SIMPLE ACCOUNTING DEFINITIONS

For Students of Tourism & Hospitality



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PREFACE

This e-book is designed to guide students at the foundation stage in understanding simple accounting definitions. It is written to assist tourism and hospitality students without accounting backgrounds. The topics in this book are written based on the Ministry of Higher Education syllabus and prepared specifically for Tourism and Hospitality Department students.

The topic focus of this e-book is basic accounting. The content enables students to understand the fundamental principles of accounting. Questions at the end of e-book are provided to ensure students further comprehension.

It is hoped that students can benefit this book and help students to achieve excellent results.

ACKNOWLEDGEMENT

The completion of this undertaking could not have been possible without the participation and assistance of so many people whose names may not all be enumerated. Their contributions are sincerely appreciated and gratefully acknowledged.

However, we would like to express our deep appreciation and indebtedness, particularly to Mr Yusdi Bin Ismail, our head of department for his endless support, and kind and understanding spirit during our journey with this book.

To all friends and others who in one way or another shared their support, either morally, financially, or physically, thank you.

Above all, to the Great Almighty, the author of knowledge and wisdom, for his countless love.

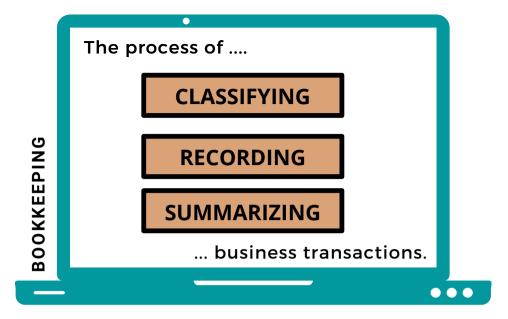
Thank you.

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INTRODUCTION OF ACCOUNTING





DEFINITION OF

The process of

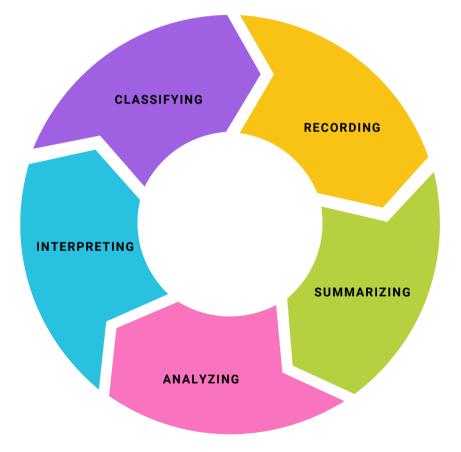
CLASSIFYING

RECORDING

SUMMARIZING

business transactions in monetary units and interpreting the financial data of a business in order to assist stakeholders in making decisions. ACCOUNTING

DEFINITION OF



DEFINITION OF



Accounting data from business documents are arranged and categorized. Examples of business documents are receipts, invoices.



Transactions are recorded in daybooks and ledgers.



Accounting data for a particular period are summarized in the form of financial statements. Examples of financial statements are Trading Accounts, profit, and Loss Accounts and Balance Sheet.



Financial statements are analysed and the result of the analysis is used as a guide to make decisions.

CONCEPTS AND PRINCIPLES



SEPARATE BUSINESS

FNTITY

A business and its owner are two separate entities. The business's transactions must be accounted separately from the owner's trasactions.



MONETARY UNIT

We should report all the business transactions or events in monetary units. the monetary value is assumed to be stable.



A business will continue to expand and operate in the future without being closed or sold.

GOING CONCERN



Business should record the business activities based on the cost value or the actual price stated in the source document, that is the current value at the time of the transaction.



Business must avoid overstating the values of assets and revenue, and understand liabilities and expenses when recording transactions.



PRUDENCE

The practice of ensuring that the company is not overvalued by preventing the income and assets from being overstated in the company's reporting.



The accounting records and reports be based upon objective evidence.

OBJECTIVITY



FULL DISCLOSURE

Business should report relevent, reliable, timely, unbiased and free from mistakes or errors information about the business activities.

DOUBLE ENTRY

Basic accounting recording system. it must have debit and credit for every transaction.



Business activities can be divided into specific periods for example a month, a quarter, six months, or a year.



MATCHING

This principle helps businesses to determine the profit or loss incurred for the period by deducting the related expenses from the revenue earned in the same period.

CYCLE OF ACCOUNTING



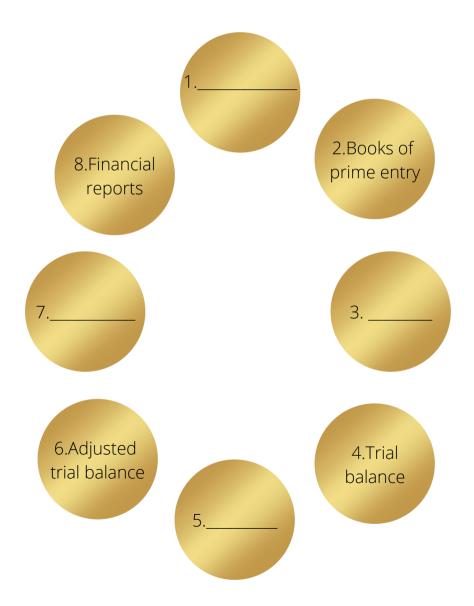
CHECK YOUR UNDERSTANDING..

Match the following accounting principles with the correct explanation

Terms	Explanation
Historical cost	caution is used by recording losses when expected but gains when certain
Going concern	all transactions are recorded at their original cost
Separate business entity	money currency is used as a unit of measure
Full disclosure	revenue should be offset by all the expenses incurred
Accounting period	actual and accurate financial information
Matching	debit and credit for every transaction
Conservatism	the assumption that business has the resources needed to continue operating indefinitely
Monetary unit	financial records are prepared for a distinct unit regarded as detached from the individuals that own it.
Objectivity	each transaction recorded based on verified and unbiased information
Double Entry	a calendar or fiscal year, week, month, or quarter, etc.

CHECK YOUR UNDERSTANDING..

Fill in the accounting cycle below according to the right sequence.



SOURCE OF DOCUMENTS



SOURCE DOCUMENT

USED BEFORE BUSINESS TRANSACTIONS

ENQUIRY LETTER

 send by purchaser to the seller to get the information about the product want to buy.





RESPONSE LETTER

 a letter sends by seller to the purchaser to response the enquiry letter.

<u>ORDER FORM</u> /PURCHASE ORDER

• send by the purchaser to the seller to order the goods.



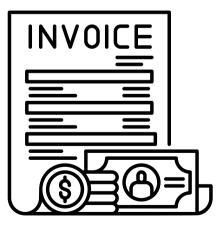
SOURCE DOCUMENT

USED DURING BUSINESS TRANSACTIONS

DELIVERY NOTES

 send by supplier to the purchaser with the goods and the buyer signs and returns this to the supplier as proof of receives.



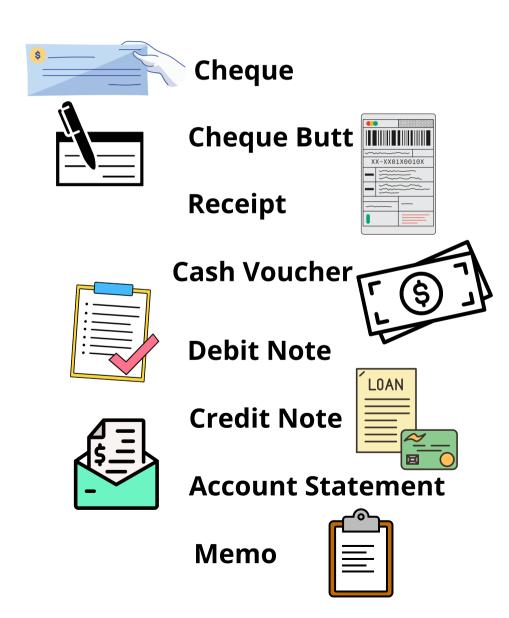


INVOICE

 send by the supplier to the purchaser to inform the credit sales.

SOURCE DOCUMENT

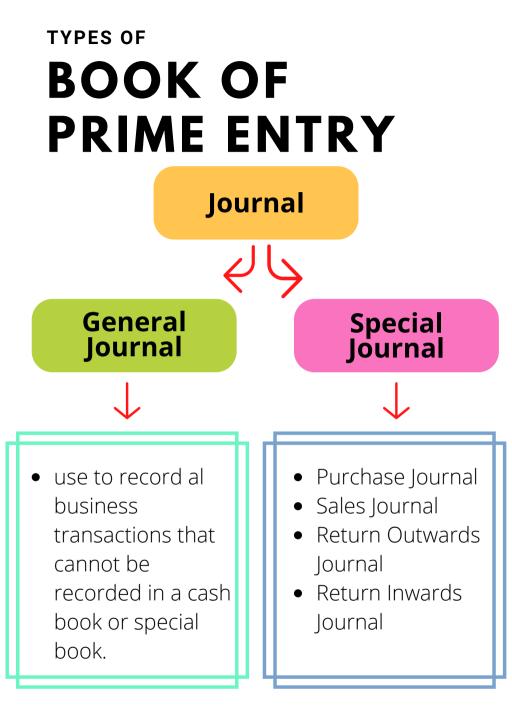
USED AFTER BUSINESS TRANSACTIONS



BOOKS OF PRIME ENTRY

CHAPTER

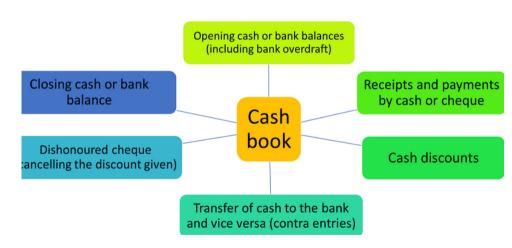




TYPES OF BOOK OF PRIME ENTRY

Cash Book

• the book of first entry used to record receive and payments by cash and cheque.



CHAPTER

4 LEDGER



What is Ledger?

A ledger is a book containing accounts in which the classified and summarized information from the journals is posted as debits and credits.

Once the transaction has been recorded in the journal, the next step is to post the transactions in a book called ledger.



Ledger Format

DEBIT









Money spent or costs incurred by a business to generate revenues.





Any resource owned or controlled by a business that are expected to result in future economic value



CREDIT

LIABILITIES

Debts that the company has such bank loans, mortgages, unpaid bills, or any other sum of money owed.

EQUITY/CAPITAL

Money available to pay for day-to-day operations and to fund future growth



Total amount of income generated by sales .





Drawing

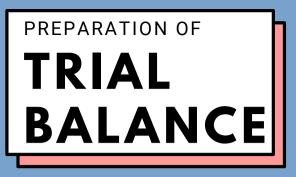
Expenses

Assets

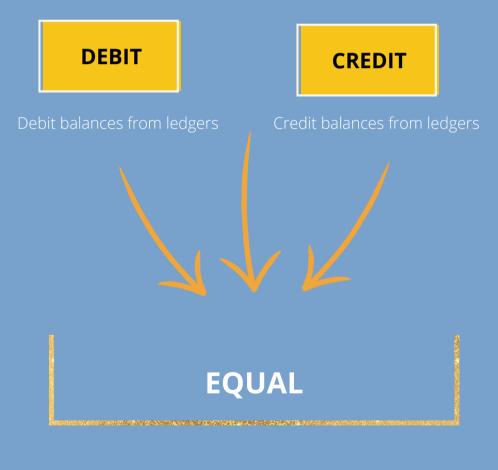
Liability

5 TRIAL BALANCE





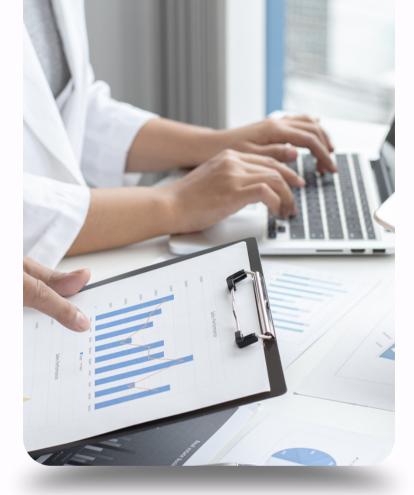
A trial balance is a financial statement that consist of account balances in the ledgers at the end of accounting period.



ADJUSTMENT



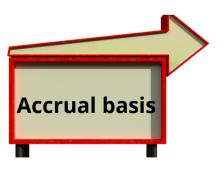
CHAPTER



The account balances in trial balance might require adjustments based on:



Revenues are recorded when **cash is received** and expenses are recorded when **cash is paid.**



Revenues and expenses are recorded regardless of whether they are received or paid.

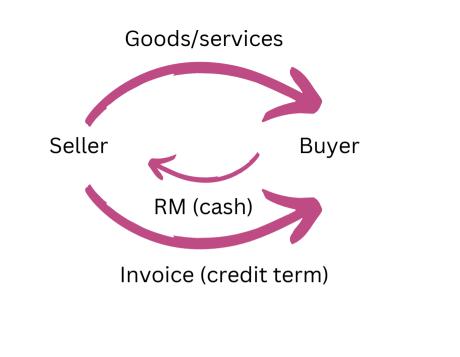
Adjusting Entries

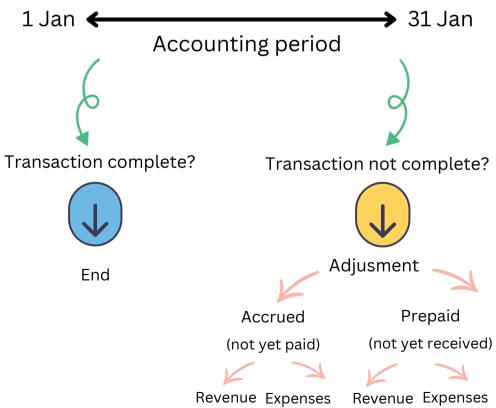
Accrued expenses

Prepaid expenses

Advanced/ Unearned Revenue







PREPARATION **OF FINANCIAL STATEMENTS**



Financial Statement

Written records that indicate the business activities and the financial performance of a company which includes:



Trading Account

A financial statement that details out total sales, total purchases and direct expenses relating to purchase and sales.

Profit & Loss Account

A financial statement that summarizes the revenues, costs, and expenses incurred during a specified period.

Balance Sheet

A financial statement that reports a company's assets, liabilities, and shareholder equity at a specific point in time.

Income Statement

A financial statement that shows you the company's income and expenditures.

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