30,000

The transactions for the month of March 2021 are as follows. Record the transactions in the appropriate ledger and balance off the ledger account.

Date	Transactions	Amount (RM)
2020 Mar 3	Purchased machine on credit from Berjaya Sdn Bhd RM10,000 and paid deposit RM5,000 by cheque.	
9	Purchased goods on credit from Diana Enterprise.	20,000
12	Sold goods on credit to Daud.	16,500
16	Paid rent by cheque.	3,000
24	Daud settled all her amount due by cheque.	16,000
30	Cash sales to Salleh.	1,000

**QUESTION ⑨**

The accounting information of Harun Enterprise is given as follows. Record all the transaction into ledgers and balance off the ledger account.

Date	Transactions
2020	
Feb 1	Started a business with cash in hand RM30,000 and furniture RM9,000.
4	Received invoice from Nizam Trading for goods purchase RM2,500.
8	Issued invoice to Jamal for goods sold RM3,000.
12	Issued credit note to Jamal RM100.
18	Received cash from Jamal RM2,000.
22	Paid cash of RM300 for utility expense.
24	Cash purchases amounting RM1,000.
26	Owner took cash RM500 for personal use.
27	Paid salary RM900 by cash.

**QUESTION ⑩**

The following transactions were taken from Linda Enterprise on 30 April 2020. Record all the transaction into ledgers and balance off the ledger account.

Date	Transactions
2020	
April 1	Commenced a business with cash in hand RM8,000 and cash at bank RM32,000.
2	Cash purchases RM2,300
3	Bought furniture RM500 from Syarikat Perabot Dino.
7	Cash sales RM1,900.
8	Purchased goods RM12,000 from Rahmat Store.
10	Sold goods RM6,700 to Syarikat Raif.
15	Paid insurance RM500 by cash.
17	Purchased goods on credit RM4,500 from Syarikat Nisa.
19	Withdrew cash RM450 for personal use.
20	Paid salaries RM550 by cheque.
22	Withdrew goods RM830 for promotion.
24	Sold goods RM500 by cash.
25	Received commission RM350 by cash.
27	Paid rental RM800 by cheque.
30	Paid Rahmat Store RM4,000 by cheque.

**QUESTION 11**

Sakinah, a sole proprietor started her business on 1 January 2020. The following were the transactions occurred in January 2020.

Date	Transaction
2020	
Jan 1	Started business with cash RM5,000 and bank RM50,000.
3	Purchased furniture from Ali Perabot RM10,000 and paid by cheque
5	Purchased goods on credit RM4,500 from Saleha.
9	Cash sales RM5,000 and banked in on the same day.
10	Purchased goods from Aisyah Enterprise RM7,300.
12	Received a credit note from Aisyah Enterprise RM300.
15	Sent invoice to Hamdan RM6,000 for goods sold.
18	Hamdan returned faulty goods RM250.
20	Brought in personal vehicle for office use RM35,000.
21	Sold goods on credit to Musa RM4,400.
22	Musa returned faulty goods RM400.
25	The owner took goods for personal used RM300.
27	Received an invoice from Aisyah Enterprise RM3,200 for goods purchased.
30	Returned incorrect goods to Aisyah Enterprise RM200.

You are required to record the above transactions in the appropriate journal and post into the ledger accounts.

Scan the QR code to see the solution



[https://drive.google.com/file/d/1yzGSliQuAtTJz\\_eL1xvkzASv63BxVJRy/view?usp=sharing](https://drive.google.com/file/d/1yzGSliQuAtTJz_eL1xvkzASv63BxVJRy/view?usp=sharing)

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