Polytechnic's eBook Series

DPA10183 BUSINESS ACCOUNTING

Haszlina Binti Hashim
Jawariah Binti Mamat

BUSINESS ACCOUNTING

WRITERS

Haszlina binti Hashim
Jawariah binti Mamat

EDITOR

Dr. Intan Idiana Binti Hassan

ILLUSTRATOR

Haszlina binti Hashim
Jawariah binti Mamat

Politeknik Ungku Omar,
Jalan Raja Musa Mahadi,
31400 Ipoh, Perak
Tel: 05-545 7656
http://www.puo.edu.my
https://www.facebook.com/politeknikungkuomarofficial

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About the Authors

HASZLINA BINTI HASHIM

Haszlina binti Hashim is a lecturer at Politeknik Ungku Omar, Perak. She has a Bachelor in Accounting (Hons) from University Utara Malaysia and holds a Master of Technical and Vocational Education from Kolej Universiti Teknologi Tun Hussien Onn (KUiTTHO). She has more than 16 years of teaching experience.

JAWARIAH BINTI MAMAT

Jawariah binti Mamat is a lecturer at Politeknik Ungku Omar, Perak. She has a Bachelor in Accounting (Hons) from University Utara Malaysia. She has more than 16 years of teaching experience.

PREFACE

Business Accounting eBook is a one of Polytechnic's eBook Series. It is written in such way that are easy to understand the basic concepts in accounting field.

This book contains only two chapters in Business Accounting course, Chapter 1 Introduction to Business Accounting and Chapter 2 Accounting Classification and Accounting Equation. This eBook is intended to complement the teaching material for the non-accounting students at the diploma level in Polytechnics.

We would also like to thank all those who have contributed either directly or indirectly towards the completion of this eBook. Lastly, we wish all the students to be successful in their study.

Haszlina Binti Hashim
Jawariah Binti Mamat

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CHAPTER 1

INTRODUCTION TO BUSINESS ACCOUNTING

Jawariah Binti Mamat

INTRODUCTION TO BUSINESS ACCOUNTING

After completing this chapter, students should be able to:

1.1 Define accounting and bookkeeping.
1.2 Describe the users of accounting information.
1.3. Describe the roles of an accountant.
1.4 Discuss each types of accounting field.
1.5 Describe the approved accounting standards in Malaysia.
1.6 Describe the functions of regulatory bodies in Malaysia.

DEFINITION OF ACCOUNTING AND BOOKKEEPING

ACCOUNTING

Accounting is the process of recording, classifying, summarizing, reporting, analyzing and interpreting business activities into monetary units to assist users of this information in decision making.

BOOKKEEPING

Bookkeeping is the process of recording business activities into the books of accounts. It only involves one step of the accounting process

DEFINITION OF ACCOUNTING AND BOOKKEEPING

ACCOUNTING is the process of recording, classifying, summarizing, reporting, analyzing and interpreting business activities into monetary units to help the organizations and outsider users of this information for decision making

Summarising

Summarizing the data after each accounting period, such as a month, quarter or year. The data must be presented in a manner which is easy to understand .

Classifying

to identifying and separating accounts into different categories such as real, personal, nominal or assets, liabilities , owners equity , incomes and expenses. The rules of debit and credit used correctly.

Recording

Recording is first step in accounting and also known as bookkeeping. In this phase, all financial transactions are recorded in a systematical and chronological manner in the appropriate books or databases. The recorders very important in preparing financial statements.

Interpreting

is a statement issued by an accounting board clarifying how accounting standards should be applied. Interpretations are generally not requirements, but rather outline best practices and provide further explanation.

Analysing

is a process in which detailed line items in a financial transaction or statement are carefully examined for a given account, often by a trained auditor or accountant.

Reporting

compilations of financial information that are derived from the accounting records of a business. These can be brief, custom-made reports that are intended for specific purposes, such as a detailed analysis of sales by region, or the profitability of a specific product line.

BOOKKEEPING is the only process of recording business activities into the books of accounts. The first step in accounting process.

1.1 THE IMPORTANCE OF ACCOUNTING AND BOOK KEEPING

1

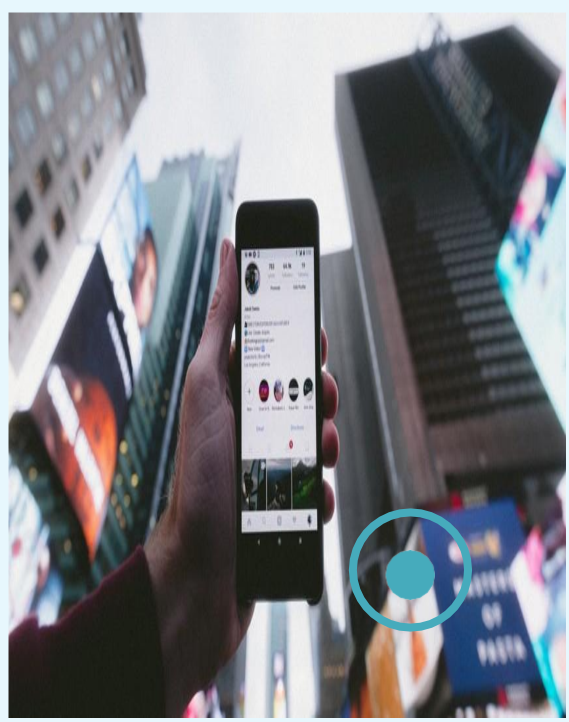
Accounting involves recording, interpreting, classifying, analysing, reporting and summarizing financial data.

2

Bookkeeping, helps in recording financial transactions. This is the first phase of accounting. Bookkeeping is all about recording details in business transaction in chronological order.

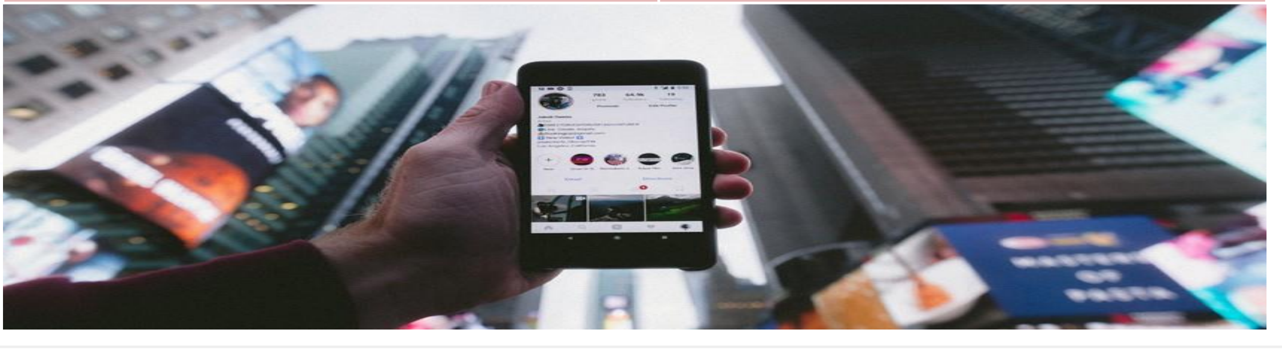
3

Accountants can, analyse this financial transactions through statements and business reports. These follow accounting principles, standards and requirements. This financial data analysed by accountants helps in assessing the financial condition of the business and its performance for decision making.



1.2 DIFFERENCES BETWEEN ACCOUNTING AND BOOKKEEPING

Accounting	Bookkeeping
Represent and contain the complete accounting process	Only the recording process
Involves more technical understanding and advanced accounting procedures	Requires a basic understanding and practice of financial accounting
Accounting task are performed by accounting graduates or certified professional accountant	Is performed by non-accountants who have gained the necessary training and experience in bookkeeping
Responsible for a wide range of accounting tasks and manages the various financial decisions from the respective business departments.	Comprises only the simple accounting task in a financial department such as : • Issue bill from cash or credit activities • Records receipts from customers • Verify and record invoices from suppliers

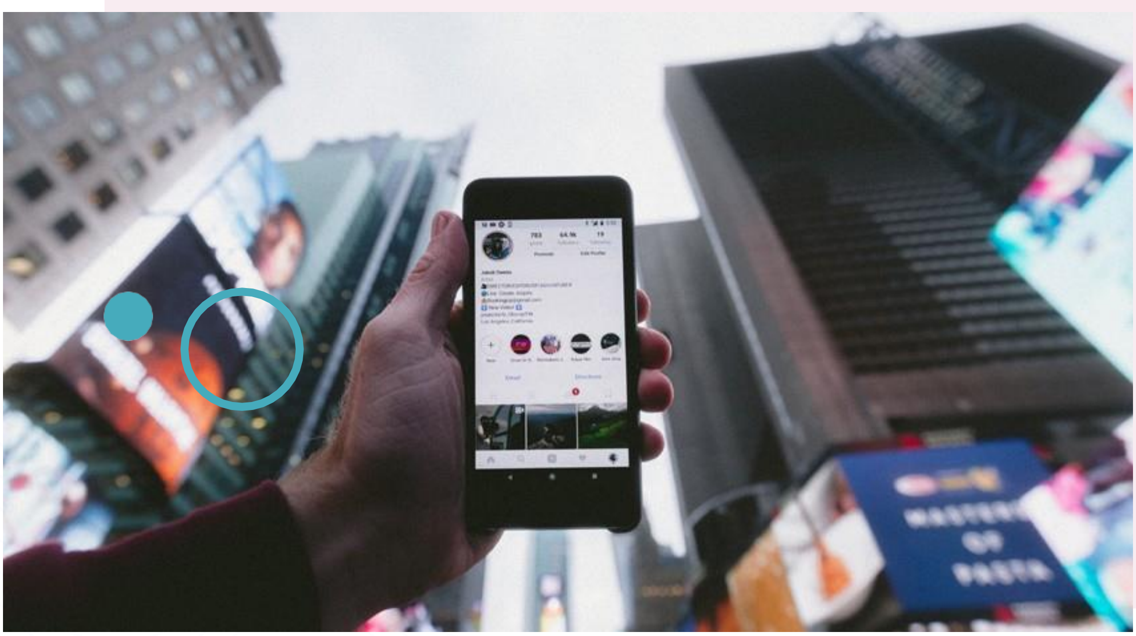


1.3 Accountant

An accounting professional who provides the management of an organization with reliable and relevant financial information for decision making.

1.4 Roles of an Accountant

The management may need such information to help them decide whether they need to expend or minimize production, to increase or to reduce supply with a different company, to expand or to reduce the budget in certain area, or to continue or to stop business operation.



AMONG THE ESSENTIAL DUTIES AND RESPONSIBILITIES OF AN ACCOUNTANT ARE:

1) Compiling financial statements (such as the balance sheet, income statement, and statement of profit and loss).

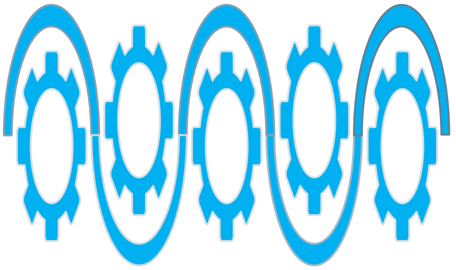
2) Performing financial calculations and Reporting on Financial Performance

3) Analysing financial data to provide organizations with information that will assist in future planning and decision-making.

4) Ensure compliance with generally accepted accounting principle and company procedure

5) Review, investigate and correct errors and inconsistencies in financial entries, documents and reports.

6) Provide financial advice and alert the management of any risk-prone business activities such as abnormal increases in business operations excessive charges and potential penalties



1.5 USERS OF ACCOUNTING INFORMATION

The objective of financial reporting to provide financial information and is useful to existing and potential investors in making decisions about providing resources to the entity.

Internal users

Management of organization who uses the information for internal decision making

External users

Outsider parties who use the accounting information for their specific needs

EXAMPLES OF INTERNAL USERS

Owners

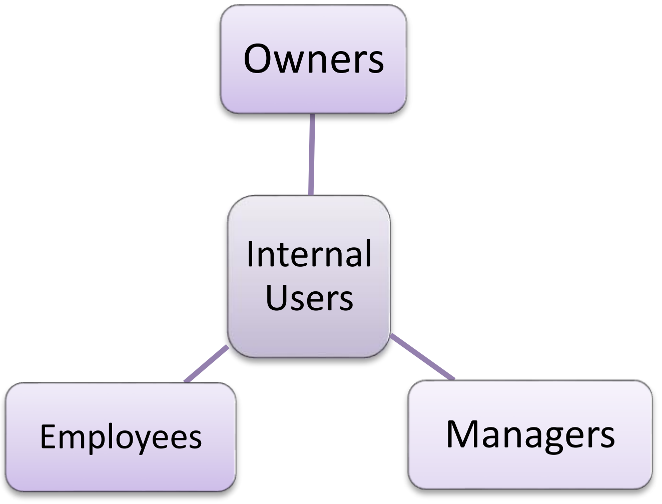
Accounting information helps owners in assessing the level of stability in business, knowing how risky their business is and profitability of the overall business.

Managers

Managers need the data to form their business decisions such as investment, financing and pricing decisions. Managers can allocate the financial, human and capital resources towards competing needs of the business through the budgeting process

Employees

Employees also interested in knowing how well a company is performing as it could have implications for their job security and income.



EXAMPLES OF EXTERNAL USERS

Potential Shareholders

Investors need to know how well their investment is performing. Investors primarily rely on the financial statements published by companies to assess the profitability, valuation and risk of their investment.

Governments

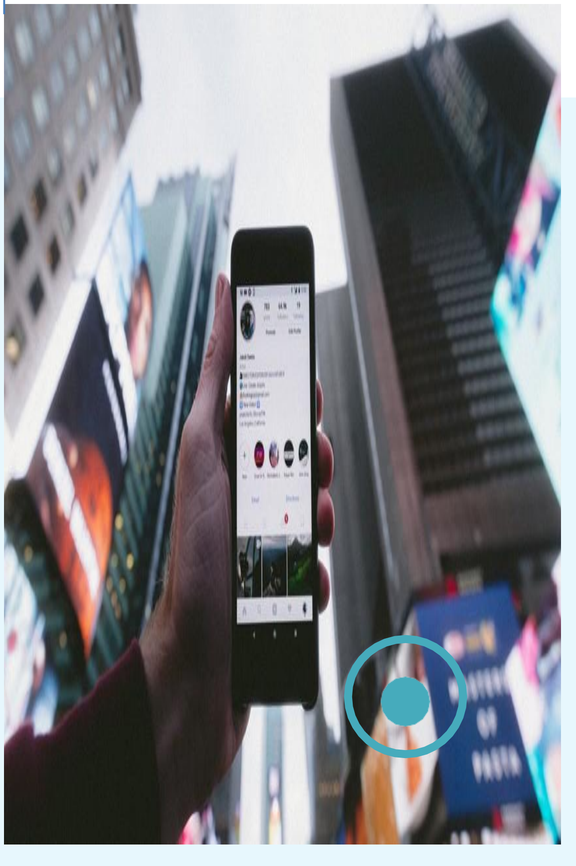
Government ensures that a company's disclosure of accounting information is in accordance with the regulations that are in place to protect the interest of various stakeholders who rely on such information in forming their decisions.

Public at large

General public may also be interested in accounting information of a company. These may be journalists, analysts, academics, activists and individuals with an interest in economic developments.

Creditors and lenders

Lenders offer loans and other credit facilities on terms that are based on the assessment of financial health of borrowers.



1.6 BASIC ACCOUNTING CONCEPTS

A set of conventions used by accounting practitioners as a framework for the preparation , consistency , approach and treatment of issues or scenarios which occur during the accounting work. The concepts of basic accounting ensure that the user of financial information are not mislead by any adoption of a accounting policies and practices that go against the spirit of the accounting profession

Accounting Principle

- Historical Cost Concept
- Matching Concept
- Objectivity

Accounting Assumptions

- Consistency concept
- Accrual Concept
- Going Concern Concept
- Money Measurement Concept
- Business Entity Concept
- Periodicity Concept

Accounting Constraints

- Prudence Concept
- Materiality Concept

ACCOUNTING PRINCIPLE

1 HISTORICAL COST

A historical cost is a measure of value used in accounting in which the value of an asset on the balance sheet is recorded at its original cost when acquired by the company. The historical cost method is used for fixed assets accepted accounting principles (GAAP).

2 MATCHING

Matching principle is the accounting principle that requires that the expenses incurred during a period be recorded in the same period in which the related revenues are earned. This principle recognizes that businesses must incur expenses to earn revenues

3 OBJECTIVITY

The objectivity principle is the concept that the financial statements of an organization be based on solid evidence. The intent behind this principle is to keep the management and the accounting department of an entity from producing financial statements that are slanted by their opinions and biases.

ACCOUNTING ASSUMPTION

Consistency

The consistency principle of accounting states that a company should use the same accounting policies and methods for recording the transactions from one financial period to another.

Money Measurement

Money Measurement Concept in accounting is only monetary terms are recognized in the financial statements

Accrual

Accrual concept requires in recording revenues when they are earned and not when they are received in cash, and recording expenses when they are incurred and not when they are paid

Business Entity

The business entity concept known as separate entity and states that only business transaction must be recorded separately from personal those of its owners and any other business.

Periodicity

Time period assumption definition also known as the periodicity assumption. Ongoing activities of a business into periods of a year, quarter, month, week, etc

Going Concern

The going concern concept assumes that during and beyond the next fiscal period a company will complete its current plans, use its existing assets and continue to meet its financial obligations

ACCOUNTING CONSTRAINTS

PRUDENCE

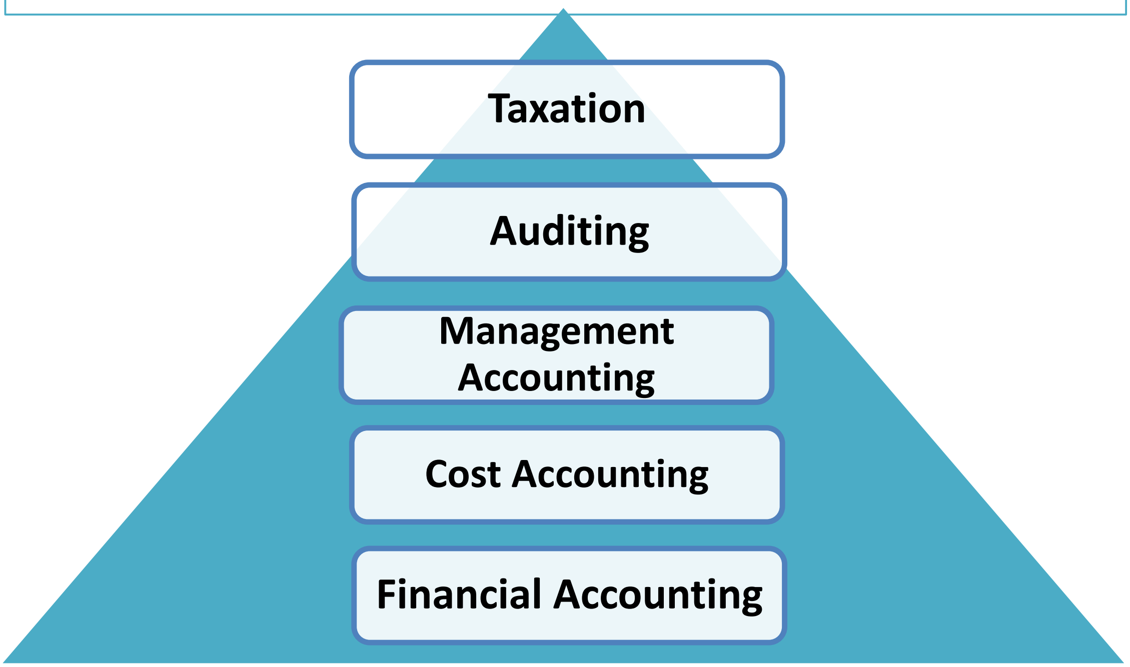
Prudence concept of accounting states that an entity like revenues, expenses, assets, profits, liabilities and loses must not underestimate.

MATERIALITY

The materiality principle states that an accounting standard can be ignored if the net impact of doing so has such a small impact on the financial statements.

1.7 TYPE OF ACCOUNTING FIELD

Focus On Different Aspects Of The Profession



1. Financial Accounting	Financial reporting, is the process of producing information for external use usually in the form of financial statements
2.Cost Accounting	the type of management accounting which is a specialized area of expertise concerned with analyzing the costs of products manufactured or sold by a company.
3. Management Accounting	produces information primarily for internal use by the company's management.
4. Auditing	involves tracking, reporting, and analyzing financial transactions. An **audit** is an independent examination of **accounting** and financial records and financial statements to determine if they conform to the law and to generally accepted **accounting** principles (GAAP).
5. Taxation	refers to accounting for the tax related matters. It is governed by the tax rules prescribed by the tax laws of a jurisdiction.

1.8 THE APPROVED ACCOUNTING STANDARD IN MALAYSIA

- **Accounting standards** are issued by the **Malaysian Accounting Standards** Board (**MASB**) by virtue of the power conferred by the Financial Reporting Act, 1997.

- MPERS is based substantially on the International Financial Reporting **Standard** for Small and Medium-sized Entities (**IFRS**) issued by the IASB in July 2009.

1.9 THE FUNCTION OF REGULATORY BODIES IN MALAYSIA

MIA (Malaysian Institute of Accountants)

Malaysian Institute of Accountants (MIA) is the umbrella body for the accountancy profession in Malaysia. It was established under the Accountants Act, 1967 to regulate and develop the accountancy profession in this country.

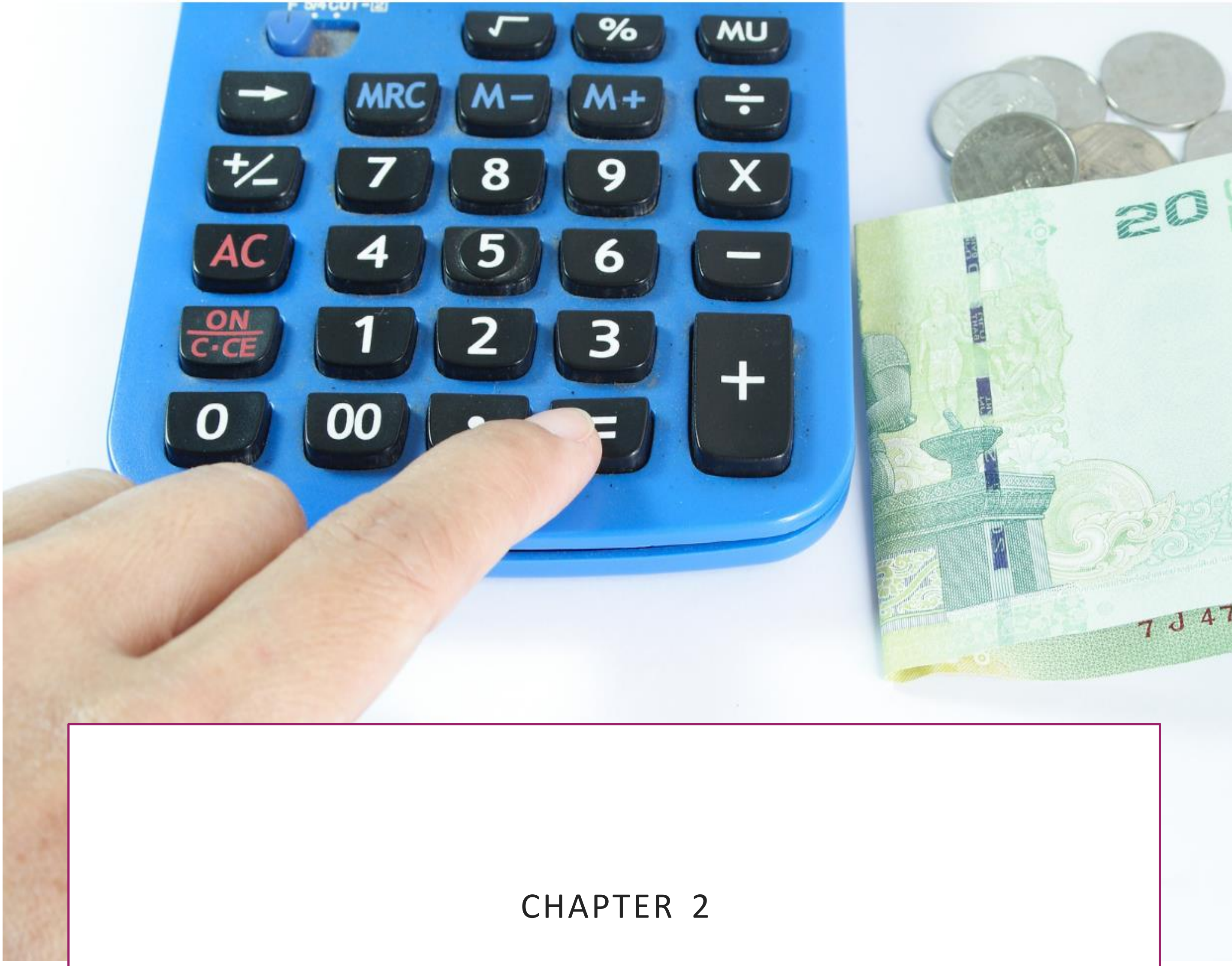
MASB (Malaysian Accounting Standards Board

The Malaysian Accounting Standards Board (MASB) was established under the Financial Reporting Act 1997 (Act) as the standard-setting body of FRF whose functions shall be the determination and issuance of accounting standards for the preparation of financial statements, which are required to be prepared or lodged under any law administered by the Securities Commission Malaysia, Bank Negara Malaysia or the Registrar of Companies.

CCM (The Companies Commission of Malaysia)

Logo of Suruhanjaya Syarikat Malaysia (SSM)

Malaysia-Companies Commission of Malaysia (CCM) is a statutory body which regulates company and business affairs in Malaysia. It is a result merger between the Registrar of Companies (ROC) and the Registrar of Businesses (ROB) in Malaysia on April 16, 2002.



CHAPTER 2

ACCOUNTING CLASSIFICATION AND ACCOUNTING EQUATION

Haszlina Binti Hashim

ACCOUNTING CLASSIFICATION AND ACCOUNTING EQUATION

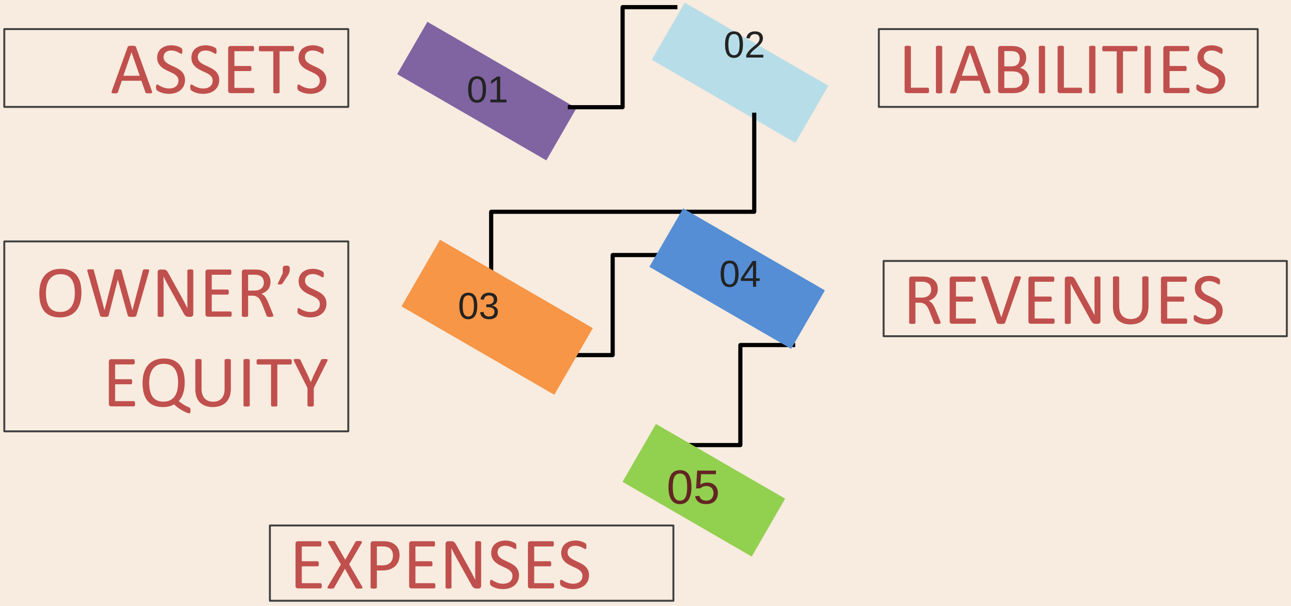
After completing this chapter, students should be able to:

1.0 Discuss the accounting classification and accounting equation.
2.0 Elaborate the definition of assets, owner's equity and liabilities.
3.0 Elaborate the definition of revenues and expenses.
4.0 Elaborate the effects of transaction on the accounting equation.

ACCOUNTING CLASSIFICATION

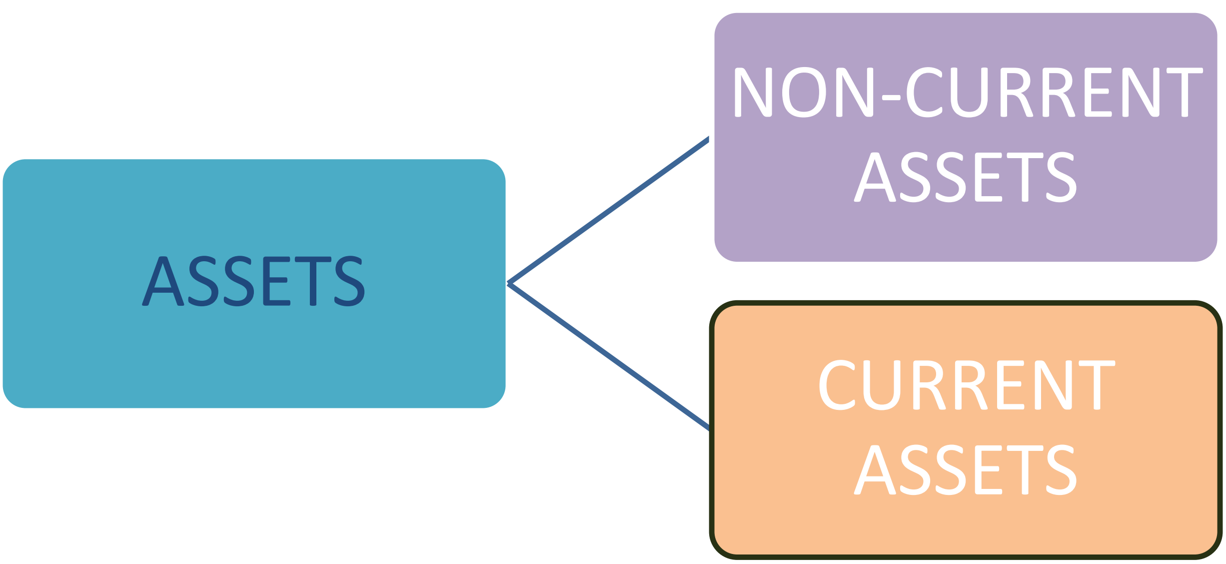
2.1 ACCOUNTING CLASSIFICATION

Business transactions are involved with five categories of accounts:



ASSETS

- An assets is a present economic resource controlled by the entity as a result of past events.
- An economic resource is a right that has the potential to produce economic benefits.
- There are two types of assets:
    i. Non-current Assets
    ii. Current Assets



NON-CURRENT ASSETS

- It is used for running business operation and not for resale with useful life more than 1 year.
- Non-current assets are divided into three categories:

i. Tangible non-current assets.
ii. Intangible non-current assets.
iii. Investment.

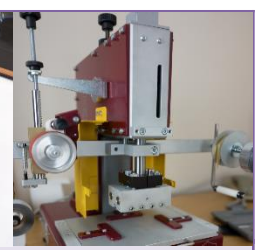
Tangible non-current assets
- Land and building
- Machinery
- Office equipment
- Furniture and fittings
- Motor vehicles

Intangible non-current assets
- Franchise
- Goodwill
- Patent
- Trademark

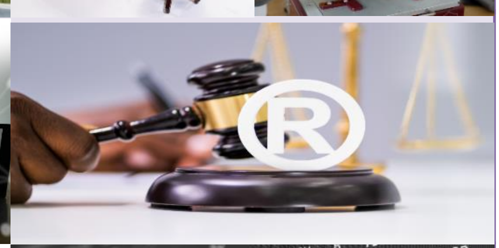
Investment
- Fixed deposit
- Quoted and unquoted investment

Tangible non-current assets



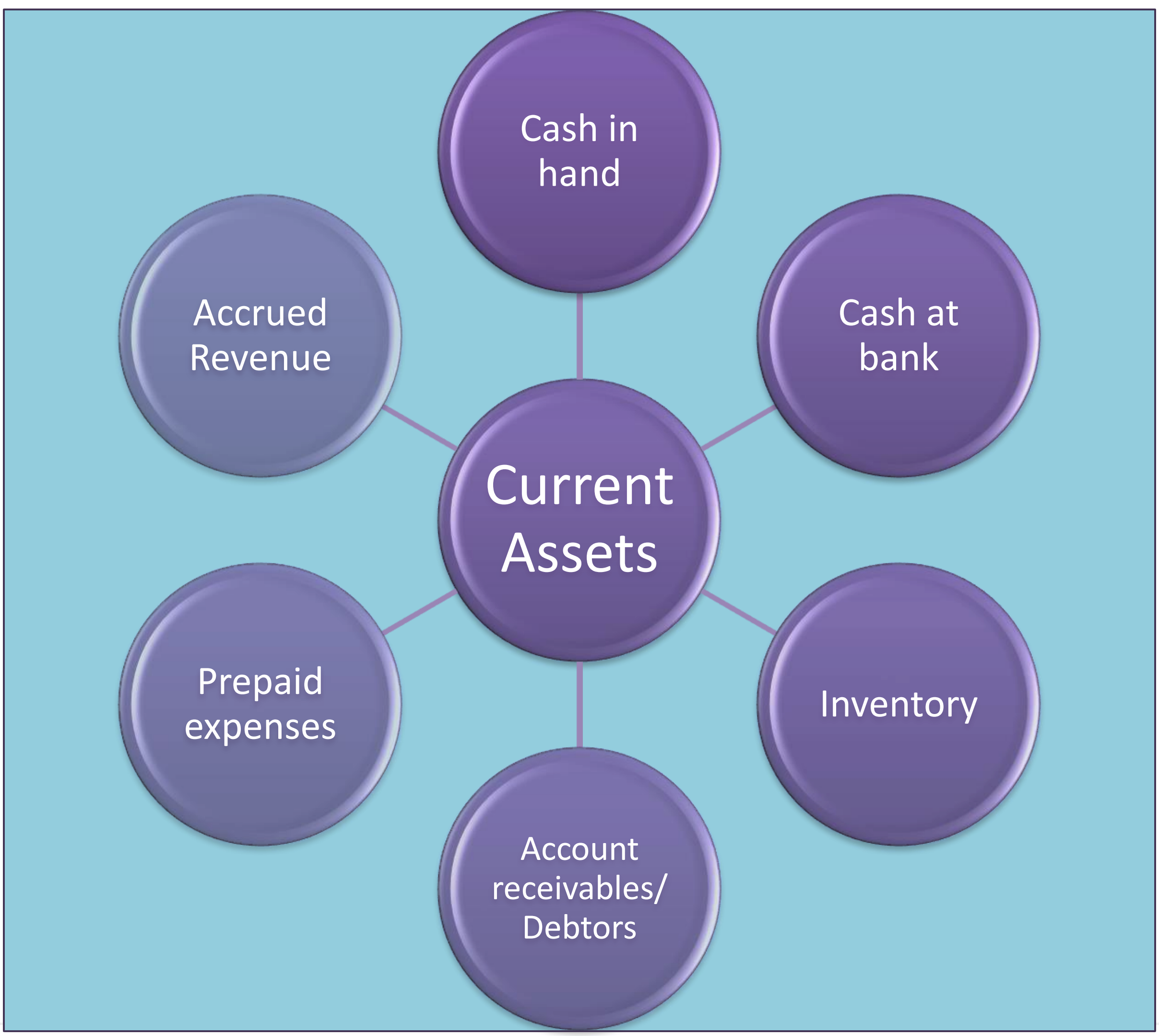
Intangible non-current assets



Investment


CURRENT ASSETS

- Assets that are either cash or can be easily converted into cash within a year or an accounting period.
- These assets constantly change their form during an accounting period.



LIABILITIES

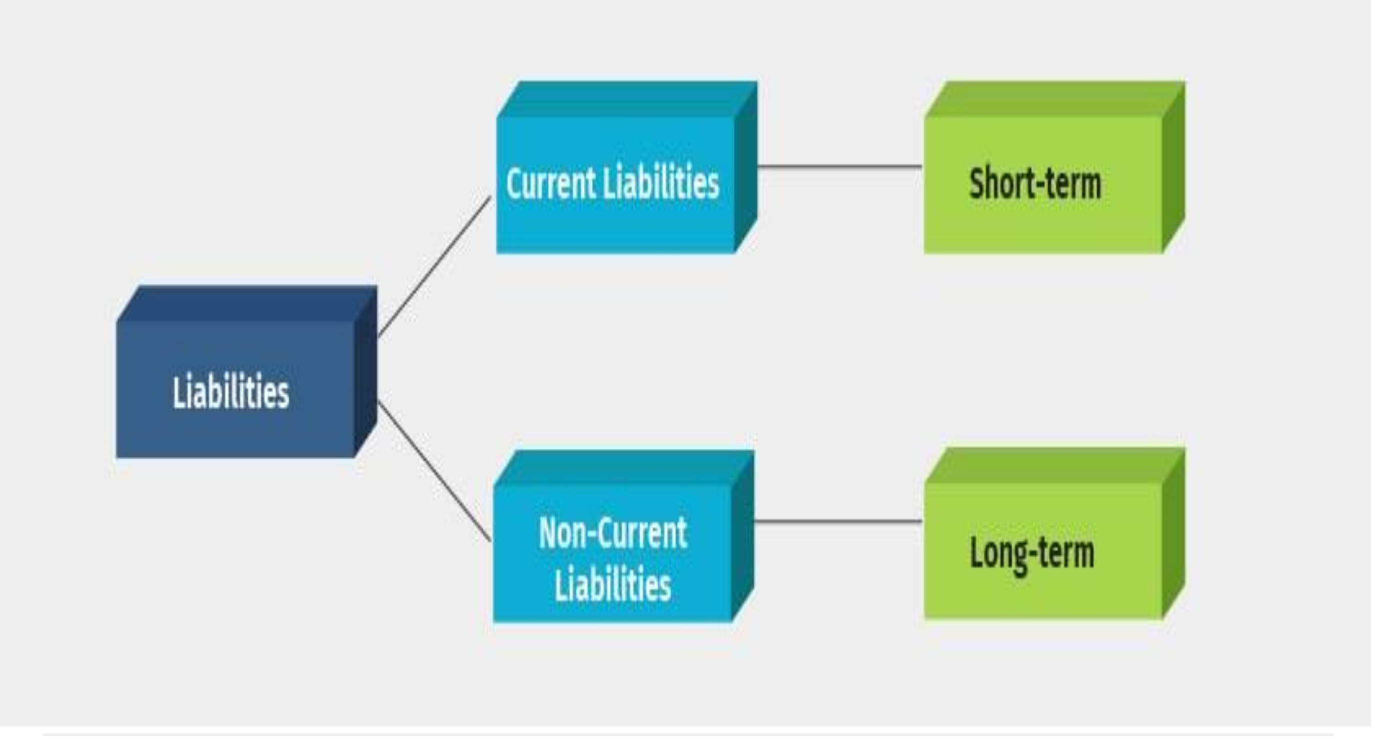
- A liability is a present obligation of the entity to transfer an economic resource as a result of past events.
- It is financial obligations of the business to external parties.

NON-CURRENT LIABILITIES

- The amounts owed by the business that are not repaid within one year.
- Example: Long-term loans, mortgages on premises and debentures.

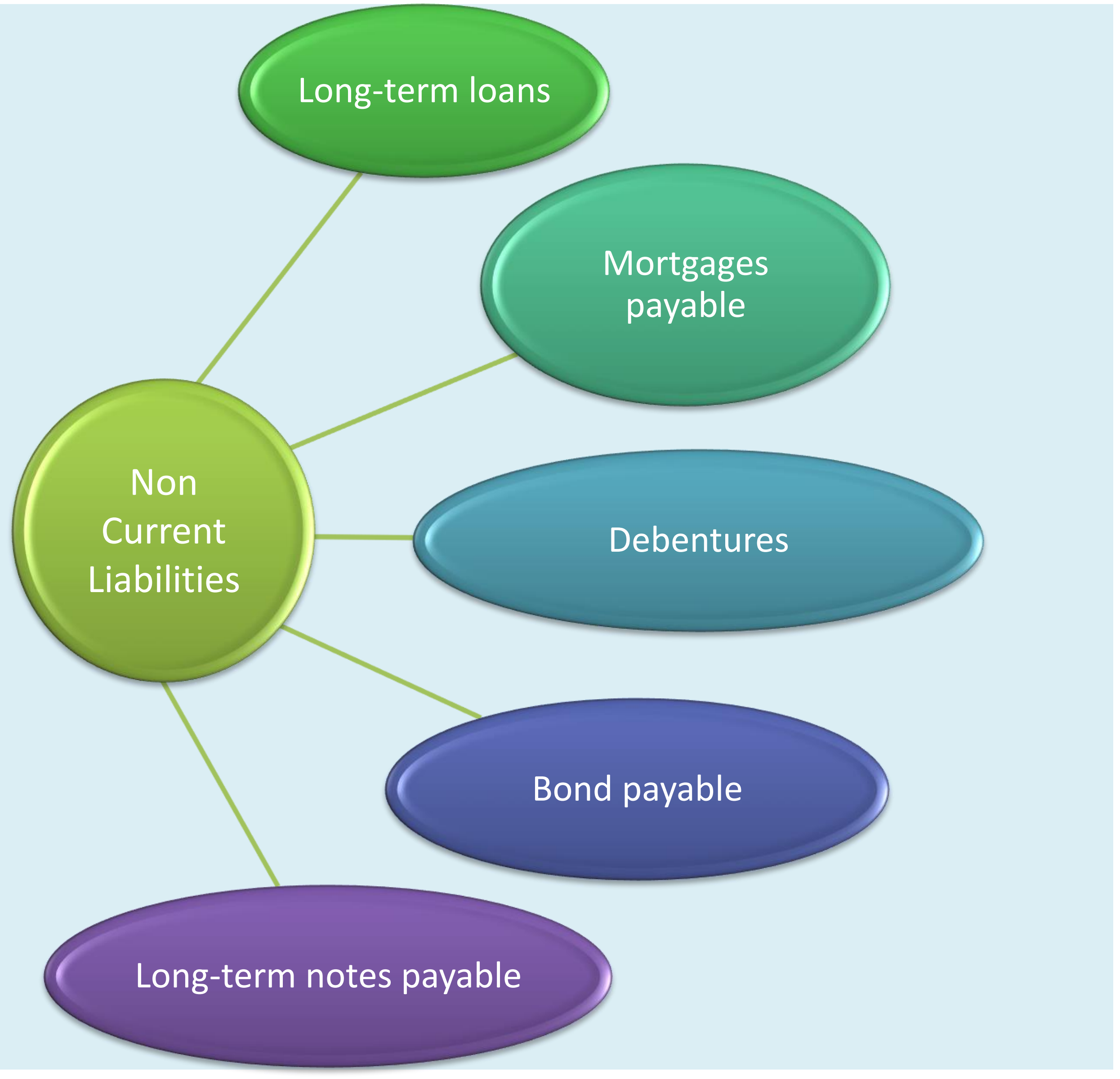
CURRENT LIABILITIES

- The amounts owed by the business that are to be paid within one year.
- Example: Short-term loans, Bank overdraft, Creditors and Account payable.



NON-CURRENT LIABILITIES

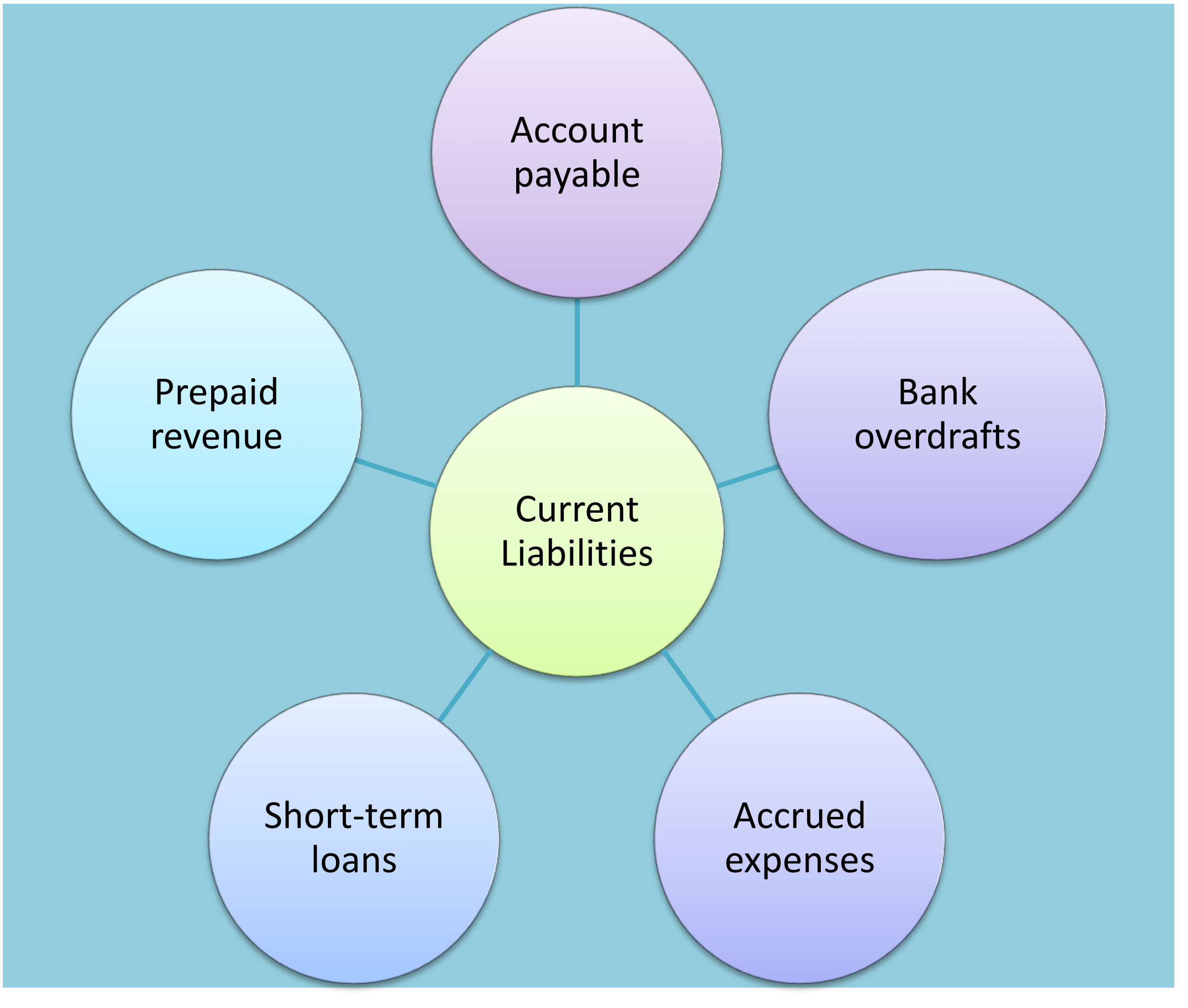
Non-current liabilities are obligations expected to be paid after one year or after an operating cycle or if liabilities can not classify as current liabilities, they shall classify as non-current liabilities.



CURRENT LIABILITIES

An entity shall classify a liability as current when:

a. It expects to settle the liability in its normal operating cycle;
b. It holds the liability primarily for the purpose of trading;
c. The liability is due to be settled within twelve months after the reporting period; or
d. It does not have the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period.



EQUITY, INCOME AND EXPENSES

EQUITY

Equity is the residual interest in the assets of the entity after deducting all its liabilities.

INCOME

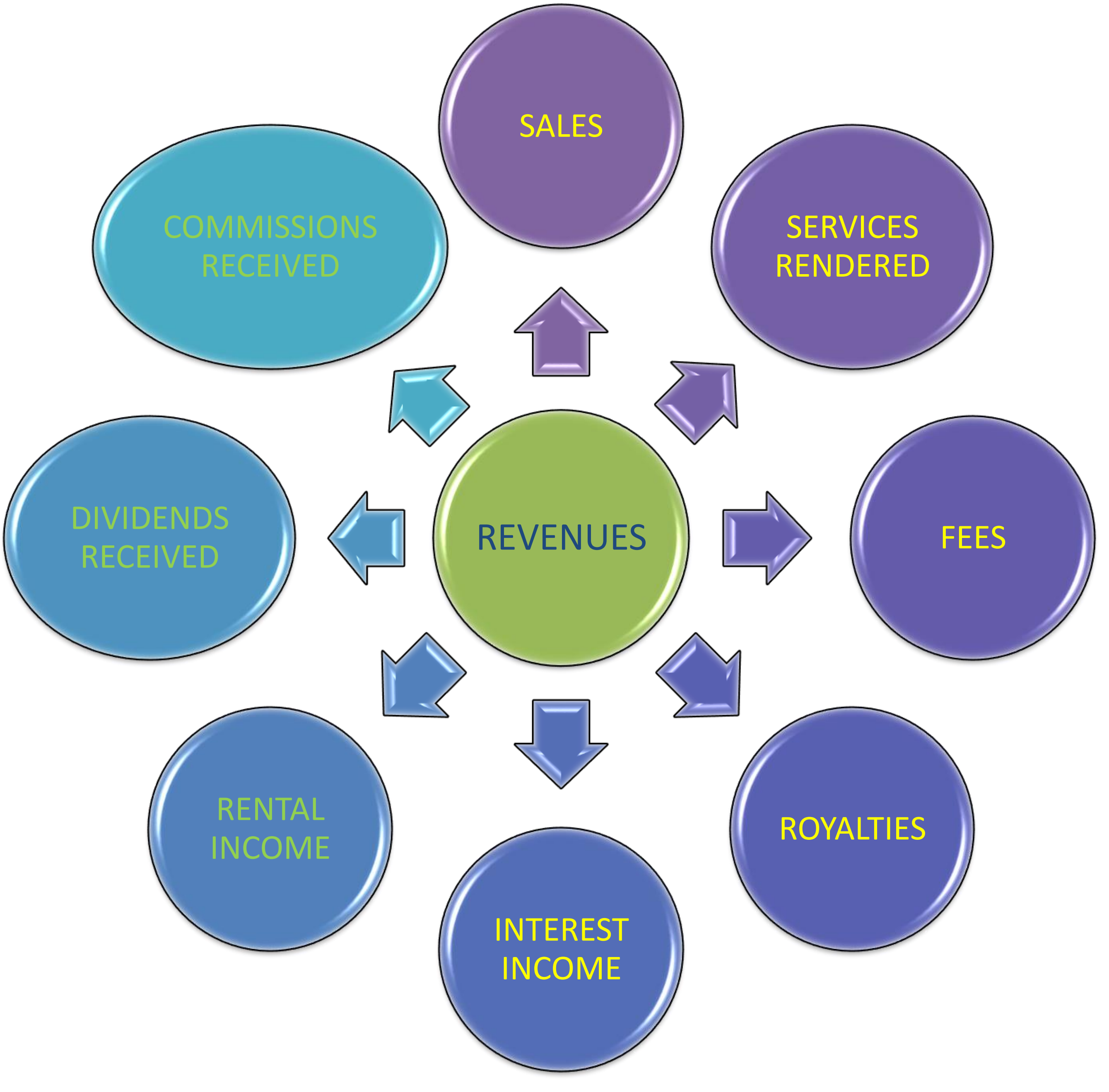
Income is increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims.

EXPENSES

Expenses are decreases in assets, or increases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims.

REVENUES

Revenues are income earned from business activities entered into for the purpose of earning income.



EXPENSES

Expenses are the costs of assets or services incurred in the process of earning revenue.

ACCOUNTING EQUATION

2.2 ACCOUNTING EQUATION

Basic Accounting Equation

$$A = L + OE$$

ASSETS = LIABILITIES

+

OWNER'S EQUITY

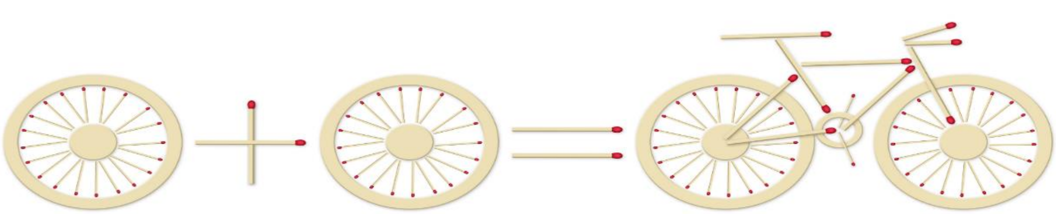
ACCOUNTING EQUATION

CONCEPT

- The relationship between assets, liabilities and owner's equity can be expressed in the form of equations called accounting equations.

- An accounting equation is a statement that shows the financial position of a business at a particular time expressed in the form of an equation.

Owner's Equity	**=**	**Capital - Drawing**	**Drawing**	**+**	**Revenue - Expenses**



EXAMPLE

EXAMPLE: HAPPY ENTERPRISE

The following information are balances of account for Happy Enterprise at the 1 Mac 2021:

	RM
Cash in hand	10,000
Cash at bank	500
Inventory	2,000
Account payable	10,000
Capital	2,500

EXAMPLE

Transaction 1: Investment by owner

Mac 1	**The owner of Happy Enterprise brought in RM 50,000 cash to the company's bank account as additional capital.**					
DATE	ASSETS	=	LIABILITIES	+	OWNER'S EQUITY	
	Cash at bank	=		+	Capital	
Mac 1	+RM50,000				+RM50,000	

Assets and liabilities increased by the same amount.

Transaction 2: Purchase of office furniture by cash.

Mac 2	**Happy Enterprise purchases an office furniture RM 4,000 by cash.**						
DATE	ASSETS		=	LIABILITIES	+	OWNER'S EQUITY	
	Cash in hand	Office Furniture	=				
Mac 2	- RM 4,000	+RM 4,000					

One asset increases while another asset decreases

EXAMPLE

Transaction 3: Payment for account payable.

Mac 4	**Happy Enterprise paid the amount owed RM 5,000 to Megah Holding, one of the company's creditor by cheque.**					
DATE	ASSETS	=	LIABILITIES	+	OWNER'S EQUITY	
	Cash at Bank	=	Account payable			
Mac 4	- RM 5,000		- RM 5,000			

Assets and liabilities are decreased by the same amount.

Transaction 4: Purchase of vehicle on credit.

Mac 8	**Happy Enterprise purchases a delivery van which costs RM 50,000 from Smile Auto Bhd. on credit.**				
DATE	ASSETS	=	LIABILITIES	+	OWNER'S EQUITY
	Vehicles	=	Creditors- Smile Auto Bhd		
Mac 8	+ RM 50,000		+ RM 50,000		

Assets and liabilities are increased by the same amount.

EXAMPLE

Transaction 5: Drawings by owner.

Mac 15	**Harris, the owner of Happy Enterprise withdraws RM 3,000 cash from the company for personal use.**				
DATE	ASSETS	=	LIABILITIES	+	OWNER'S EQUITY
	Cash	=			Capital
Mac 15	- RM 3,000				- RM 3,000

Assets and owner's equity are decreased by the same amount.

Transaction 6: Paid an account payable with bank loan.

Mac 20	**Happy Enterprise received cheque for RM 5,000 from Rimau Bank (bank loan) and used it to pay an account payable.**					
DATE	ASSETS	=	LIABILITIES		+	OWNER'S EQUITY
		=	Loan	Account payable		
Mac 20			+ RM 5,000	- RM 5,000		

One liability is increased while another liability is decreased.

EXAMPLE

Transaction 7: Revenue received by cheque.

Mac 25	**Happy Enterprise received cheque for commission received RM 2,000.**					
DATE	ASSETS	=	LIABILITIES		+	OWNER'S EQUITY
	Cash at bank	=				Capital
Mac 25	+ RM 2,000					+ RM 2,000

Revenue increases capital and assets.

Transaction 8: Payment of salary by cash.

Mac 28	**Happy Enterprise pays RM 1,500 for staff's salary by cash.**					
DATE	ASSETS	=	LIABILITIES		+	OWNER'S EQUITY
	Cash in hand	=				Capital
Mac 28	- RM 1,500					- RM 1,500

Expenses reduce capital and assets.

ACTIVITY 1

Based on the information below, determine the owner's equity as at 31 December 2021:

	RM
Assets	86000
Liabilities	26000
Owner's Equity as at 1 January 2021	60000
Revenue	38000
Expenses	28000

ACTIVITY 2

Classify the following items under the correct grouping, as asset, liability or components of owner’s equity.

	Items	Group
1.	Equipment	
2.	Cash at bank	
3.	Bank Loan	
4.	Bank Overdraft	
5.	Drawings	
6.	Land	
7.	Capital	
8.	Cash in hand	
9.	Inventory	
10.	Bond payable	

ACTIVITY 3

Calculate the value of the missing items:

ASSETS	CAPITAL	LIABILITIES
50,000	?	15,000
?	35,000	15,000
25,000	10,000	?
45,000	?	5,000
60,000	30,000	?

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BUSINESS ACCOUNTING

WRITERS

Haszlina binti Hashim
Jawariah binti Mamat

Politeknik Ungku Omar,
Jalan Raja Musa Mahadi,
31400 Ipoh, Perak
Tel: 05-545 7656
http://www.puo.edu.my
https://www.facebook.com/politeknikungkuomarofficial

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