



BUSINESS *Accounting*

A COMPREHENSIVE
GUIDE FOR BEGINNERS

*Rosasmanizan Ahmad
Nur Iliza Misnan*

2024



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PREFACE

Welcome to "Business Accounting : A Comprehensive Guide for Beginners". This book is crafted with the aim of demystifying accounting theories and practices for those who are new to the field or approaching it from a non-financial background.

In today's interconnected world, understanding financial information is crucial for making informed decisions, whether in business, government, or personal finance. This book strives to make accounting accessible and relevant by presenting complex concepts in a clear and understandable manner.

Throughout this journey, we will explore key topics such as introduction to accounting, accounting process and books of accounts and financial statements and its adjustment. Practical examples will illustrate how accounting principles are applied in various contexts.

My hope is that by the end of this book, you will not only grasp the fundamentals of accounting but also appreciate its importance in everyday life. Whether you are a student, manager, entrepreneur, or simply curious about financial matters, this book is designed to empower you with essential knowledge and skills.

Thank you for embarking on this learning adventure with me. I encourage you to engage actively with the material and apply what you learn to enhance your understanding of accounting.

Best wishes,
Rosasmanizan Ahmad
Nur Iliza Misnan

ACKNOWLEDGEMENT

I would like to express my heartfelt gratitude to everyone who has contributed to the realization of this book on accounting for non-accounting students.

First and foremost, I would like to acknowledge the support of my family and friends, whose encouragement and understanding have been a constant source of motivation.

This book would not have been possible without the contributions and support of each individual mentioned above. Thank you for believing in this book and for your commitment to sharing knowledge.

The material in this book is provided by the authors based on their expertise and practical experience teaching an accounting course. This book also includes material that was gathered from various sources, the original sources of which are cited and referenced.

CONTENTS

<i>Preface</i>	iii
<i>Acknowledgement</i>	iv

CHAPTER 1

INTRODUCTION TO ACCOUNTING

1.0 Define accounting and bookkeeping	2
1.1 Accountant profession	3
1.2 Responsibility of accountant	4
1.3 The users of accounting information	5
1.4 Approved accounting standards in Malaysia	8
1.5 Regulatory bodies in Malaysia	9
1.6 Accounting field	11
1.7 Basic of accounting concepts	13
<i>Questions</i>	15

CHAPTER 2

ACCOUNTING CLASSIFICATION AND ACCOUNTING EQUATION

2.0 Accounting equation	20
2.1 The elements of financial statements	21
2.2 Transaction and the corresponding accounts	26
2.3 Definition of inventory (finished goods)	28
<i>Questions</i>	31

CHAPTER 3

ACCOUNTING PROCESS AND BOOKS OF ACCOUNTS

3.0 The accounting process	35
3.1 Sources documents used in the business	37
3.2 Types of books for prime entry	41
3.3 Journals	43
3.4 Cash books	56
<i>Questions</i>	62

CHAPTER 4

DOUBLE ENTRIES PRINCIPLES AND BALANCING OFF AND TRIAL BALANCE

4.0 The double-entry concepts	67
4.1 Ledgers entry	69
4.2 Ledgers posting	71
4.3 Trial balance	73
4.4 Types of errors in trial balance	74
<i>Questions</i>	80

CHAPTER 5

YEAR END ADJUSTMENTS

5.0 Accrual basis and cash basis accounting	88
5.1 Concept of accruals and prepayments	89
5.2 Depreciation and accumulated provision for depreciation for non-current assets	98
5.3 Bad debts, allowance for doubtful debts and recoverable bad debts	102
<i>Questions</i>	106

CHAPTER 6

FINANCIAL STATEMENTS WITH YEAR END ADJUSTMENTS

6.0 Types of financial reporting in the business	111
6.1 The purposes of financial statement	113
6.2 Statement of Comprehensive Income with adjustment	114
6.3 Statement of Financial Position with adjustment	117
<i>Questions</i>	120
<i>Model Test 1</i>	129
<i>Model Test 2</i>	135
<i>Model Test 3</i>	143
References	149

CHAPTER 1 : INTRODUCTION TO ACCOUNTING

LEARNING OUTCOME:

- 1.0 Define accounting and bookkeeping
- 1.1 Explain roles of an accountant
- 1.2 Discuss the responsibility of accountant
- 1.3 Describe the users of accounting information
- 1.4 Elaborate approved accounting standards in Malaysia
- 1.5 Explain regulatory bodies in Malaysia
- 1.6 Discuss each type of accounting field
 - a. Financial Accounting
 - b. Cost Accounting
 - c. Management Accounting
 - d. Auditing
 - e. Taxation
- 1.7 Explain Basic of accounting concepts

THE BIGGEST ADVANTAGES OF KNOWLEDGE OF ACCOUNTING IS HOW IT ALLOWS BUSINESSES TO KEEP A SYSTEMATIC RECORD OF THEIR FINANCIAL INFORMATION. HAVING UP TO DATE AND ACCURATE RECORDS IS CRUCIAL TO RUNNING A SUCCESSFUL BUSINESS.

1.0 DEFINITION OF ACCOUNTING BOOKKEEPING

BOOKKEEPING

- is the process of recording and classifying business financial transactions (activities). In simple language-maintaining the records of the financial activities of a business or an individual.
- Bookkeeping's objective is simply to record and summarize financial transactions into a usable form that provides financial information about a business or an individual.

ACCOUNTING

A broader perspective:

- “The process of identifying, measuring, recording, analyzing, and communicating the financial effect of a business’s activities and provides management with data on historical results which can be used in policy-making and planning”
- Accounting is the art of analyzing, recording, summarizing, reporting, reviewing, and interpreting financial information for internal and external user as a tool for decision making or future benefit.
- In other word, it is a “language” to communicate or deliver the information between companies to user. This “language” is referring to analyzing the performance especially financial position and comprehensive income statement

1.1 ACCOUNTANT PROFESSION

- Accountancy has been developed as a profession over the years and attaining a status equivalent to that of medicine and law.
- All persons practicing as an accountant or auditor in Malaysia are registered with the Malaysian Institute of Accountants (MIA).
- An accountant is professionally qualified, experienced and competent individual bound by a strict ethical code and professional standards and backed by a regulatory body.
- An accountants play a critical role in both the day-to-day operations and long-term strategic decisions of businesses, contributing to financial stability, compliance, and growth.

- In Malaysia, word “accountant” is protected (Accountants Act 1967, MIA, Government).
- Classification of accountants in Malaysia:
 - Chartered Accountants (CA)
 - Licensed Accountants (LA)
 - Associate Members (AM)

1.2 RESPONSIBILITY OF ACCOUNTANT

Accountants must **also be able to draw up a set of financial records and prescribe** the system of accounts that will most easily give the desired information; they must be capable of arriving at a comprehensive view of the economic and the legal aspects of a business, envisaging the effect of every sort of transaction on the profit-and-loss statement; and they must recognize and classify all other factors that enter into the determination of the true condition of the business.

The accountant **evaluates records** drawn up by the bookkeeper and shows the results of this investigation as losses and gains, leakages, economies, or changes in value, so as to reveal the progress or failures of the business and also its future limitations and possibilities.

Preparing and analyzing financial statements like cash flow statement, balance sheet and profit and loss statement and submitting annual tax returns.

1.3 THE USERS OF ACCOUNTING INFORMATION

- Accounting information is useful to anyone who must make decisions that have economic consequences.
- Accounting helps decision making by showing where and when money has been spent and commitments have been made, by evaluating performance, and by indicating the financial implications of choosing one plan instead of another.
- Accounting also helps to predict the future effects of decision, and it helps direct attention to current problems, imperfections, inefficiencies, as well as opportunities.
- Human task is becoming more and more complex especially in large organizations. If there are no proper records, the financial statements would be misleading.
- There are two broad categories of interested parties, or accounting information users:
 - external users
 - internal users

A. EXTERNAL USER

a. Potential Investors

- Investors require information on the solvency of the business(ability to repay debts as and when they are due).
- Investors are interested to know the financial strength of the business, its present and future earning capacity and the ability of the management.

b. Publics

- The general public or community groups such as consumer rights group or environment protection advocates may be interested in non-financial information.

c. Government

- The government and their agencies will need information, among others, to make macro- economic policies and allocate resources, regulate activities and determine taxation policies.

d. Creditors or Account Payables

- These parties are those who supply goods or services to the business on credit and include bankers and other lenders of money to the business.
- They are interested in the financial stability of the business and able to form a clear picture of the business's ability to repay its debts.

B. INTERNAL USER

Internal users are parties inside the reporting entity or company who are interested in accounting information.

a. Owners

- As the owners of the businesses, they are interested in the profits earned from their investment in the business and the financial stability and growth of the business.
- Accounting information serves to give these owners some indicators of the profitability and viability of the business.

b. Employees

- Employees are interested in the business's ability to progress and expand.
- They look for steady employment, earning capacity and other monetary benefits that are to be gained from a financially stable business.
- Employees would rate the business as having more opportunity to earn better salaries and to obtain promotion.

c. Managers

- Managers are hired to manage the business on behalf of the owners and have to ensure that the business is operated efficiently.
- Management needs accounting and other information in planning, organizing and controlling the organization and analyzing the operations of the business.

1.5 APPROVED ACCOUNTING STANDARD IN MALAYSIA

A) GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

Accounting standards specify how transactions and other events are to be recognized, measured, presented and disclosed in financial statements.

- GAAP provides a framework for standardizing accounting practices and ensuring consistency and comparability in financial reporting across different entities and industries.
- It aims to enhance the transparency, reliability, and relevance of financial information for stakeholders such as investors, creditors, regulators, and other users of financial statements.

B) MALAYSIAN ACCOUNTING STANDARDS BOARD (MASB)

- It is established under Financial Reporting Act 1997 as an independent authority to develop and issue accounting and financial reporting standards in Malaysia.
- MASB was established under the Financial Reporting Act 1997 (renamed as the Malaysian Financial Reporting and Standards Act 1997) to promote transparency, comparability, and reliability of financial reporting in Malaysia.
- The board operates independently and is governed by a diverse group of professionals from the accounting profession, academia, regulatory bodies, and industry representatives.

1.6 ACCOUNTING REGULATORY BODIES IN MALAYSIA

A) MALAYSIAN ACCOUNTING STANDARD BOARD (MASB)

The Malaysian Accounting Standards Board (MASB) is the national accounting standard-setter in Malaysia. Here are some key points about MASB:

- MASB is responsible for developing and issuing accounting standards in Malaysia, known as the Malaysian Financial Reporting Standards (MFRS).
- It ensures that the accounting standards are in line with international standards, particularly the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).
- Developing and issuing accounting standards, including MFRS, for application by entities in Malaysia.
- Monitoring and reviewing developments in accounting practices globally to ensure alignment with international best practices
- MASB plays a crucial role in harmonizing Malaysian accounting standards with international standards to facilitate cross-border comparability of financial statements.



MASB issues limited amendments to two Standards

B) COMPANIES COMMISSION OF MALAYSIA (SSM)

- The main purpose of SSM is to serve as an agency to incorporate companies and register businesses as well as to provide company and business information to the public.
- SSM Malaysia is responsible for the incorporation, registration, and regulation of companies and businesses in Malaysia.
- It administers and enforces laws related to corporate governance, business registration, and compliance with regulatory requirements.
- SSM Malaysia oversees the registration and incorporation of companies, partnerships, and limited liability partnerships (LLPs) in Malaysia.

C) INLAND REVENUE BOARD OF MALAYSIA (IRBM)

- IRBM in Malaysia is one of the main agencies responsible for collecting revenue for the Ministry of Finance (MOF).
- The Ministry of Finance, better known by its abbreviation MOF, is the governing body which is responsible for all government expenditure and revenue raising.
- LHDN administers various taxes in Malaysia, including income tax, real property gains tax, goods and services tax (GST), and others as stipulated by law.
- It ensures compliance with tax laws by individuals, businesses, and other entities through registration, assessment, collection, and enforcement of taxes.



1.6 TYPES OF ACCOUNTING FIELD

a. Cost Accounting

Focus on a company's cost of doing business. The aim is to ensure that the cost needed to produce a good (cost per unit) is reasonable.

b. Tax Accounting

To ensure a business, non profit or individual is abiding by all relevant tax laws and regulations that may apply to them.

c. Auditing

Provide independent analysis of a business's financial activity. Refers to financial statement audits or an objective examination and evaluation of a company's financial statements.

d. Financial Accounting

Involves capturing and summarizing all of a business's financial transactions and creating reports to provide a clear overview of those business transactions.

e. Managerial Accounting

Provide accounting information for internal use. The emphasis is on strategic management, risk management or performance management.

FINANCIAL ACCOUNTING VS MANAGEMENT ACCOUNTING

Management accounting and financial accounting are both crucial aspects of accounting, but they serve different purposes and stakeholders within an organization.

Financial Accounting	Management Accounting
<p>Purpose: The primary purpose of financial accounting is to provide external stakeholders, such as investors, creditors, regulators, and the general public, with accurate financial information about the performance and financial position of a company.</p>	<p>Purpose: Management accounting focuses on providing internal stakeholders, such as management, executives, and department heads, with financial information and analysis to support decision-making, planning, and control within the organization.</p>
<p>Reporting: It involves the preparation of financial statements (e.g., balance sheet, income statement, cash flow statement) that summarize the financial performance and position of the company over a specific period</p>	<p>Reporting: It involves preparing reports and analysis that may not follow strict external reporting standards. These reports can include budgets, forecasts, variance analysis, cost-volume-profit analysis, and other tailored reports based on management's needs.</p>
<p>Users: External users rely on financial accounting information to make decisions about investing, lending, or assessing the financial health of the company.</p>	<p>Users: Internal users rely on management accounting information to set goals, allocate resources, evaluate performance, and make informed decisions to improve efficiency and profitability.</p>

1.7 THE BASICS ACCOUNTING CONCEPTS

1. Historical cost concept

- Requires companies to account and report based on acquisition costs rather than fair market value for most assets and liabilities.
- This principle provides information that is reliable (removing opportunity to provide subjective and potentially biased market values), but not very relevant.
- There is a trend to use fair values. Most debts and securities are now reported at market values.

2. Accrual concept

- Requires companies to record when revenue is realized or realizable and earned, not when cash is received
- This way of accounting is called accrual basis accounting.

3. Prudence concept

Businesses must avoid overstating values of assets and revenue, and understating liabilities and expenses

4. Matching concept

- Expenses have to be matched with revenues as long as it is reasonable to do so.
- Expenses are recognized not when the work is performed, or when a product is produced, but when the work or the product actually makes its contribution to revenue.

5. Materiality concept

- The significance of an item should be considered when it is reported.
- An item is considered significant when it would affect the decision of a reasonable individual.

6.Going concern concept

- Assumes that the business will be in operation indefinitely.
- The business will continue to exist in the unforeseeable future.

7.Consistency concept

The same accounting method will be used from one accounting period to another accounting period.

8.Money measurement concept

- Assumes a stable currency is going to be the unit of record.
- All transactions are recorded in country's monetary unit.
Example RM and Cent

9.Objectivity concept

- The company financial statements provided by the accountants should be based on objective evidence.
- Each transaction must be recorded based on verified and unbiased information.

10.Business Entity concept

- Assumes that the business is separate from its owners or other businesses.
- Revenue and expense should be kept separate from personal expenses.

11.Periodicity concept

- Implies that the economic activities of an enterprise can be divided into artificial time periods.
- Fiscal Year 2023: April 1, 2022 - March 31, 2023
 - Q1: April 1, 2022 - June 30, 2022
 - Q2: July 1, 2022 - September 30, 2022
 - Q3: October 1, 2022 - December 31, 2022
 - Q4: January 1, 2023 - March 31, 2023

QUESTIONS

1. Differentiate accounting and bookkeeping

--	--

2. State **FIVE (5)** basic of accounting concepts.

--

3. Explain **THREE (3)** the roles of an accountant.

--

4. Discuss the following type of accounting field:

a. Financial Accounting

b. Cost Accounting

c. Management Accounting

d. Auditing

e. Taxation

5. Differentiate between internal and external user

Internal User	External User

6. Explain the following regulators bodies of accounting in Malaysia:

a. MASB

b. Companies Commission of Malaysia

c. Inland Revenue Board of Malaysia (IRBM)

7. Match the correct accounting field for the situation below:

Situations	Field
Prepare financial statement for references.	
Provide information to management to determine total cost per unit each of product or services.	
Uses financial accounting information to assists management in decision making and policy controlling.	
Preparing and filling various tax form and documentations	

8. Show the effect of balance for the accounts in the table below.

	Debit	Credit
Example: Purchase	/	
Accumulated depreciation of vehicle		
Furniture		
Investment		
Account payables		
Drawings		
Fixed deposit		
Salary		
Mortgage		



CHAPTER 2 : ACCOUNTING CLASSIFICATION AND ACCOUNTING EQUATION

LEARNING OUTCOME

- 2.0 Discuss the accounting equation
 - 2.1 Explain the elements of financial statements
 - 2.2 Identify the transaction and corresponding accounts
 - 2.3 Define inventory (finished goods)
- 

THE ACCOUNTING EQUATION REPRESENTS THE RELATIONSHIP BETWEEN THE ASSETS, LIABILITIES AND CAPITAL OF A BUSINESS AND IT IS FUNDAMENTAL TO THE APPLICATION OF DOUBLE ENTRY BOOKKEEPING WHERE EVERY TRANSACTION HAS A DUAL EFFECT ON THE FINANCIAL STATEMENTS

2.0 ACCOUNTING EQUATION

The equality lies in the relationship of the debit and credit rules to the following accounting equation:

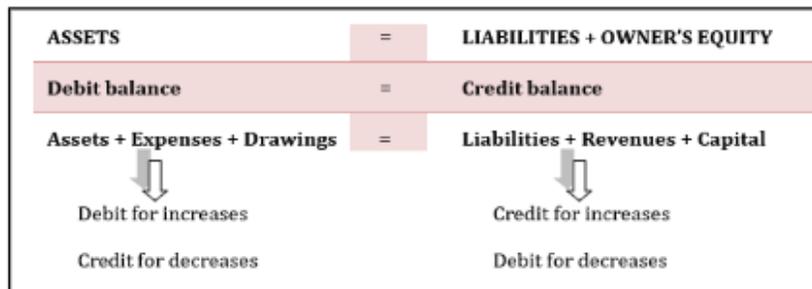


Figure 2.1 The accounting equation

$A = L + OE$

Illustration:

$$RM\ 12,000 = L + RM\ 8,000$$

So, L is ???

Solution:

$$L = RM\ 12,000 - RM\ 8,000$$

$$L = RM\ 4,000$$

2.1 THE ELEMENTS OF FINANCIAL STATEMENTS

The key elements of Financial Statements:
Includes Assets, Liabilities, Equity, Income, and Expenses.

Nature of Assets, Liabilities & Owner’s Equities

ASSETS

- Rights, resources or properties used to generate benefit from future operations.
- In the accounting sense, an asset is an item of value owned by a company.
- Assets may be tangible physical items or intangible items with no physical form.
- Assets add value to a company, and are important to a company's continued success.
- Divided into two main categories:

Table 2.1 Characteristics of non-current and current assets

Assets	Characteristics	Examples	Account balance
Non-current assets	<ul style="list-style-type: none"> • Assets which have useful life more than one year • Can be used repeatedly • Fixed value 	Properties, Plant & Equipment <ul style="list-style-type: none"> ▪ Land and Building ▪ Plant and machinery ▪ Office equipment ▪ Fixtures and fittings <ul style="list-style-type: none"> • Investment • Intangible assets <ul style="list-style-type: none"> ▪ Goodwill ▪ Patent ▪ R&D 	Debit balance
Current assets	<ul style="list-style-type: none"> • Assets that are easily converted into cash • Value is not fixed 	<ul style="list-style-type: none"> • Inventories • Debtors/ Trade receivables • Prepaid expenses • Accrued revenues • Deposit • Cash and bank balances 	Debit balance

Asset account has a debit balance

LIABILITIES/ OBLIGATIONS

- The amounts due or the business entity’s obligations to other parties.
- Are debts owed by a business entity to external parties.
- Divided into two main categories:

Table 2.2 Characteristics of non-current and current liabilities

Liabilities	Characteristics	Examples	Account balance
Non-current liabilities	<ul style="list-style-type: none"> • Debts that must be paid off after one accounting period 	<ul style="list-style-type: none"> • Bank Loan • Debentures • Mortgage 	Credit balance
Current liabilities	<ul style="list-style-type: none"> • Debts that must be paid off within one accounting period 	<ul style="list-style-type: none"> • Creditors/ Trade payables • Notes payables • Bank overdraft • Accrued expenses • Unearned revenue 	Credit balance

Liabilities account has a credit balance

OWNER’S EQUITY

- The business’ debts to the business owner based on the amount invested by the business owner.
- The total amount of owner’s equity will be determined by the capital, drawings and business performance (profit and loss obtained).

Table 2.3 Characteristics of capital

Owner’s Equity	Explanation	Account balance
Capital	<ul style="list-style-type: none"> • Cash or assets brought into the business by the owner 	Credit balance
Drawings	<ul style="list-style-type: none"> • Cash/ goods/ assets taken by the owner for personal use • Reduction of OE 	Debit balance
Business Performance (Profit and Loss)	<ul style="list-style-type: none"> • Calculated through the Closing Account • Profit obtained: OE is increased • Loss obtained: OE is decreased 	Debit or Credit balance

Capital account has a credit balance

REVENUES

<ul style="list-style-type: none"> Income earned from business activities through the selling of goods or providing services. Represents inflow of cash or other assets in the process of the sales of goods and services rendered. 	<ul style="list-style-type: none"> May also received from extraordinary business activities such as profit from the sale of used assets and dividends from investments. The receipts of revenues will increase the profit and capital of a business entity. Revenues account has a credit balance.
<ul style="list-style-type: none"> Credit sales: cash is received after the inventories have been send to customer according to terms been agreed between buyers and sellers 	<ul style="list-style-type: none"> Cash sales: cash is received immediately upon sales or upon completion of services
<p>Revenue account has a credit balance</p>	

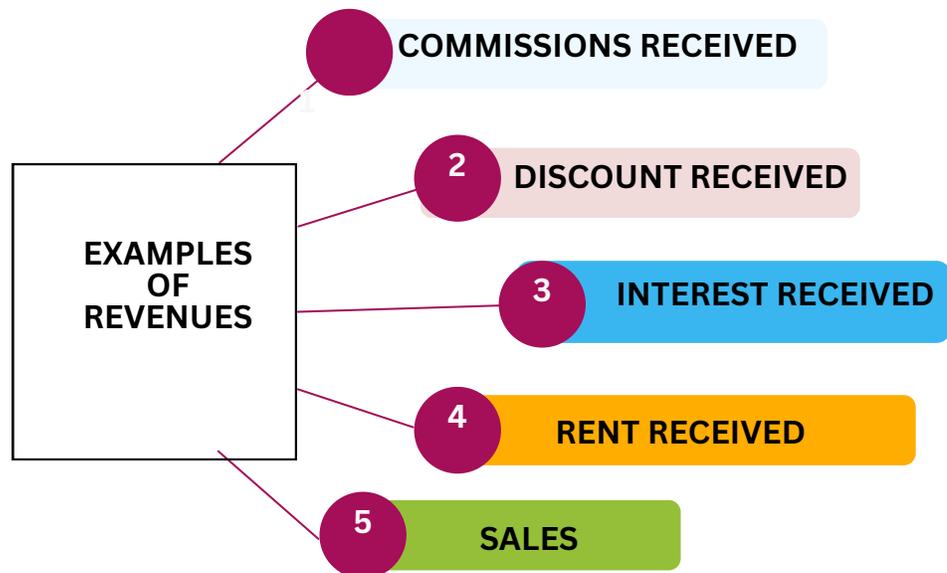


Figure 2.2 Example of revenues

EXPENSES

- Money that are paid or will be paid to operate a business.
- Represents outflow of cash or other assets in the process of earnings of revenue.
- May also incurred for extraordinary business activities such as losses from the sale of used assets and donations.
- Expenses incurred will reduce the profit and capital of a business entity.

Expenses account has a debit balance

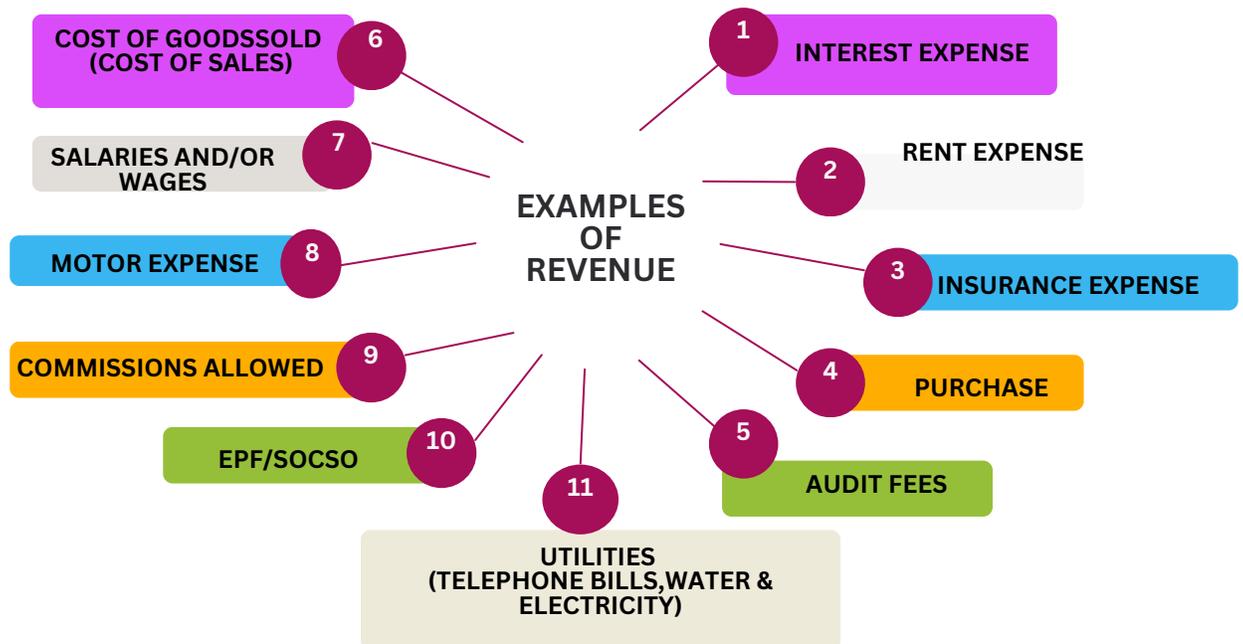


Figure 2.3 Example of expenses

Effects of business transaction on account balance

The normal balance according to the type of accounts and impact on the ledger accounts presented as follows:

Every day, entities engage in financial transactions to keep their businesses operating.

- Two entries – a debit and a matching credit – must be recorded in the accounting for these transactions.
- In a general ledger, journal entries consist of debits and credits. The following accounts are affected by debits and credits: asset, liability, fund balance, revenue, and expense.

Table 2.4 Effects of business transaction on account balance

Account Types	Normal Balance		Effect on Business Transaction	
	Debit	Credit	Increase	Decrease
Assets	✓		Debit	Credit
Expenses	✓		Debit	Credit
Drawings	✓		Debit	Credit
Liabilities		✓	Credit	Debit
Capital		✓	Credit	Debit
Revenues		✓	Credit	Debit

2.2 TRANSACTION AND THE CORRESPONDING ACCOUNTS

Transaction and the corresponding accounts are summarized as follows:

Table 2.5 Transaction and the corresponding accounts

No.	Transactions	Account Debited	Account Credited
1	Cash inflows	Cash/ Bank	Sales/ Debtor/ Revenue/ Capital
2	Cash outflows	Purchase/ Creditor/ Expenses/ Drawing/ Asset	Cash/ Bank
3	Purchase of goods: Cash purchase Credit purchase	Purchase Purchase	Cash/ Bank Creditor
4	Sales of goods: Cash sales Credit sales	Cash/ Bank Debtor	Sales Sales
5	Return inwards or Sales returns	Return inwards/ Sales return	Debtor
6	Return outwards or Purchase returns	Creditor	Return outwards/ Purchase return
7	Purchase of assets: Cash Credit	Asset Asset	Cash/ Bank Creditor
8	Sale of used assets: Cash Credit	Cash/Bank Debtor	Asset Asset
9	Capital brought into the business by owner: Cash Bank Asset	Cash / Bank Asset	Capital Capital
10	Drawings: Cash Goods Assets	Drawings	Cash Purchase Asset

No.	Transactions	Account Debited	Account Credited
11	Expenses paid	Expenses	Cash/ Bank
12	Revenues received	Cash/ Bank	Revenue
13	Debtors: Credit sale Goods return Discount allowed Cash/ cheque received	Debtor Return inwards/ Sales return Discount allowedCash/ bank	Sales Debtor Debtor Debtor
13	Creditors: Credit purchase Goods return Discount received Paid using cash/ cheque	PurchaseCreditor Credit Credit	Creditor Return outwards/ Purchase return Discount received Cash/ Bank
14	Liabilities: Bank loan	Cash/ Bank	Bank loan

2.3 DEFINITION OF INVENTORY (FINISHED GOODS)

Inventories include assets held for sale in the ordinary course of business (finished goods), assets in the production process for sale in the ordinary course of business (work in process), and materials and supplies that are consumed in production (raw materials).

Finished goods are goods that have been completed by the manufacturing process, or purchased in a completed form, but which have not yet been sold to customers. Goods that have been purchased in completed form are known as merchandise.

Accounting for Finished Goods Inventory

The carrying amount of finished goods inventory is at the cost of the acquired goods, plus any applicable freight in charges and taxes.

If the goods were manufactured by the business, then the carrying amount of the inventory is the aggregate cost of the direct materials, direct labor, and factory overhead used to create them.

This amount may be reduced by any impairment, which occurs when the net realizable value of the goods is less than their carrying amount.

Inventory management is an approach for keeping track of the flow of inventory.

It starts right from the procurement of goods and its warehousing and continues to the outflow of the raw material or stock to reach the manufacturing units or to the market, respectively.

The process can be carried out manually or by using an automated system.

When the goods arrive at the premises, inventory management ensures receiving, counting, sorting, arrangement, storage and maintenance of these items, i.e. stock, raw material, components, tools, etc., efficiently

To see how this whole system functions, we should first understand the flow of inventory in an organization. The same has been represented in the following diagram:

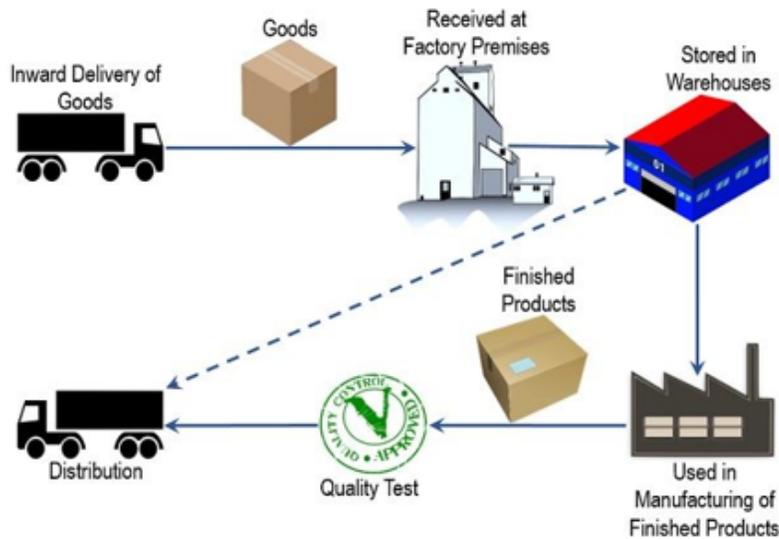


Figure 2.4 Process of Inventory

Sales refers to the volume of goods and services sold by a business during a reporting period.

Purchases of goods and services include the value of all goods and services purchased during the accounting period for resale or consumption in the production process, excluding capital goods the consumption of which is registered as consumption of fixed capital.

Returns inwards are goods returned to the selling entity by the customer, such as for warranty claims or outright returns of goods for a credit. For the customer, this results in the following accounting transaction:

**A debit of return Inwards
A credit of accounts receivable**

It is the seller's receipt of the returned items from the customer. Receipts for products acquired from the buyer are returned outwards. For the supplier, this results in the following accounting transaction:

**A debit of accounts payable
A credit of return outwards**

Table 2.6 The effects of business transaction

Account Types	Normal Balance		Effect on Business Transaction	
	Debit	Credit	Increase	Decrease
Sales		✓	Credit	Debit
Purchases	✓		Debit	Credit
Return Inwards	✓		Credit	Debit
Return Outwards		✓	Debit	Credit

QUESTIONS

“Assets is knowing as rights, resources or properties used to generate benefit from future operations”. Assets may be tangible physical items or intangible items with no physical form. There are two types of assets which are non-current assets and current assets.

1. List Five (5) item of non-current assets and current assets.

2. Identify the table below account whether ‘Revenue or Expenses’ type and tick (✓) the normal balance for the account below.

Item	Account types	Debit	Credit
Example: Utiliti	Expense	/	
Commision received			
Sales			
Purchase			
Audit fees			
Advertising			
Interest received			
Salary & wages			
Office supplies			
Rent received			

3. Refers to the accounting equation, reports the value of missing item from the below table.

Capital	Asset	Liability
RM 100,000	RM50,000	
RM 85,000		RM 20,000
RM 60,000	RM15,000	
RM 120,000		RM 80,000
RM 90,000	RM35,000	

4. State the value of a missing item.

Capital	Asset	Liability
RM 150,000		RM 50,000
RM 90,000	RM 70,000	
RM 200,000		RM 80,000
RM 80,000	RM 50,000	
RM 100,000		RM 60,000

5. Choose the list of the following items whether 'Asset or liability'.

Item	Group Account
Example: Accrued salaries	Liability
Loan	
Plant & Machinery	
Account Payable	
Premises	
Overdraft	
Debenture	

6. Show the effect of balance for the accounts in the table below.

	Debit	Credit
Example: Purchase	/	
Accumulated depreciation of vehicle		
Furniture		
Investment		
Account payables		
Drawings		
Fixed deposit		
Salary		
Mortgage		

7. Show the effect of balance for the accounts in the table below.

	Debit	Credit
Example: Paid telephone bill by cash	Telephone Expense	Cash
Purchase goods from AB Enterprise		
Sales goods to Helmi		
Paid personal insurance by cheque.		
Received commission by cash		
Purchase furniture from TF Trading.		

CHAPTER 3 : ACCOUNTING PROCESS AND BOOKS OF ACCOUNTS

LEARNING OUTCOMES:

- 3.0 Explain the accounting process
- 3.1 Discuss the importance of the following source documents used in the business
- 3.2 Identify the types of books for prime entry
- 3.3 Discuss the functions of each of the journals by sorting the above documents into the following prime book
- 3.4 Discuss the functions of the cash book by sorting the above documents into the following prime book

THE STEPS THAT A BUSINESS ENTITY TAKES TO RECORD ITS FINANCIAL TRANSACTIONS ARE KNOWN AS THE ACCOUNTING PROCESS. THESE STEPS INCLUDE GATHERING, RECOGNIZING, CATEGORIZING, SUMMARIZING, AND RECORDING BUSINESS TRANSACTIONS IN THE COMPANY'S BOOKS OF ACCOUNTS SO THAT THE ENTITY'S FINANCIAL STATEMENTS CTABLE

3.0 ACCOUNTING PROCESS

STEPS IN THE ACCOUNTING CYCLE

- The sequence of activities beginning with the occurrence of a transaction is known as the accounting cycle.

- Accounting is crucial since it maintains an organized record of the financial data of the company.
- Users can compare historical data with current financial information by using up-to-date records.
- It allows consumers to evaluate a company's success over time with complete, consistent, and accurate records.



This process is shown in the following diagram:

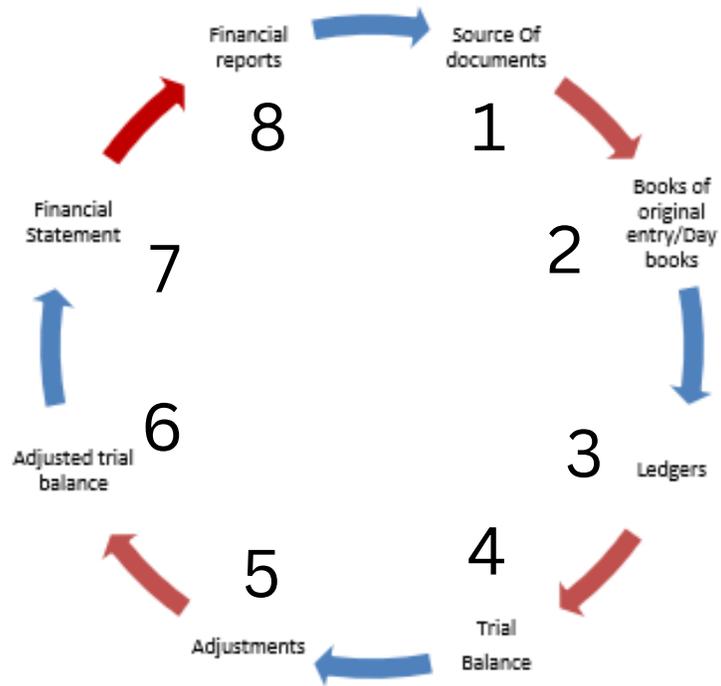


Figure 3.1 The accounting process

3.1 SOURCES DOCUMENTS USED IN THE BUSINESS:



Sales order

A sales order is a document generated by a seller for its internal use in processing a customer order.

Invoices

- Used in credit transactions only
- Issued by sellers
- An invoice is a document submitted to a customer, identifying a transaction for which the customer owes payment to the issuer.



Purchase order

- A purchase order (PO) is legal document buyers send sellers to order goods.
- This document contains prices, quantity, payment terms, and delivery schedule information. It also includes the buyer's details.



Delivery order

The delivery order definition is the document which details the delivery information of an item, is very important in distribution.



Payment Vouchers

Payment Voucher				Date
Paid to: Kim Abernomb				Invoice No.
				Control
#	Receipt No.	Payment Method	Description	Amount
1	0205	Cash	Cashier 1	\$ 1,200.00
2	0207	Check	Cashier 1	\$ 978.00
3	0204	Credit Card	Cashier 1	\$ 2,190.00
4	0206	Other	Cashier 1	\$ 2,360.00
5	0205	Cash	Cashier 2	\$ 1,456.00
Total				\$ 8,184.00
Payment by:				Cash
				Check
				Other
Total Receipts:				6
Paid by:				Cash \$2,656.00
Approved by:				Check \$978.00
Payment by:				Credit Card \$2,190.00
Received by:				Other \$2,360.00

- Payment voucher is prepared for all payments, made by the business firm directly or through its bankers
- Payment in cash/ cheques.

Receipts

RECEIPT Date _____ No. _____

Received From _____ Amount \$ _____

Amount in Words _____

Payment of _____

From _____ to _____ Paid by Cash
 Check No. _____
 Money Order

Received By _____

Account Amt	_____
This Payment	_____
Balance Due	_____

Template by: vntext1.com

Issued by a receiver of payment to the payer for payment made by cash or cheque

Receipts consists of the following:

- Payment date
- Number of cheque if the payment made through bank
- Total amount
- Name of company

CASH RECEIPT

No: _____

Date: _____

\$ _____ Dollars

Cash bills

- Used in cash transactions only
- Issued by sellers

Credit notes

Credit Note

TOTAL SYNERGY
LEVEL 4
1 JAMES PLACE
NORTH SYDNEY NSW 2060
PH: 02 8137 9000
WWW.TOTALSYNERGY.COM.AU

Credit no. S-C0004
 Original Invoice no. SYD01552
 Credit date 13/02/2012
 Credit type Credit Note

Kryptonite Constructions
 112 Allen Street
 SPRING HILL QLD 4000

Re 23 Bedrock Rd Office & Garage
 For professional services rendered from 2/06/2011 to 27/10/2011.

Structural Design & Documentation - Garage	\$1,160.00
Structural Design & Documentation - Office	\$1,288.75
Sub total	\$1,448.75
Tax	\$144.88
Total credit	\$1,593.63

Please contact Robert Howard should you have any queries with this credit note.

- Used to inform the buyer that his or her account has been credited with the stated amount
- Usually issued when there is a sales return/ return inwards or when a sales price is overstated

MEMO

To: John Smith
From: Albert Janssen
Date: 26-04-2011
Re: Your call from 12-03-2011

Message

Your message goes here. Your message goes here. Your message goes here
re. Your message goes here. Your message goes here. Your message goes
- here. Your message goes here. Your message goes here. Your m

Date

Receiver's Address
ZIP Code

Dear receiver's Name

In the first paragraph, mention thank you
situational clause to be added to your letter

In the next paragraph, mention the reason

Business Letter For Inquiry

Address

Mr Kenneth,

In reference to our telephonic conversation, we are writing
inquire whether your company can send us the catalogue
the latest types of slab casting machines. We would like
to see which type will suite our organization.

We have found any specific machines design and features then
we are looking forward to purchase the same from you. We

Memo

- Used as a notice when there is an increase in capital, drawing or another extraordinary event
- as a reminder document transaction occurring between business owners with business (owners to take merchandise or cash for personal use / advertising or donations/ traders bring in personal assets or cash into the business)

Response Letter

- Send by supplier to purchaser
- Used to answer the questions from enquiry letter
- The response letter consists of the following:
 - List of price goods ordering
 - List of prices all the goods that have been sold by the supplier.
 - Catalogue

Enquiry Letter

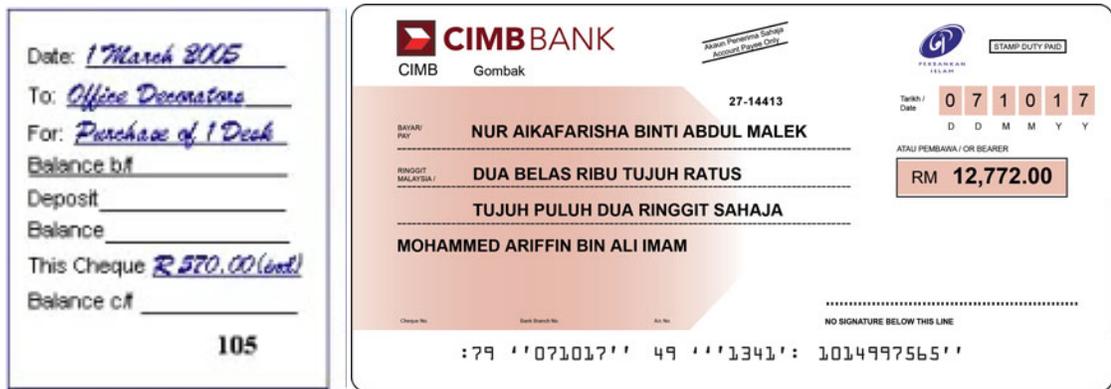
- Send by the purchaser to the supplier.
- Letters of enquiry describe what the writer wants and why.
- The purpose of enquiry letter is to know the details about the product in order to enable comparison between other suppliers.

Debit notes



- Used to inform the buyer that his or her account has been debited with the stated amount
- Usually issued when a sales price is understated

Cheque and Cheque butt



- Cheque is an authorization to draw funds from a bank account. In order to do this, a cheque must state the name as of payee, the amount to be paid and the date.
- A cheque is one of the more common forms of payment by used.
- Evidence that payment has been made by cheque. It also used as reference.

3.2 TYPES OF BOOKS OF PRIME ENTRY

- Books of prime entry are specialized accounting journals used to record particular sorts of transactions prior to being recorded to the general ledger.
- They are sometimes referred to as books of original entry or subsidiary books.
- These books facilitate effective transaction classification and organization.
- The following are a few typical prime entry books:
 - a) General Journal
 - b) Special Journal
 - c) Cash book
- Transactions are arranged according to type in these primary entry books, which facilitates precise posting to the general ledger and financial statement preparation.
- They offer a thorough audit trail of transactions for internal control and reporting needs, streamlining the accounting process.



The image shows a hand holding a black marker, writing in a ledger on a piece of paper. The ledger is a table with a blue header and several rows. The header row is labeled 'Company Name' and has columns for 'Date', 'Particular', 'L.F', 'Debit (Rs.)', and 'Credit (Rs.)'. The first row of data is dated '01-04-2021' and describes 'Cash at Bank A/C' with a debit of 2,000 and a credit of 2,000. The second row is a continuation of the first, with 'To Capital Account' and a credit of 2,000. Below this is a narration: 'Narration: Being capital put into the business'. The third row of data is dated '03-03-2021' and describes 'Salary A/C' with a debit of 89,000 and a credit of 89,000. The fourth row is a continuation of the third, with 'To Cash Account' and a credit of 89,000. Below this is a narration: 'Narration: Being salary paid'. There are several empty rows below the last narration.

Company Name				
Date	Particular	L.F	Debit (Rs.)	Credit (Rs.)
01-04-2021	Cash at Bank A/C		2,0000	
	To Capital Account			2,0000
Narration: Being capital put into the business				
03-03-2021	Salary A/C		89,000	
	To Cash Account			89,000
Narration: Being salary paid				

Table 3.1 Relationship between source documents, transactions and book of prime entry

Source of Document	Transaction	Book of prime entry
Invoice received	Credit purchase	Purchase journal
Invoiced issued	Credit sales	Sales journal
Cash bill received	Cash purchase	Cash book Cash payment journal
Cash bill issued	Cash sales	Cash book Cash receipt journal
Receipt received	Cash payment	Cash book Cash payment journal
Receipt issued	Cash received	Cash book Cash receipt journal
Credit note received	Return outwards Overtstated purchase price	Return outwards journal
Credit note issued	Return inwards Understated purchase price	Return inwards journal
Debit note received	Understated purchase price	Purchase journal
Debit note issued	Understated sales price	Sales journal
Vouchers	Payment made but no receipt issued	Cash book Cash payment journal
Cheque butts	Payment by cheques	Cash book Cash payment journal
Memos	Additional capital Drawing of asset Drawing of goods	General journal General journal General journal

3.3 JOURNALS

- Is a chronological record of accounting transactions. It is where all financial transactions of a business are initially recorded before they are transferred to the ledger accounts
- A journal entry is an analysis of all the effects of a single transaction on the various accounts usually accompanied by an explanation.

Recording Transactions: The primary purpose of an accounting journal is to record all financial transactions of a business in chronological order as they occur. This includes transactions related to revenues, expenses, assets, liabilities, and equity.

Components of an accounting Journal:

Date: The date when the transaction occurred is recorded to establish the timeline of events.

Account: The account titles affected by the transaction are specified, such as cash, accounts receivable, sales revenue, rent expense, etc.

Description: A brief description of the transaction is provided to explain the nature and purpose of the entry.

Debit Amount: The amount debited to the relevant account(s) is recorded on the left side of the journal entry.

Credit Amount: The amount credited to the relevant account(s) is recorded on the right side of the journal entry.

There are three types of journal which are:

- a) General journal
- b) Special journal
- c) Cash book

a) General Journal

A general journal is a basic day book used to record all business transactions that cannot be recorded in a cash book or special book.

General journal used to record the information below:

- Opening entry
- Purchase and sales of non-current asset
- Drawing goods and non-current asset
- Additional capital

GENERAL JOURNAL					
Year					
Month	Day	Transaction	Folio	Debit (RM)	Credit (RM)
		Account Name (Debited Account)		xxx	
		Account Name (Credited Amount)			xxx
		Description of transaction			

Figure 3.1 Format general journal

b) Special Journal

A special journal is used to record a specific type of transaction only.

Types of special journal are

- i. Purchase Journal
- ii. Sales Journal
- iii. Return Outwards (Purchases Return) Journal
- iv. Return Inwards (Sales Return) Journal

c) Cash book

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

- A cash book is used to record the following transactions:
- Opening cash or bank balance (including overdraft)
- Receipts and payments by cash or cheque
- Transfer of cash from the office to the bank and vice versa (contra entries)
- Recording cash discount
- Dishonoured cheque (cancelling the discount given)
- Closing cash or bank balance
- The cash book double entry principle is as follows:

Dr Receipt (Cash inflows)

Cr Payments (Cash Outflows)

Table 3.2 Transaction and the double-entry system

Book of First Entry	Source Documents	Transaction
General Journal	Credit note received Credit note issued	Overstated purchase price Overstated sales price
	Debit note received Debit note issued	Understated purchase price Understated sales price
	Memos	Additional capital Drawings of goods or assets
Purchase Journal	Invoiced received	Credit purchase
Sales Journal	Invoiced issued	Credit sales
Return Inwards/ Sales Return Journal	Credit note issued	Return inwards/ sales return
Return Outwards / Purchase Return Journal	Credit note received	Return outwards/ purchase return
Cash Book (Receipt) - Dr	Cash bill issued Receipt issued	Cash sales Cash received
Cash Book (Payment) - Cr	Cash bill received Receipt received Vouchers	Cash purchase Cash payment Payments were made but no receipts were issued
Bank column	Cheque butts	Payment by cheques
Cash Book (Receipt) - Dr	Cash bill issued Receipt issued	Cash sales Cash received

Table 3.3 Type of Transaction and corresponding accounts

Transactions	Account Debited	Account Credited
Credit purchase	Purchase	Creditors
Credit sales	Debtors	Sales
Sales return / Return inwards	Sales return / Return inwards	Debtors
Purchase return / Return outwards	Creditors	Purchase return/ Return outwards
Cash sales	Cash/ Bank	Sales
Cash purchases	Purchases	Cash/ Bank

a) General Journal

The general journal used to record the information below:

- Opening entry
- Purchase and sales of non-current asset
- Drawing goods and non-current asset
- Additional capital

Date	Particulars	Folio	Debit (RM)	Credit (RM)
2023 Jan 1	Cash Capital		5 000	5 000

Figure 3.3 Format of general journal

1. Opening Entry

Opening entries are made to record assets, liabilities and owner's equity (capital)

for the purpose of:

- Starting an existing firm's accounting records
- Starting business records for a newly established business.
- The journal entry to record the opening entry is:

Dr Asset
Cr Liabilities
Owner's equity

Example 3.1
General journal for opening entry

General Journal				
Date	Particulars	F	Debit (RM)	Credit (RM)
2023				
1-Jan	Shop equipment		18000	
	Cash		5000	
	Inventory		1500	
	Debtor - Rizz		3300	
	Overdraft bank			5500
	Creditor - Supplier Lim			1800
	Capital			20500
	(Assets, liabilities and owner's equity on this date)		27800	27800

2. Purchase and Sales of Non-current assets

a) Purchase of non current asset

- Credit purchase of non current assets

The journal entry to record the purchase of non current assets is:

Dr Non current asset
Cr Creditors

b) Sales of non current asset

- Credit sales of non current assets

The journal entry to record the credit sales of non current assets is:

Dr Debtors
Cr Non current assets

Example 3.2

a) Purchase Non-current assets

On 4 June 2023 Shamsul Cafe purchased a lorry worth RM 60 000 on credit from DRC Vehicle.

Date	Particulars	F	Debit (RM)	Credit (RM)
2023				
4-Jun	Motor Vehicles		60000	
	DRC Vehicle			60000
	(purchase lorry on credit)		60000	60000

b) Sales of Non-current assets

On 18 October 2023 Wawasan 1 Enterprise sold a machine valued at RM 2 500 to Johani on credit.

Date	Particulars	F	Debit (RM)	Credit (RM)
2023				
18-Oct	Johani		2500	
	Machine			2500
	(sold machine on credit)		2500	2500

3. Drawings Goods and Non current asset

Drawings is the owner took business cash, goods or assets by the for the personal use of the owner.

a) Drawing of goods

The journal entry to record the drawing goods is:

Dr Drawing
Cr Purchase

Example 3.3

On 19 February 2023, owner took goods worth RM 150 for personal use.

Date	Particulars	F	Debit (RM)	Credit (RM)
2023				
19-Feb	Drawing		150	
	Purchase			150
	(owner took goods)		150	150

b) Drawing of fixed assets

The journal entry to record the drawing of fixed assets is:

Dr Drawing
Cr Non current asset

Example 3.4

On 25 March 2023, owner transferred a computer valued at RM 1800 from his office to be use by his children.

Date	Particulars	F	Debit (RM)	Credit (RM)
2023				
25-Mar	Drawing		1800	
	Office equipment			1800
	(owner took computer for personal use)		1800	1800

4. Additional Capital

This happen when the owner brought his asset for office use
The journal entry to record the additional capital is:

Dr Asset
Cr Capital

Example 3.5

On 15 January 2023, the owner brought in his table worth RM 3300 to be used in the business.

Date	Particulars	F	Debit (RM)	Credit (RM)
2023				
13-Jan	Furniture		3300	
	Capital			3300
	(owner brought in a table as additional capital)		3300	3300

b) Special Journal

- A special journal is an accounting record or device designed to record a specific type of routine transaction quickly and efficiently.

TYPES OF SPECIAL JOURNAL



1. Purchase Journal

- When goods are bought on credit, the buying firm will receive a document called purchase invoice from the seller.
- From the purchase invoice received, the buyer records the relevant details into the purchase journal.

Example 3.6

The following are transactions that occurred during the month of April 2023 for Maliki Restaurant.

Date	Particulars	RM
2023 April 5	Purchase goods on credit from Lim Sdn Bhd.	2 300
10	Purchase goods from Razaki Supplier on credit.	1 600
19	Purchase goods on credit from Dini Berhad 5% trade discount.	2 800

Purchase Journal

Date	Particulars	Invoice No	Folio	Amount (RM)	Total (RM)
2023 April 5	Lim Sdn Bhd				2 300
10	Razaki Supplier				1 600
19	Dini Berhad Less 5% trade discount			2 800 (140)	2 660
30	Purchase Account (Dr)				6 560

At the end of the month, purchase journal will be close and the total will be transferred to purchase account at the debit side.

2.Sales Journal

- The sales journal records all credit sales of goods.
- From a copy of sales invoice, the transaction is entered in the sales journal.

Example 3.7

The following are transactions that occurred during the month of April 2023 for Maliki Cafeteria.

Date	Particulars	RM
2023 April 15	Sold goods to Jamali on credit. 5% trade discount	3500
20	Budini purchase goods from us on credit	2100
28	Sold goods to Mr Tanna on credit	2400

Sales Journal

Date	Particulars	Invoice No	F	Amount (RM)	Total (RM)
2023 April 15	Jamali Less 5% trade discount			3 500 (175)	3325
20	Budini				2100
28	Mr Tanna				2400
30	Sales Account (Cr)				7825

At the end of the month, sales journal will be close and the total will be transferred to sales account at the credit side.

3. Purchase Return Journal / Return Outwards Journal

- Purchase return journal is also known as Return Outwards Journal.
- Goods bought previously can be returned to the supplier with valid reasons.
- When this happens, a debit notes is sent by the customer / buyer to the supplies giving of the goods and the reasons for their returns.

Example 3.8

The following are transactions that occurred during the month of April 2023 for Maliki Cafeteria.

Date	Particulars	RM
2023 April 7	Returned goods to Tinna Sdn Bhd due to defect goods	150
13	Returned goods to Razaki Supplier due to packaging error	100
22	Returned goods to Dini Berhad. 5% trade discount	180

Return Outwards Journal

Date	Particulars	Invoice No	Folio	Amount (RM)	Total (RM)
2023 April 7	Tinna Sdn Bhd				150
13	Razaki Supplier				100
22	Dini Berhad Less 5% trade discount			180 (9)	171
30	Return Outwards Account (Cr)				421

At the end of the month, return outwards journal will be close and the total will be transferred to return outwards account at the credit side.

4.Sales Return Journal / Return Inwards Journal

- Sales return journal is also known as Return Inwards Journal.
- When goods are returned by customers to the business, credit notes will be issued to them.
- This document indicates that a particular customer's liability is reduced by the amount stated in the credit note.

Example 3.9

The following are transactions that occurred during the month of April 2023 for Maliki Cafeteria.

Date	Particulars	RM
2023 April 17	Jamali returned good to us. 5% trade discount	240
23	Budini returned goods	110
29	Mr Tanna returned good to us due to defect goods	120

Return inwards Journal

Date	Particulars	Invoice No	F	Amount (RM)	Total (RM)
2023 April 17	Jamali			240	228
	Less 5% trade discount			(12)	
23	Budini				110
29	Mr Tanna				120
30	Return Inwards Account (Dr)				458

At the end of the month, return inwards journal will be close and the total will be transferred to return inwards account at the debit side.

3.4 CASH BOOK

- A cash book is the book of first entry used to record receive and payments by cash and cheque.
- The cash book records receipts and payments into and out of the business bank account.
- These would include receipts and payments made by bank transfer, standing order, direct debit and bank interest and charges, directly by the bank.

The cash book double entry principle is as follows:

Dr Receipts (cash inflows)
Cr Payments (cash outflows)

There are two types of cash book format:

a. Two column cash book

DR			Cash Book						CR	
Date	Particulars	Fol	Cash (RM)	Bank (RM)	Date	Particulars	Fol	Cash (RM)	Bank (RM)	

• Cash column
• Bank column

b. Three column cash book

DR			Cash Book						CR		
Date	Particulars	Fol	Dis Allo (RM)	Cash (RM)	Bank (RM)	Date	Particulars	Fol	Dis Rec (RM)	Cash (RM)	Bank (RM)

• Cash column
• Bank column
• Discount column

Note: The different between these two formats is that there are discount columns in the three column cash book.

a) Receipts and payments by cash or cheque

Receipt in business transaction refer to:

- Cash sales
- Additional capital in the form of money
- Receipts of debt payment from debtors
- Cash sales of used assets

Example 3.10

Date	Particular	Amount (RM)
2023 May 1	Cash in hand	550
3	Cash at bank	7600

Cash Book									
Dr					Cr				
Date	Particulars	F	Cash (RM)	Bank (RM)	Date	Particulars	F	Cash (RM)	Bank (RM)
2023 May 1	Balance b/d		550	7600					

Example 3.11

Date	Particular	Amount (RM)
2023 May 3	Cash sale	1000
8	Received cheque for commission	50
14	Owner deposited his saving into the bank	5000
18	Ali (debtor) paid his debt by cash	150
20	Sold a used computer and received cheque	1300

Cash Book

Date	Particulars	F	Cash (RM)	Bank (RM)	Date	Particulars	F	Cash (RM)	Bank (RM)
2023									
May 3	Sales		1000						
8	Commission			50					
14	Capital			5000					
18	Debtor - Ali		150						
20	Computer			1300					

b) Transfer of cash from the office to the bank and vice versa (contra entries)

A contra entry is a double entry that involves both a cash account and bank account.

Example 3.11

Date	Transactions
2023	
May 11	Money withdrawn from bank for office use RM 1500

Dr		Cash Book								Cr
Date	Particulars	F	Cash (RM)	Bank (RM)	Date	Particulars	F	Cash (RM)	Bank (RM)	
2023					2023					
May 11	Bank	c	1500		May 11	Cash	c		1500	

c) Cash Discount

- A cash discount is a reduction in the price of an item for sales allowed if payment is made within the period of time.
- It is usually given to encourage debtors (customers) to settle their debts earlier or within a specified period.
- Discount terms are usually stated in the invoice
- There are two types of cash discount:
 - Discount allowed (expenses) – given to debtors or customers
 - Discount received (revenue) – received from creditors or suppliers

To record discount allowed

Example 3.12

Date	Transactions
2023 May 5	Sold goods on credit to Wan Enterprise for RM 8 100. Trade discount is RM 100
7	Received cheque from Wan Enterprise after allowing 5% discount

Dr		Cash Book										Cr
Date	Particulars	F	Dis Allowed	Cash (RM)	Bank (RM)	Date	Particulars	F	Dis Received	Cash (RM)	Bank (RM)	
2023 May 7	Wan Enterprise		400		7600							



Calculation:

$$\text{Sales} = \text{RM } 8\,100 - \text{RM } 100 = \text{RM } 8\,000$$

$$\text{Discount allowed} = 5\% \times \text{RM } 8\,000 = \text{RM } 400$$

To record discount received

Example 3.13

Date	Transactions
2023 May 6	Purchased goods on credit from Yumi Suppliers RM 5 600 5% trade discount
14	Paid Yumi Suppliers by cheque and received cash discount of 5%

Cash Book											
Dr						Cr					
Date	Particulars	F	Dis Allowed	Cash (RM)	Bank (RM)	Date	Particulars	F	Dis Received	Cash (RM)	Bank (RM)
						2023 May 14	Yumi Supplies		266		5054



Calculation:

Purchase = RM 5 600 – RM 280 = RM 5 054

Discount allowed = 5% X RM 5 320 = RM 266

d. Dishonoured cheques

Dishonoured cheque or also known as bounced cheque are cheque that are returned by the bank due to one of the following reason:

- Insufficient funds in the drawer’s current account
- Post-dated cheque
- Incomplete details on the cheque
- Damaged or torn cheque
- Inaccurate particulars on the cheque
- The dishonoured cheque is credited back to the bank column of the Cash Book.
- The discount allowed (if any) is cancelled in the General Journal.

Example 3.14

Date	Transactions
2023 May 12	Wan Enterprise paid off its debt of RM 7 600 by cheque. 5% cash discount given.
17	The cheque received from Wan Enterprise was returned by the bank as it was dishonoured. The discount allowed was cancelled.

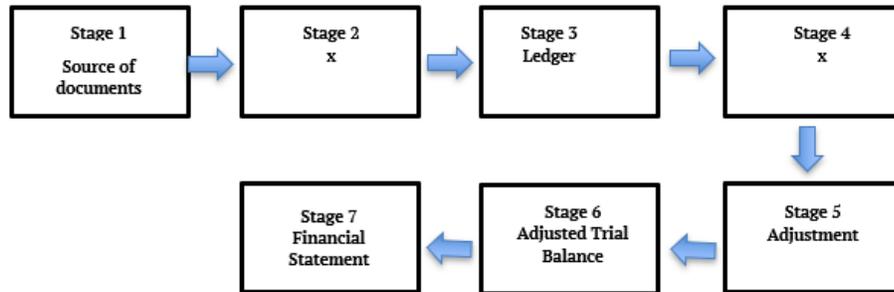
Cash Book											
Dr						Cr					
Date	Particulars	F	Dis Allowed	Cash (RM)	Bank (RM)	Date	Particulars	F	Dis Received	Cash (RM)	Bank (RM)
2023 May 12	Wan Enterprise		380		7220	2023 May 17	Wan Enterprise (dishonoured cheque)				7660

General Journal

Date	Particulars	Folio	Debit (RM)	Credit (RM)
2023 May 17	Wan Enterprise (dishonoured cheque) Discount allowed (discount allowed of 5% cancelled due to dishonoured cheque)		380	380

QUESTIONS

1. The accounting process is the series of steps in recording a business financial transactions. Label the blank with a correct answer.



Stage 2 : _____
 Stage 4: _____

2. Based on the following statements, categorize to a related source of document.

Num	Usage	Source of Document
1	Used to inform the buyer that his or her account has been debited with the stated amount.	
2	Used in credit transaction only	
3	Used as a notice when there is an increase in capital, drawing or other extraordinary event	
4	Evidence that payment has been made by cheque	
5	Customer return goods because of faulty	

3. Explain the functions for the journals below:

Num	Journal	Function
1	Purchase	
2	Sale	
3	Return Inwards	
4	Return Outwards	

4. State the account to debited or to be credited based on the transactions below:

Num	Journal	Accounting Treatment
1	Sold goods to Munir on credit	
2	Cash purchase	
3	Owner withdraw cash from bank account	
4	Cash sales	

5. Fill in the blank with the correct accounting cycle below:

- i. _____
- ii. Journal
- iii. _____
- iv. Trial balance
- v. Adjustment
- vi. Adjusted trial balance
- vii. _____
- viii. Closing journal

6. State the effects of asset and liability transactions on the accounting equation.

Transactions	Type of book of prime entry
Example: Bought a new office building by cheque	Cash Payment Journal
Payment a new air-conditioner by cash	
Credit sales to IKY Sdn Bhd	
Cash sales to Amy Sdn Bhd	
Cash purchase	
Credit purchase from Aali Sdn Bhd	
Purchase goods by cash	
IKY Sdn Bhd returned expired goods to us	
Bought goods to creditor Joyci	

7. The followings are the transaction extracted from Mummy Catering Enterprise. You are required to record the transaction in the appropriate journals.

Date	Transaction
2023 July 1	Started business with furniture worth RM2,000, cash RM5,000 and deposit cash into company's account RM25,000
2	Bought goods on credit RM5,000 from Laila Berhad.
5	Purchased air-conditioner from Lamp Electrical RM37,000 for office use on credit.
9	Purchased goods from Danny Enterprise RM1,380 on credit.
11	Owner took good for personal used value RM2,000.
13	Sold goods to Simon RM2,000 on credit.
15	Sold a machine on credit to Purnama Sdn Bhd value RM5,000.
18	Purchased computer on credit from Sunny Tech Corp. RM5,000.
20	Owner brought van for office used value RM30,000.
22	Sold goods on credit to Simon RM1,000.
25	Owner took printer value RM1,200 for personal used.



CHAPTER 4: DOUBLE ENTRIES PRINCIPLES AND BALANCING OFF AND TRIAL BALANCE

LEARNING OUTCOMES

- 4.0 Provide explanation on the double-entry rules
 - 4.1 Identify the ledgers entries
 - 4.2 Prepare the posting of journal entries into the respective ledger accounts and demonstrate the balancing off accounts
 - 4.3 Provide explanation on the purpose of preparing trial balance and prepare the trial balance
 - 4.6 Ascertain types of errors that are revealed by trial balance
- 

DOUBLE ENTRY IS A BOOKKEEPING AND ACCOUNTING METHOD, WHICH STATES THAT EVERY FINANCIAL TRANSACTION HAS EQUAL AND OPPOSITE EFFECTS IN AT LEAST TWO DIFFERENT ACCOUNTS.

4.0 DOUBLE-ENTRY CONCEPT

In a financial accounting system, a double-entry is a set of guidelines whereby each transaction or occurrence modifies a minimum of two distinct nominal ledger accounts.

Rules of double entry

- Each transaction must be recorded twice, with one side of the transaction being called a DEBIT (Dr) and the other a CREDIT (Cr).
- The sum of all debits of the transaction must equal to the sum of all credits of the transaction. Debit balance = Credit balance

Debit balance = Credit balance

- The double entry principles are a system of recording that must be followed in order to document business activities in the accounting.
- According to this approach, decreases are credited and growth in assets and costs are debited.

- Any growth in capital, liabilities, or revenues is credited, and any reduction is deducted.
- Furthermore, the amounts associated with drawings—whether they be of cash or inventory—are deducted from the account.
- It should be possible for the students to pass a journal and submit the relevant journal to the relevant ledger, account, or T-Account.

Rules of double entry

Assets A/C		Expenses A/C		Drawings A/C	
Bal b/d	Decrease	Bal b/d	Decrease	Bal b/d	Decrease
Liabilities A/C		Capital A/C		Revenues A/C	
Decrease	Bal b/d Increase	Decrease	Bal b/d Increase	Decrease	Bal b/d Increase

4.1 LEDGER ENTRY

- In accounting, a ledger is a book with several accounts in which records of transactions related to a particular account are kept.
- It is sometimes referred to as the major book of accounts or the book of prime entry.
- All transactions, whether credited or debited, are kept in this book.

- A ledger is made up of several parts, including the different transaction aspects such the date, amount, details, and l.f. (ledger folio).
- A transaction number or any other kind of notation is used to identify individual transactions, which are included within a ledger account.

Following are some examples of ledger accounts:

- Accounts receivable
- Cash
- Depreciation
- Accounts payable
- Salaries and wages

- Bad debt
- Inventory
- Stockholders' equity
- Office expenses
- Marketing expenses

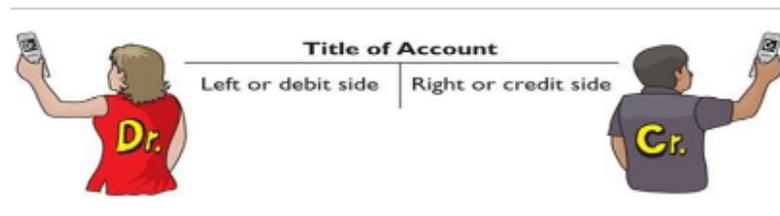
The process of transferring the transaction details from the journals to the ledger accounts is known as posting.

The best way to visualize a ledger account is as a T, where the account title and account code is placed on the top line and a centre line below separates the debit entries on the left and the credit entries on the right.

A ledger account is a separate accounting record in the general ledger that collects and stores the debit and credit details of a specific aspect of financial activity.

All the debit and credit details in a ledger account come from the journals which initially recorded the details of financial transactions in a date and time order.

Account T

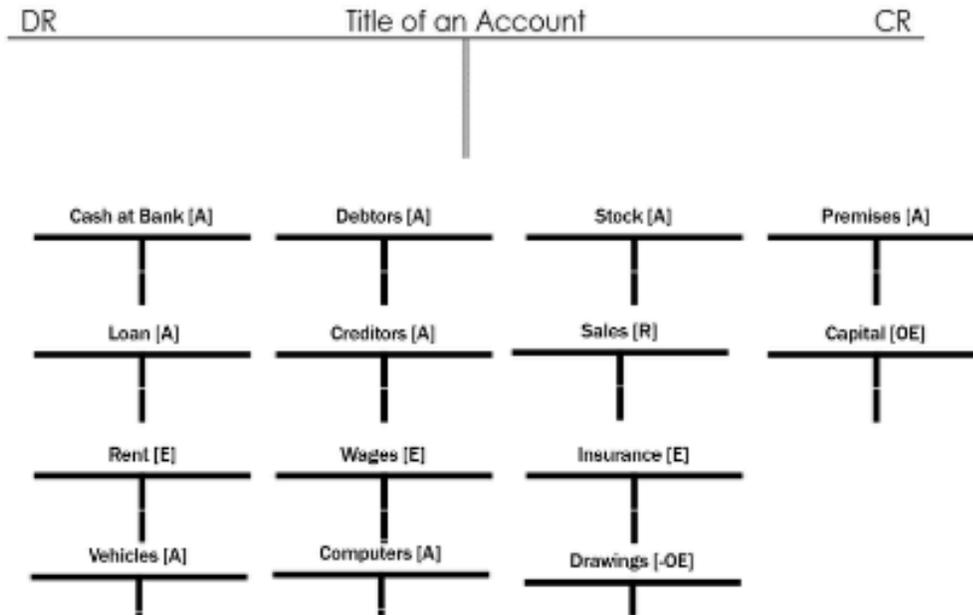


4.2 LEDGER POSTING

- The process of transferring entries from a journal to the respective ledger accounts is known as ledger posting.
- For this process, first, the entries are recorded in journals and then transferred to their respective ledger accounts.

The format of ledgers as follows:

DR		Title of an Account				CR	
Date	Particulars	Fol	Amount (RM)	Date	Particulars	Fol	Amount (RM)



account name

RENT ACCOUNT							
DATE	PARTICULAR	F	AMOUNT	DATE	PARTICULAR	F	AMOUNT
2023 4/12	CASH		400	2023 31/12	SOCI		400
			400				400
1/1	BALANCE b/d		400				

balancing
amount debit

balancing amount
credit

SALES ACCOUNT

DATE	PARTICULAR	F	AMOUNT	DATE	PARTICULAR	F	AMOUNT
2023 31/1	SOCI		1400	2023 6/12	TANIA		1200
				11/12	CASH		200
			1400				1400

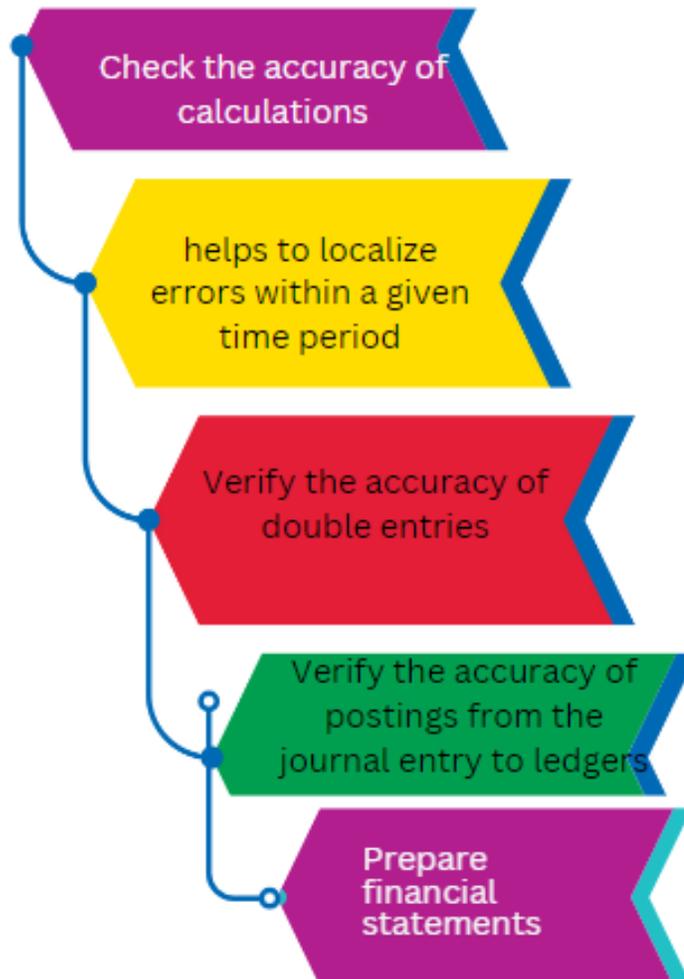
PURCHASE ACCOUNT

2023 3/12	SHAH BROTHERS		<u>2000</u>	2023 31/1	SOCI		<u>2000</u>
			<u>2000</u>				<u>2000</u>

4.3 TRIAL BALANCE

- A list of all ledger accounts with balances at a particular date.
- A trial balance is a list of all the General ledger accounts (Special Ledger, Expenses, Revenues, Asset, Liabilities, and Owner’s Equity) contained in the ledger of a business. This list will contain the name of the nominal ledger account and the value of that nominal ledger account.
- The value of the nominal ledger will hold either a debit balance value or a credit balance value.
- The debit balance values will be listed in the debit column of the trial balance and the credit value balance will be listed in the credit column.

The Purposes of trial balance



Trial Balance is a list of debit and credit balances, taken out from the ledger. It also includes the balances of cash and bank taken from cash book.”

The Statement prepared with the help of ledger balances, at the end of the financial year to find out whether debit total agrees with credit total is called Trial Balance

4.4 TYPES OF ERRORS IN TRIAL BALANCE

Errors in Trial Balance are mistakes made during the accounting process that cannot always be detected by the trial balance. These errors are classified under two heads:

i) Errors disclosed by a trial balance:	ii) Errors not disclosed by a trial balance:
<ul style="list-style-type: none">• If the trial balance does not tally, it shows that the accountant has committed certain mistakes while recording the transactions.• These are due to the lack of attention.	<ul style="list-style-type: none">• The agreement of trial balance not always necessarily shows an accuracy check.• There may be a number of errors that cannot be disclosed by the trial balance as the debit and credit side shows equal value.• Such errors are known as limitations of Trial Balance.

Types of Errors Not Disclosed by a Trial Balance

1. Errors of Omission

Errors of Omission occur when a transaction is fully skipped. This means that the transaction has not been recorded either in the Journal or in Subsidiary Books.

Under such a situation, the agreement of trial balance remains unaffected, as the transaction has neither been entered in the debit side nor the credit side of any account.

Example 4.1

Goods worth RM 8,000 sold to Din has not been recorded at all. This will not affect the agreement of the trial balance, as neither it has been recorded on the debit side of Din's account nor on the credit side of the sales account.

2. Errors of Commission

Errors of Commission occur when a wrong amount has been recorded either in the Journal or in Subsidiary Books. The trial balance, despite such errors, still continues to tally because the same wrong amount has been recorded on both sides of the accounts.

Example 4.2

A cash purchase of RM250 has been recorded in the Journal as RM520. When this transaction is posted in the ledger account, the amount of RM 520 is entered as purchase being debited with RM520 and cash being credited with RM520. No error can be detected by the trial balance.

3. Errors of Principle

Errors of Principle occur when Accounting Principles are not applied or are violated while recording a transaction. These errors are of two types: When capital expenditure is treated as revenue expenditure.

Example 4.3

Furniture worth RM 50,000 purchased is wrongly debited to the purchase account, instead of the Furniture account. Despite such Errors of Principle, the trial balance shows an agreement. When a revenue expenditure is treated as capital expenditure.

Example 4.4

Amount of RM2,000 spent on repair of old machinery being debited to machinery account, instead of repair account.

4. Compensating Errors

When the wrong amount posted in one account is compensated by the wrong posting of the same amount in another account is called Compensating Errors.

Example 4.5

Ram's account is debited by RM400, instead of RM500 and Sham's account is credited by RM600, instead of RM700. The trial balance doesn't show any disagreement due to the shortage of RM100 being recorded on both sides of the account.

5. Transposed Numbers

The digits in a number may have been switched. This is easy to find, since the underlying entry is unbalanced, and so should not have been accepted by the accounting software. If a manual system is being used, journal entry totals must be compared to the totals in the trial balance. This issue relates to the following one.

Example 4.6

A bookkeeper writes RM24.74 instead of RM24.47 by error, the RM0.27 difference would not really matter. However, if RM1,823,000 was inadvertently entered as RM1,283,000, the ensuing RM540,000 error would undoubtedly have a significant negative financial impact.

Format of Trial balance
Mamalove Enterprise
Trial Balance as at 31 December 20xx

Account Title	Dr RM	Cr RM
Rental	X	
Interest paid	X	
Commission allowed	X	
Purchase	X	
Insurance expense	X	
Advertising expenses	X	
Carriage inwards	X	
Carriage outwards	X	
Water and Electricity	X	
Salary	X	
Bad debts	X	
Depreciation expenses	X	
Land	X	
Building	X	
Office equipment	X	
Furniture	X	
Fixtures and Fittings	X	
Cash or Bank	X	
Opening stock	X	
Debtors	X	
Drawings	X	
Return Inwards / Sales Return	X	
Rent received		X
Interest received		X
Commission received		X
Sales		X
Discount received / Purchase discount		X
Bad debt recovery		X
Creditors		X
Bank Loan or <u>Long term loan</u>		X
Provision for doubtful debts		X
Accumulated depreciation/ Provision for depreciation		X
Capital		X
Return Outwards / Purchase Return		X
	XX	XX

Closing stock as at RMXX

Example 4.7

The following balances were extracted from Bawal Trading 31 December 2023

	RM		RM
Cash in hand	1,000	Cash at bank	10,000
Land and Buildings	300,000	Machinery	150,000
Accounts Payable	60,000	Accounts Receivable	30,000
Sales	200,000	Purchases	80,000
Salaries expenses	28,000	Inventory	12,000
Capital	101,000	Mortgage Loan	250,000

You are required to draw up a proper Trial Balance from the above ledger account balances

Working:

Step 1: Identify the debit and credit account balances

Debit balances :
Assets, Drawings,
Expenses, Purchases,
Sales Return

Credit balances:
Liabilities, Capital,
Revenue, Sales,
Purchase Return

**Bawal Trading
Trial Balance as at 31 December 2023**

Particulars	Debit (RM)	Credit (RM)
Cash in hand	1,000	
Land and Buildings	300,000	
Accounts Payable		60,000
Sales		200,000
Salaries expenses	28,000	
Capital		101,000
Cash at bank	10,000	
Machinery	150,000	
Accounts Receivable	30,000	
Purchases	80,000	
Inventory	12,000	
Mortgage Loan		250,000
	611,000	611,000

QUESTIONS

1. Describe **TWO (2)** purposes of preparing Trial Balance.

2. Recognize types of errors revealed by Trial Balance

ERRORS	TYPES OF ERRORS
a) Cash sales RM 1000 DR Cash RM 1000 CR (not recorded) RM 0 Only ONE entry is made for a transaction	
b) Purchase on Credit from Alicia RM 2,450 DR PURCHASED RM 2,450 CR CREDITOR-ALICIA RM 2,540 It occurs when the amount is correctly recorded on one side of the accounts but wrongly recorded on the other side.	

3. Identify the Account Balance. Mark(x) into correct column to show the original balance for the following accounts

Types of account	Category	Debit	Credit
Debtors	Current Assets	x	
Creditors			
Sales			
Accrued advertising			
Prepaid Utility			
Accrued marketing			
Insurance Expenses			
Capital			
Inventory			

4. The ledger accounts balance for Super Dryer as at 31 December 2022 are shown below. Each account contains a normal balance. The balance in the Bank account is purposely left.

ACCOUNT	RM
Debtors	600
Creditors	800
Other income	15,000
Bank	X
Dryers	24,000
Interest expense	500
Utility	3,800
Washing Machine	56,000
Laundry Income	120,000
Capital	20,000
Drawings	750
Loan	15,000
Rent expenses	10,500
Salary expense	18,000
Cash	4,150

You are required:

- a) Prepare a Trial Balance as at 31 December 2022
- b) Calculate the correct balance in the Bank Account

5. The following information has been taken from the accounting records of Langkawi Travel and tours for the year ending 30 September 2023.

Particular	Amount (RM)
Cash in hand	5000
Cash at bank	30000
Debtors	8000
Machinery	43000
Motor vehicle	9100
Furniture	15000
Stock	3300
Purchase	10000
Insurance	8300
Advertising	4700
Drawing	800
Salaries	8500
Sales return	1300
Creditor	3000
Mortgage loan	100000
Capital	26000
Sales	17000
Purchase return	1000

You are required to prepare the trial balance as at 30 September 2023.

6. Below are the transactions of Aziem Trading for the month of December 2021:

Date	Transactions
2021 Dec 1	Started business with cash RM24,000
3	Bought goods on credit from Shah Brothers RM2,000
4	Paid rent by cash RM400
6	Sold goods on credit to Tania RM1,200
11	Cash sales RM200
14	Goods returned to Shah Brothers RM300
17	Owner withdraws cash from bank account RM 500
20	Paid salary expenses RM 4200

You are required to:

- a) Report the transaction into general journal
- b) Report relevant ledgers, close off the accounts
- c) Report a trial balance as at 31 December 2021.

7. The L&G Company records its cash and bank transactions in a triple column cash book. The following transactions were performed by the company during the month of June 2021.

The following is the balance on 1 June 2021:

Cash RM2,000

Bank RM10,000

Date	Transactions
2021 June 2	Purchase goods by cheque RM 4500
6	Sold goods to Yup Trading paid by cheque RM 5000
9	Cash sales RM 1350
13	Purchase goods from Best Design, paid by cheque and received 5% discount RM 3000
17	Cash sales and the money was banked in RM 6900
21	Purchase office table by cheque RM 510
22	Sold goods to Rezali Ent paid by cheque and give discount allowed RM 4000
24	Withdrew cash from bank for office use RM 1000
28	Cash sales RM 6000

You are required to:

- Prepare the cash book (3 column)
- Report relevant ledgers, close off the accounts
- Report a trial balance as at 31 June 2021.

8. Zambira runs her business since 2021. Records the transactions below in suitable ledgers and prepare Trial Balance as at date.

Date	Transactions
2023 May 1	Balance from previous month: Cash in hand RM 5,000 Cash in bank RM 15,000 Debtor – Yaya RM 3,000 Creditor – Nana RM 4,100 Capital?
3	Purchase by cash goods from Aisha RM2,900.
5	Sale to Karim and received cash RM 4,000.
8	Debtor Yaya paid by cheque all her debt and gave discount RM 300.
15	Paid interest bank RM 2,500 by cheque.
19	Paid by cheque to Creditor Nana RM 2,000.
20	Purchase good from Aminah Trading RM 5,000
22	Returned goods to Aminah Trading RM 500 because faulty goods.
28	Paid telephone bill RM 150 and electricity RM 200 by cheque.
31	Use cheque RM 2,000 to paid Shimah salary, her employee.

You are required to:

- a) Arrange transactions above in ledgers (balancing off the accounts) .
- b) Prepare Trial Balance as at 31 May 2023.

9. Kiah Enterprise started business on 1 March 2023 with cash in hand RM 5,000 and cash at bank RM 20,000. During the month of March 2023, the transactions occurred as follows:

Date	Transactions
2023 March 3	Paid rental by cash RM 1,200.
5	Purchase shop equipment worth RM 3,500 and paid by cheque.
9	Purchase goods on credit from Tim Enterprise worth RM 2,500.
15	Returned damaged goods to Tim Enterprise RM 150.
19	Cash sale RM 340.
25	Paid utility bills RM 150 by cash.
29	Paid salaries by cash RM 800.

You are required to:

- a) Report all the above transactions into appropriate ledger and balance the accounts.
- b) Outline the accounts in a Trial Balance as at 31 March 2023.

CHAPTER 5: YEAR END ADJUSTMENTS

LEARNING OUTCOMES:

5.0 Describe the accrual basis and cash basis accounting

5.1 Provide explanation on the accruals and prepayment

5.2 Provide explanation on the depreciation for non-current assets

5.3 Provide explanations on bad debts, allowance for doubtful debts and recoverable bad debts

FINANCIAL STATEMENTS ARE PREPARED BASED ON THE ACCOUNT BALANCE IN THE TRIAL BALANCE. HOWEVER, THIS DATA MIGHT HAVE BALANCES THAT REQUIRED SOME ADJUSTMENTS.

The purpose of adjusting entries is to:

Adjust the owner's capital account for the revenue, expense and drawings recorded during the accounting period

5.0 ACCRUAL BASIS AND CASH BASIS OF ACCOUNTING

CASH BASIS

- 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.

ACCRUAL BASIS

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

5.1 CONCEPT OF ACCRUALS AND PREPAYMENT

Accrued Expenses

- Accrued expenses– expenses that are not yet paid even though the goods were received or services were used.
- The balances of expense account listed in the trial balance are the total actual expenses that were paid during the accounting period and not the amount that should have been paid.
- It must be added to the expenses account before it is transferred to the SOCl and reported in SOFP as a current liability.

The adjusting entry for accrued expense is as follows:

Dr	Expenses A/C	<i>(added to prior amount in TB)</i>
Cr	Accrued Expenses A/C	<i>(as a CL)</i>

The closing entry is as follows:

Dr	SoCl	
Cr	Expenses A/C	<i>(to close the expenses A/C)</i>

Example 5.1

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

Trial Balance as at 31 December 2023

	Debit (RM)	Credit (RM)
Employee's salary	2,000*	

Additional Information:

Employee's salary is RM 210 per month

Working:

Employee's salary

= RM 210 X 12 Months = RM2,520*(Total salary that should have been paid)

Therefore:

Accrued employee's salary = Employee's salary that should have been paid - Employee's salary that has been paid

=RM2520 - RM2,000 = RM520

a) Journal

Date	Particulars	Debit (RM)	Credit (RM)
2023 Dec 31	Employee's Salary	520	
	Accrued Employee's Salary		520
31-Dec	SOCI	2520	
	Employee's Salary		2520

b) General ledger

Dr		Employee's Salary	Cr	
2023			2023	
31-Dec	Balance b/d	2000	31-Dec	SOCI
	Accrued Employee's Salary	520		2520
		<u>2520</u>		<u>2520</u>

Dr		Accrued Employee's Salary		Cr	
2023			2023		
31-Dec	Balance c/d	520	31-Dec	Employee's Salary	520
		<u>520</u>			<u>520</u>

Statement of Comprehensive Income (extract) for the year ending 31 Dec 2023

Expenses

Employee's Salary RM 2520

Statement of Financial Position (extract) for the year ending 31 Dec 2023

Current Liabilities

Employee's Salary RM 520

Prepaid/Prepayment Expenses

- Expenses that were paid in the current accounting period but the goods or services will only be used in the following accounting period.
- 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

The adjusting entry for prepaid expense is as follows:

Dr	Prepaid Expenses A/C	<i>(as a CA)</i>
	Cr Expenses A/C	<i>(deducted from prior amount in TB)</i>

The closing entry is as follows:

Dr	SoCI	
	Cr Expenses A/C	<i>(to close the expenses A/C)</i>

Example 5.2

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

Trial Balance as at 31 December 2023

	Debit (RM)	Credit (RM)
Insurance	3,500*	

Additional Information:

Insurance payment is for one year's coverage from 1 January 2023 till February 2024.

Working:

Monthly Insurance

= RM3,600/14 months = RM250

Prepaid insurance = RM 250 X 2 months = RM 500

Therefore:

$$\begin{aligned}
 \text{Insurance that should be paid is} &= \text{Total insurance} - \text{Prepaid insurance} \\
 &= \text{RM } 3,500 - \text{RM}500 = \text{RM}3,000
 \end{aligned}$$

a) Journal

Date	Particulars	Debit (RM)	Credit (RM)
2023 Dec 31	Accrued interest revenue on fixed deposit	500	
	Interest revenue on fixed deposits		500
31-Dec	SOCI	3000	
	Insurance		3000

b) General ledger

Dr		Insurance		Cr	
2023		2023		2023	
31-Dec	Balance b/d	3500	31-Dec	Prepaid Insurance	500
				SOCI	3000
		<u>3500</u>			<u>3500</u>
		<u><u>3500</u></u>			<u><u>3500</u></u>

Dr		Prepaid Insurance		Cr	
2023		2023		2023	
31-Dec	Insurance	500	31-Dec	Balance c/d	500
		<u>500</u>			<u>500</u>
		<u><u>500</u></u>			<u><u>500</u></u>

Statement of Comprehensive Income (extract) for the year ending 31 Dec 2023

Expenses

Insurance RM 3000

Statement of Financial Position (extract) for the year ending 31 Dec 2023

Current Asset

Prepaid Insurance RM 500

Accrued Revenue

- revenues that are not yet received even though the services has 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.

The adjusting entry for accrued revenue is as follows:

Dr Accrued revenue A/C	<i>(as a CA)</i>
Cr Revenue A/C	<i>(added to prior amount in TB)</i>

The closing entry is as follows:

Dr Revenue A/C	<i>(to close the revenue A/C)</i>
Cr SoCI	

Example 5.3

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

Trial Balance as at 31 December 2023

	Debit (RM)
Fixed deposit	10,000

Additional Information:

The fixed deposit interest is 5% per annum.

Monthly Interest

= RM10,000 X 5% months = RM500

Prepaid insurance = RM 250 X 2 months = RM 500

Therefore:

The revenue from interest on the fixed deposits is RM 500.

a) Journal

Date	Particulars	Debit (RM)	Credit (RM)
2023 Dec 31	Accrued interest revenue on fixed deposit Interest revenue on fixed deposits	500	500
31-Dec	SOCI Insurance	3000	3000

b) General ledger

Dr	Interest revenue on fixed deposit	Cr
2023		2023
31-Dec	SOCI 500	31-Dec
		Accrued interest revenue on fixed deposit 500
	<u>500</u>	<u>500</u>

Dr	Accrued interest revenue on fixed deposit	Cr
2023		2023
31-Dec	Interest revenue on fixed deposit 500	31-Dec
		Balance c/d 500
	<u>500</u>	<u>500</u>

Statement of Comprehensive Income (extract) for the year ending 31 Dec 2023

Revenue:

Interest revenue on fixed deposit RM 500

Statement of Financial Position (extract) for the year ending 31 Dec 2023

Current Asset:

Accrued interest revenue on fixed deposit RM500

Advanced revenue / Unearned revenue

- Unearned revenue is money received in advanced for services to be provided to the customers at a later date.
- Unearned revenue is created when the total 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.

The adjusting entry for accrued revenue is as follows:

Dr	Revenue A/C	<i>(deducted from prior amount in TB)</i>
	Cr Unearned revenue A/C	<i>(as a CL)</i>

The closing entry is as follows:

Dr	Revenue A/C	<i>(to close the revenue A/C)</i>
	Cr SoCI	

Example 5.4

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

Trial Balance as at 31 December 2023

Rental fees	Credit (RM)
	4,400

Additional Information:

The monthly rental revenue is RM 600

5.2 DEPRECIATION AND ACCUMULATED PROVISION FOR DEPRECIATION FOR NON-CURRENT ASSETS

Depreciation

- Depreciation is the reduction of the value of non-current assets after being used in business operations.
- Depreciation is the costs of assets that are considered as expenses.

Provision for Depreciation

- Provision for depreciation or accumulated depreciation is the amount of the non-current assets costs allocated to a particular accounting period.
- This provision is usually accumulated from year to year.

Method to calculate depreciation

There are two methods available to calculate the depreciation:

- Straight line method
- Reducing balance method

Straight Line Method

- Depreciation is the reduction of the value of non-current assets after being used in business operations.
- Depreciation is the costs of assets that are considered as expenses.
- According to this method, the total depreciation of an asset is fixed and the amount is equal for each accounting period over the asset's useful life.

Annual depreciation

Annual depreciation	=	$\frac{\text{Asset cost} - \text{Scrap value}}{\text{Estimated useful life of an asset}}$
* Scrap value → the selling price of an asset as scrap at the end of its estimated useful life.		

Or

Annual depreciation	=	% depreciation x cost of asset
---------------------	---	--------------------------------

Example 5.1

- Bumikita Trading acquired a vehicles costing RM 100000 on 1 January 2023 and the management decided to provide depreciation rate of 10% on the original cost value.
- Show the calculations for the year 2022 to 2023.

Solution:

Year	Depreciation	Accumulated depreciation	Book Value
Dec 2022	10% x RM 100,000 = RM 10,000	RM 10,000	RM 100,000 – RM 10,000 = RM 90,000
Dec 2023	10% x RM 100,000 = RM 10,000	RM 10,000 + RM 10,000 = RM 20,000	RM 100,000 – RM 10,000 = RM 80,000

Reducing Balance 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.

Annual depreciation = % depreciation x net book value of asset

Annual depreciation = % depreciation x net book value

Net book value = Cost – accumulated depreciation
Accumulated depreciation = current year depreciation + previous year depreciation

Example 5.2

- Danish Kitchen's purchase an equipment costing RM 50000 on 1 January 2021. The equipment is depreciated at a rate of 10% per annum. Show the calculations for the year 2021 to 2023.

Solution:

Year	Depreciation	Accumulated depreciation	Book Value
Dec 2021	10% x RM 50,000 = RM 5,000	RM 5,000	RM 50,000 – RM 5,000 = RM 45,000
Dec 2022	10% x RM 45,000 = RM 4,500	RM 5,000 + RM 4,500 = RM 9,500	RM 50,000 – RM 9,500 = RM 40,500
Dec 2023	10% x RM 40,500 = RM 4,050	RM 9,500 + RM 4,050 = RM 13,550	RM 50,000 – RM 13,550 = RM36,450

The adjusting entry for depreciation is as follows:

Dr Depreciation A/C Cr Provision for depreciation A/C
--

Dr SoCI Cr Depreciation A/C	<i>(to close the depreciation A/C)</i>
--------------------------------	--

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

5.3 BAD DEBTS, ALLOWANCES FOR DOUBTFUL DEBTS AND BAD DEBTS RECOVERY

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 SoCl, also reduce the amount of debtors.

The adjusting entry for bad debt is as follows:

Dr	Bad debts A/C	
	Cr	Debtor/ Acc Receivable A/C
<hr/>		
Dr	SoCl	
	Cr	Bad debts A/C <i>(to close the bad debts A/C)</i>

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 SoCl
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 SoCl
2. SoFP → show debtors amount deduct with the amount of bad debts

Provision For Doubtful Debts

- 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 (PFDD)
= % x Debtors – additional bad debts)

Bad Debt Recovery

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

The adjusting entry for bad debt recovery is as follows:

Dr Debtor/ Acc Receivable A/C
 Cr Bad debts recovery A/C

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

Creating Provision For Doubtful Debts

The adjusting entry for create provision for doubtful debts is as follows:

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 < bal c/d</i>
	xxx		xxx		
	<i>record in SoFP</i>		<i>record in SOCI (expense)</i>		

Increase In Provision For Doubtful Debts

The adjusting entry for increase of provision for doubtful debts is as follows:

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

refer to balance in Trial Balance
bal b/d < bal c/d

Decrease In Provision For Doubtful Debts

The adjusting entry for decrease of provision for doubtful debts is as follows:

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 > bal c/d</i>		Decrease in Prov for DD	xx	Bal b/d
<i>refer to additional information (% x debtors)</i>	Bal c/d	x		xx
		xxx		xxx
	<i>record in SoFP</i>		<i>record in SOCI (revenue)</i>	

refer to balance in Trial Balance

Item shows in Financial Statement

Entries in SoCI:

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

Entries in SoFP:

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

QUESTIONS

1. Mommy Kitchen's purchased an kitchen's equipment costing RM 80,000 on 1 Feb 2020 for her new cafe. The equipment is depreciated at a rate of 15% per annum using Straight Line and Reducing Balance Method.

Show the working of calculations for the year 2020 to 2023.

2. Laily purchased office equipment costing RM 100,000 on 1 January 2019 for her new office. The equipment is depreciated at a rate of 20% per annum using Straight Line Method. Show the working of calculations for the year 2019 to 2023.

3. Maimoon enterprise purchased premises costing RM 200,000 on 1 March 2021 for her new office. The equipment is depreciated at a rate of 20% per annum using Reducing Balance Method. Show the working of calculations for the year 2021 to 2023.

4. Lann enterprise purchased furniture costing RM 220,000 on 1 September 2020 for her new office. The equipment is depreciated at a rate of 15% per annum using Straight Line Method and Reducing Balance Method. Show the working of calculations for the year 2020 to 2023.

5. Minna Trading tells you that the trial balance for year 2022 figure for rent paid for a building of RM6,500 includes RM500 of rent for January 2023 paid in advance.

Report a correct accounting treatment for the year ended 31 December 2022.

Date	Particulars	F	Debit (RM)	Credit (RM)
2022 31-Dec	Rent expenses Bank (To record rent expense)			
31-Dec	Prepaid rent expenses Rent expense (To record prepaid expense)			

6. Lana Trading received a cheque of RM5,600 for a building rental from January 2021 to February 2022. The rental was charged at RM400 per month to a tenant. Show a correct accounting treatment for the year ended 31 December 2021.

Statement of Comprehensive Income (extract) for the year ending 31 Dec 2021

Revenue:
Rental received

Expenses:

Statement of Financial Position (extract) for the year ending 31 Dec 2021

Current Asset:
Bank

Current Liability:
Unearned rental

7. The following is the extract from the trial balance of Uman Enterprise as at 31 August 2023.

	Debit (RM)	Credit (RM)
Account receivable	50000	
Allowance for doubtful debts		400

On 31 August 2023, the business found that RM300 of the outstanding accounts receivable had to be written off as not collectible. In addition, the business decided to make a 2% allowance for doubtful debts on the remaining accounts receivable.

For the year ending 31 August 2023, show the:

- (i) Allowance for doubtful debts account.
- (ii) Statement of profit or loss (extract)
- (iii) Statement of financial position (extract)

8. Completing the table.

Nominal Account	Debit	Credit	Current Liabilities/ Current Asset
Accrued expenses			
Prepaid expenses			
Advanced Revenue			
Accrued revenue			

9. Fill in the table with correct answer.

Statement	Answer
The allocation of non current assets cost to expenses over its useful life	
A revenue that has been earned but not yet collected in cash	
The cumulative sum of depreciation expenses recorded for an asset	
A liability created when a business collect cash from customers in advance of doing work	
Accounting that record transaction only when cash is received	
An expenses that the business has incurred but not yet paid	

10. Fill in the table with correct answer.

Statement	Answer
Payment made in advance for expenses that will be incurred in future periods, such as prepaid rent, insurance, or prepaid supplies	
Receipt of cash for services or goods that will be delivered in future periods, such as subscription revenue or advance payments from customers.	
Recognizing revenues earned but not yet received in cash, such as accrued service fees or interest income.	



CHAPTER 6: FINANCIAL STATEMENTS WITH YEAR END ADJUSTMENT

LEARNING OUTCOMES

- 6.0 Explain types of financial reporting in the business
- 6.1 Explain the purposes of financial statement
- 6.2 Show the format of Statement of Comprehensive Income
- 6.3 Show the format of Statement of Financial Position

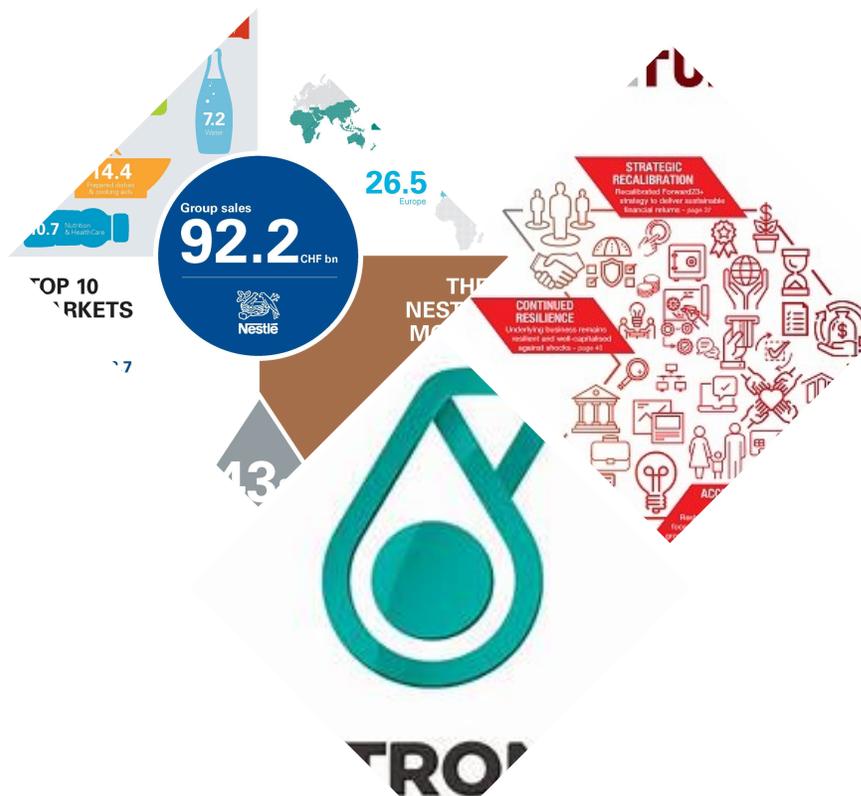


THE INFORMATION OBTAINED FROM THE TRIAL BALANCE IS USED FOR THE PREPARATION OF FINANCIAL STATEMENTS.

6.0 TYPES OF FINANCIAL REPORTING IN BUSINESS

Financial statements are prepared at the end of an accounting year. There are five (5) main financial statements (sometimes called the final accounts) that are generally used to tell about the financial status of a business:

- Income Statement/Statement of Comprehensive Income (Trading, Profit & Loss Statement)
- Statement of Financial Position (Balance Sheet)
- Statement of Cash Flows
- Statement Changes of Equity
- Notes to Accounts



Financial statements present information about an entity's:

Financial position

- The Statement of Financial Position discloses the financial position of an entity at a point in time (at a specific date).
- The entity's assets, liabilities and equity are presented in the statement.
- They also present results of stewardship of management or accountability of management for resources entrusted to the entity.

Performance

- Income Statement discloses the performance of an entity during a given time period.
- It discloses the revenue or income earned and the expenses incurred to earn that revenue.
- Profit frequently uses as a measure of performance.

Changes in Financial Position

- The Statement of Cash Flows discloses the changes in the financial position of an entity from one period to another.
- The statement discloses the cash flow from investing, financing, operating activities of the entity during a given time period.

Others

- Notes and supplementary schedule usually accompany financial statements.
- These notes and schedules should give additional relevant information about the items in the financial statements of an entity.

6.1 THE PURPOSE OF FINANCIAL STATEMENTS

- **Evaluating Financial Performance:**

They offer an overview of the earnings, costs, and profits or losses of a business for a given time frame. This aids creditors and investors in evaluating the business's efficiency and profitability.

- **Assessing Financial Position:**

The balance sheet, in instance, provides information about the assets, liabilities, and shareholders' equity of the company at any one time. This aids in the understanding of the company's solvency, liquidity, and financial health by stakeholders.

- **Making Investment Decisions:**

Prior to making an investment, investors examine a company's financial performance and prospects using financial statements. To determine whether a company is a desirable investment, they consider profitability ratios, liquidity ratios, and other financial data.

- **Evaluating Creditworthiness:**

Before granting loans or credit, creditors and lenders assess a company's creditworthiness using its financial accounts. To evaluate the company's capacity to pay back loans and interest, they examine financial statistics and patterns.

- **Encouraging Financial Planning and Forecasting:**

To plan and project future financial performance, businesses need financial statements. Management is able to make well-informed judgments about development possibilities, investment plans, and budgeting by examining historical trends and the present financial condition.

- **Fulfilling Regulatory obligations:**

In order to meet regulatory obligations, publicly listed companies must compile and present financial statements in compliance with accounting standards, such as IFRS or GAAP.

6.2 THE STATEMENT OF COMPREHENSIVE INCOME

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

- The name of the business
- The title of the statement
- The time period covered by the statement

The body of the SoCI consists of two main components:

- Revenue items
- Expenses items

A negative profit called a loss.

$$\text{Profit (P)} = \text{Revenues earned (R)} - \text{Expenses incurred (E)}$$

Table 6.1 Transaction and double-entry system

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		

Format of Statement of Comprehensive Income

Name of business

Statement of Comprehensive Income for the year ended

	RM	RM	RM
Sales		x	
- Sales return/ Return inwards		x	
- Discount allowed		<u>(x)</u>	
Net Sales			x
- Cost of Sales:			
Opening inventories		x	
Purchases	x		
- Purchase return/ Return outwards	x		
- Discount received	<u>(x)</u>		
Net purchases	x		
+ <i>Purchase Expenses:</i>	x		
Carriage inwards/ Freight inwards	x		
Wages on purchase	x		
Import duties/ Custom duties	<u>x</u>		
Insurance on purchase		<u>x</u>	
<i>Purchases costs</i>			
<i>Cost of Goods Available for Sale</i>		x	
- Closing inventories		<u>(x)</u>	
<i>Cost of sales</i>			<u>(x)</u>
GROSS PROFIT			xx

The formula to calculate the gross profit or gross loss are as follows:

- a) Net sales = Sales - (Sales return /Discount allowed)
- b) Net purchase =Purchase - (Purchase return /Discount received)
- c) Cost of sales = Costs of goods available for sale - closing inventory
- d) Cost of goods available for sale = Purchase costs + opening inventory
- e) Gross Profit = Net sales - Cost of sales

Format of Statement of Comprehensive Income (Continue)

+ Other Income:		
Commission received		
Interest received	x	
Rental received	x	
Bad debts recovery	x	
Profit on assets disposal	x	
Decrease in provision for doubtful debts	<u>x</u>	
		<u>x</u>
		x
- Expenses:		
Stationeries	x	
Carriage outwards/ Freight outwards	x	
Utilities	x	
General/ Sundry/ Miscellaneous expenses	x	
Administrative expenses	x	
Doubtful debt expenses	x	
Increase in provision for doubtful debts	x	
Depreciation	x	
Interest on loan/ Interest on overdraft	x	
Salaries	x	
Bad debt expenses	x	
Advertising	x	
Insurance	x	
Commission paid/ expenses	<u>x</u>	
Rental paid/ expenses		<u>(x)</u>
NET PROFIT (@ NET LOSS)		<u>xx</u>

The formula to calculate the gross profit or gross loss are as follows:

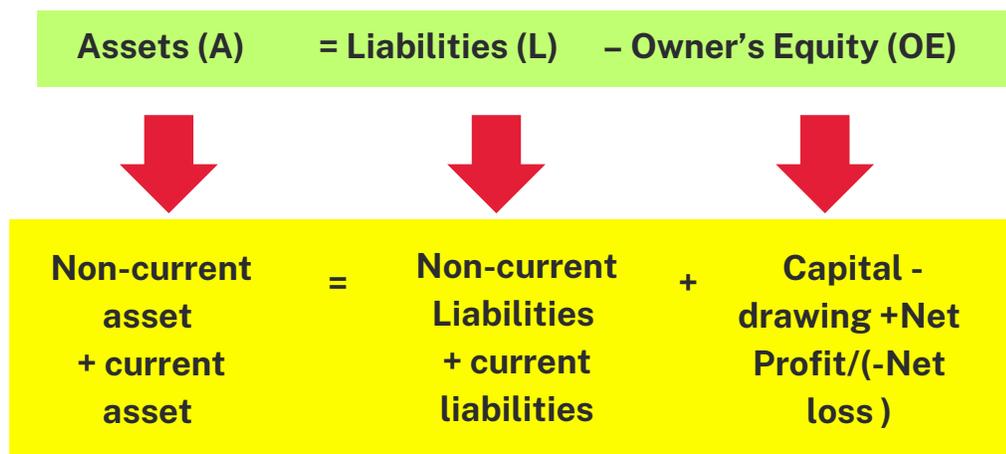
- Net Profit = Gross profit + other income - expenses
- Net Profit = Gross profits + revenue > expense
- Net Loss = Gross profits + revenue < expense

6.3 THE STATEMENT OF FINANCIAL POSITION

The Statement of Financial Position, also known as the Balance Sheet, is one of the key financial statements that provides a snapshot of a company's financial position at a specific point in time. Here's an overview of its purposes and components:

Purpose of the Statement of Financial Position:

- An overview of the financial situation It displays an organization's assets, liabilities, and equity—the remaining stake that shareholders have in its assets as of a given date. This aids stakeholders in evaluating the company's financial standing and capacity to fulfill its commitments.
- Evaluating Liquidity and Solvency: The balance sheet's description of current assets and current liabilities aids in determining the company's liquidity, or its capacity to pay short-term debts, as well as its solvency, or its capacity to pay long-term debts.
- Basis for Decision-Making: The balance sheet serves as a tool for creditors, investors, managers, and other stakeholders to decide on loans, investments, operational plans, and the company's overall financial health.



Elements of the Financial Position Statement:

Assets

- The resources that the business owns and which are anticipated to generate future financial gains.
- Cash and cash equivalents, investments, property, plant, and equipment (PP&E), inventories, and intangible assets are a few examples.
- Generally, assets are categorized as non-current (anticipated to continue providing economic advantages for more than a year) or current (expected to be turned into cash or used up within a year).

Liabilities

- These are the commitments or debts that the business owes to outside parties. Liabilities are divided into two categories: non-current (due after a year) and current (due within a year).
- Long-term debt, accumulated expenses, deferred revenue, loans and borrowings, and accounts payable are a few examples.

Equity

- Alternatively referred to as net assets or shareholders' equity, equity is the remaining stake in the business's assets following the deduction of its liabilities.
- It consists of things like other comprehensive income, retained earnings, and issued capital (common stock).

Format of Statement of Financial Position

Name of business

Statement of Financial Position as at

	RM	RM	RM
Non-Current Assets:			
<i>Properties, Plant & Equipment</i>			
Land		x	
Building/ Premises		x	
Motor Vehicles	x		
- Provision for depreciation	<u>(x)</u>		
		x	
Plant and Machinery	x		
- Provision for depreciation	<u>(x)</u>		
		x	
Investment		x	
Goodwill		<u>x</u>	
			x
Current Assets:			
Closing inventories		x	
Debtors/ Account Receivables	x		
- Additional bad debts	(x)		
- Provision for doubtful debt	(x)		
- Provision for allowable discount	<u>(x)</u>		
		x	
Prepayment		x	
expensesAccrued		x	
revenuesCash at		x	
bank		<u>x</u>	
Cash in hand			<u>x</u>
TOTAL ASSETS			<u>xx</u>
<i>Financed by:</i>			
Owner's Equity:		x	
Opening Capital		x	
+ Net Profit			
(or - Net Loss)		<u>(x)</u>	
- Drawings			x
Closing Capital			
		x	
Non-Current Liabilities:			
Long term loan		<u>x</u>	
Mortgage			x
		x	
Current Liabilities:			
Creditors/ Account		x	
PayableAccrued		x	
expensesAdvanced		x	
revenues		<u>x</u>	
Bank overdraft			<u>x</u>
TOTAL EQUITY AND LIABILITIES			<u>xx</u>

QUESTIONS

Answer all of the questions below:

1. The following is the Trial Balance of Golytinne Lane Enterprise:

Golytinne Lane Enterprise Trial Balance as at 31 December 2022

	Debit (RM)	Credit (RM)
Capital		82,550
Repair & maintenance of office building	2,500	
Cash at bank	20,800	
Cash in hands	2,500	
Sales/Purchase	98,000	180,000
Returns	475	1,025
Wages on purchase	1000	
Interest	350	870
Opening stock	4,700	
Carriage inwards	400	
Carriage outwards	700	
Import duties	500	
Insurance on purchases	550	
Debtors	53,000	
Creditors		45,000
Commission	2,120	2,200
Motor vehicles	13,000	
Salaries	5,000	
Rental expenses	2,600	
Utility	750	
Office Buildings	102,000	
Allowance for doubtful debt		800
Advertising	1,420	
Discount	450	370
	312,815	312,815

Additional Information:

- i. Inventory as at 31 December 2022, RM10,800.
- ii. Accrued advertising RM900.
- iii. Prepaid salaries RM250.
- iv. Depreciation rate is 15% for equipment and motor vehicles on cost.

You are required to:

- a) Prepare the Statement of Comprehensive Income for the year ended 31 December 2022.
- b) Prepare the Statement of Financial Position as at 31 December 2022.

2. The following is the Trial Balance of Suri Trading

Suri Trading
Trial Balance as at 31 December 2021

	Debit (RM)	Credit (RM)
Capital		16,080
Drawings	2,500	
Cash at bank	20,000	
Cash in hands	2,500	
Sales/Purchase	85,700	135,000
Returns	475	1,025
Wages on purchase	500	
Interest	350	870
Opening stock	4,700	
Carriage inwards	400	
Carriage outwards	700	
Account Receivable	53000	
Account Payable		45370
Commission	2,000	1200
Motor vehicles	13000	
Salaries	5,000	
Rental expenses	2,600	
Utility	750	
Fixtures and fittings	3,500	
Advertising	1420	
Discount	450	
	199,455	199,545

Additional information:

- i. Closing stock on 31 December 2021 was RM5,000 at market price at RM4,900 at cost price.
- ii. Salaries accrued RM1,000.
- iii. Commission revenue accrued RM300.
- iv. Rental expenses paid in advance RM1,000.

You are required to:

- a) Prepare the Statement of Comprehensive Income for the year ended 31 December 2021.
- b) Prepare the Statement of Financial Position as at 31 December 2021.

3. The following is the Trial Balance of Ezzy Trading

Ezzy Trading
Trial Balance as at 31 March 2022

	Debit (RM)	Credit (RM)
Capital		75,060
Loan		25,000
Cash at bank	38,800	
Cash in hands	8,600	
Sales/Purchase	81,400	121,600
Returns	950	2,050
Land & building	25000	
Opening stock	9,400	
Carriage inwards	500	
Carriage outwards	1200	
Insurance on motor vehicles	1500	
Insurance on purchases	2500	
Debtors	16,000	
Creditors		8,320
Commission		2,400
Motor vehicles	33,000	
Salaries	10,000	
Rental expenses	1,500	
Utility	4340	
Allowance for doubtful debt		260
	234,690	234,690

Additional Information:

- i. Inventory as at 31 March 2022, RM7,800.
- ii. Allowance for doubtful debts is 2% on account receivable.
- iii. Accrued utility of RM80.
- iv. Prepaid insurance RM200.
- v. Depreciation rate on equipment is 10% on cost.

You are required to:

- a) Prepare the Statement of Comprehensive Income for the year ended 31 March 2022.
- b) Prepare the Statement of Financial Position as at 31 March 2022.

4. The following is the Trial Balance of Nanny Boutique

Nanny Boutique
Trial Balance as at 31 August 2022

	Debit (RM)	Credit (RM)
Capital		48,000
Loan		31,000
Cash at bank	40,000	
Cash in hands	8,800	
Sales/Purchase	99,400	132,800
Returns	950	
Interest		2660
Opening stock	400	
Carriage inwards	500	
Carriage outwards	1400	
Building	44000	
Provision for Building		4400
Debtors	16,000	
Creditors		8,320
Salaries	12,000	
Rental expenses	2,230	
Utility	1500	
	227,180	227,180

Additional Information:

- i. Inventory as at 31 August 2022, RM8,800.
- ii. Allowance for doubtful debts is 2% on account receivable.
- iii. Accrued utility of RM100.
- iv. Interest received in advanced RM150.
- v. Depreciation rate on building is 10% on cost.

You are required to:

- a) Prepare the Statement of Comprehensive Income for the year ended 31 August 2022.
- b) Prepare the Statement of Financial Position as at 31 August 2022.

5. The following is the Trial Balance of Amir Workshop

Amir Workshop
Trial Balance as at 31 December 2023

	Debit (RM)	Credit (RM)
Capital		80,000
Loan		30,000
Cash at bank	48,000	
Cash in hands	10,000	
Sales/Purchase	80,000	141,680
Returns	800	1,200
Land & building	25000	
Interest		
Opening stock	9,400	
Carriage inwards	500	
Carriage outwards	1200	
Insurance on motor vehicles	1500	
Insurance on purchases	2500	
Debtors	16,000	
Creditors		9,900
Commission		1,460
Motor vehicles	55,000	
Salaries	8,800	
Rental expenses	1,200	
Utility	4340	
	264,240	264,240

Additional Information:

- i. Inventory as at 31 December 2023, RM9,800.
- ii. Accrued salaries of RM95.
- iii. Commission received in advanced RM200.
- iv. Depreciation rate on premises is 10% on cost.

You are required to:

- a) Prepare the Statement of Comprehensive Income for the year ended 31 December 2023.
- b) Prepare the Statement of Financial Position as at 31 December 2023.

6. The following is the Trial Balance of Boutique Liny

Boutique Liny
Trial Balance as at 31 March 2023

	Debit (RM)	Credit (RM)
Capital		80,000
Loan		30,000
Cash at bank	32,000	
Cash in hands	8,800	
Sales/Purchase	90,550	141,320
Returns	800	1,200
Land & building	25,000	
Opening stock	9,400	
Carriage inwards	500	
Carriage outwards	1,400	
Commission		2,660
Account Receivable	16,000	
Account payable		8320
Motor vehicles	80,000	
Accumulated Motor vehicles		8,000
Salaries	5,000	
Rental expenses	2,230	
Utility	1,500	
	273,180	273,180

Additional Information:

- i. Inventory as at 31 March 2023, RM 5,500
- ii. Accrued advertising of RM95.
- iii. Depreciation rate on premises is 10% on cost.

You are required to:

- a) Prepare the Statement Comprehensive Income for the year ended 31 March 2023.
- b) Prepare the Statement of Financial Position as at 31 March 2023.

MODEL TEST 1

1. A source document is a basic material or evidence used for recording purposes. When a transaction occurs, a sourced document will be created.

Explains THREE (3) purposes of source document?

- i. _____

- ii. _____

- iii. _____

2. Describe document used in business transaction as below?

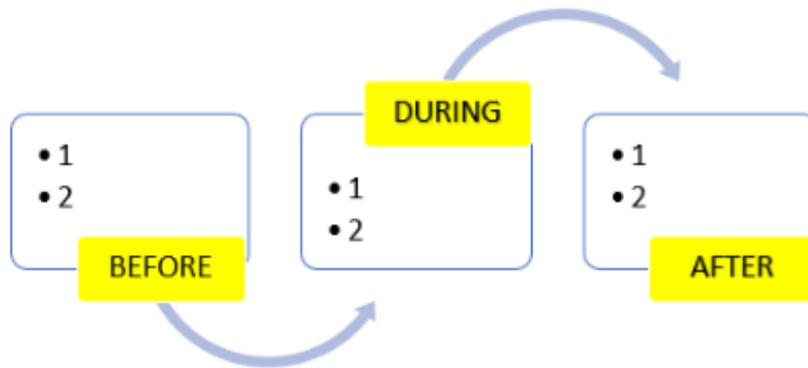
i. Cheque

ii. Cheque Butt

iii. Receipt

iv. Cash bills

3. Identify TWO (2) examples for each source document BEFORE, DURING and AFTER business transactions?



4. Identify the suitable source document based on given transactions.

Num	Business Activities	Source of Document
1	Brought in private equipment into business.	
2	Received payment by cash from Kedai Raja.	
3	Issued document to MalikTrading to summarize all transactions for the year of 2022.	
4	Purchased goods on credit from Malin Enterprise.	
5	Paid electricity bills by cheque.	
6	Deliver goods to Hakim.	
7	Issued purchase order to Mzul.	
8	Returned goods worth RM400 to Malin Enterprise because their goods are damaged.	
9	Owner bring new computer into business.	
10	Paid general expenses by cash.	

5. Identify the accounting concept in food and beverage (F&B) industry for each of the below.

Situation	Accounting Concept
<p>This concept remains fundamental in the F&B industry, emphasizing the separation of business transactions from personal transactions of owners or other entities. For example, personal expenses of restaurant owners should not be mixed with expenses related to restaurant operations.</p>	
<p>In the F&B industry, inventory (such as food ingredients and beverages) is typically recorded at cost. This ensures that the financial statements reflect the actual cost incurred to acquire the inventory items, maintaining consistency and reliability in reporting.</p>	
<p>Expenses in the F&B industry should be matched with the related revenues in the same accounting period to accurately determine profitability. For example, the cost of ingredients used in preparing meals should be matched with the revenue generated from selling those meals during the same period.</p>	
<p>This concept is particularly important in the F&B industry where services (like catering) may be provided in advance of payment. Accrual accounting ensures that revenues and expenses are recognized when they are earned or incurred, even if cash transactions occur later.</p>	

6. Below is the account balance taken from the book of Min Enterprise for September 2023.

Item	Debit (RM)
Bank	42,000
Cash	8,600
Equipment (cost)	35,000
Accumulated Depreciation - Equipment	3,500
Capital	41,690
Loan	25,000
Account receivable	18,000
Account payable	10,060
Inventory on 1 January 2023	9,400
Sales	131,200
Purchase	81,400
Return Inwards	1,000
Return Outwards	3,050
Carriage Inwards	500
Salary	10,000
Insurance	5,000
Utility	2,400

You are required to report the trial balance as at 30 September 2023 for Min Enterprise.

7. The following was extracted from the book of Nanny Enterprise. The accounting period is twelve months.

Trial Balance (extract) as at 31 December 2023

Expenses:

Advertising	RM 400
Insurance	RM 1,300

Additional Information:

- i) Accrued advertising expense is RM 100.
- ii) The annual insurance premium paid is for 13 months until 31 January 2024.

You are required to report the adjustment entries in the accounting treatments (journal and ledgers).

8. You are required to report the below transactions in the appropriate journals.

Date	Transactions
2023 Jan 6	Sold goods to Wan Enterprise for RM 920 on credit
9	Bought goods RM1,200 from Hamidun Enterprise by credit
10	Sold goods for RM 2,300 on credit to Bee Enterprise
16	Return goods to Hamidun Enterprise due to faulty RM 150
20	Bought goods for RM 2,500 from Danny Shop by credit

9. The following is the Trial Balance of Rosy Enterprise as at 31 December 2023.

Item	Debit (RM)	Credit (RM)
Bank	48,800	
Cash	10,600	
Equipment (cost)	40,000	
Capital		72,000
Loan		31,480
Account receivable	18,000	
Account payable		12,000
Inventory on 1 January 2023	9,400	
Sales		129,320
Purchase	92,500	
Salary	22,000	
Rental	3,500	
Total	244,800	244,800

Additional information:

- i. Inventory as of 31 December 2023, RM10,800.
- ii. Accrued salary RM500.
- iii. Depreciation for equipment is 10% of cost.

You are required to report:

- a) Statement of Comprehensive Income.
- b) Statement of Financial Position as at 31 December 2023.

MODEL TEST 2

1.State the type of book of prime entry as below:

Transactions	Type of book of prime entry
Example: Bought new equipment for a company on credit.	General Journal
i) Payment of a new Furniture by cash.	
ii) Credit sales to Nur Design Enterprise	
iii) Bought goods from creditor Mammy Enterprise.	
iv) Cash Sales from customer Ani.	
v) Paid office electricity bills by cash.	
vi) Paid office stationery by cash.	
vii) Returned goods to creditor Mammy Enterprise due to a packaging error.	

2. Fill up following table.

Duration	Starting Date	Closing Date
Quarterly	01.10.2023	
Monthly		30.09.2023
Semi-annually		31.05.2023
Annually	01.05.2022	
6 months	01.02.2023	

3. Match the best accounting concept based on below situation:

Accounting concept	Situation
	This concept emphasizes that the textile business entity is separate from its owners or other entities. It ensures that personal transactions of owners or managers are not mixed with business transactions, maintaining clarity and accuracy in financial reporting.
	Textile companies typically record their inventory (such as raw materials, work-in-progress, and finished goods) at historical cost. This ensures that the financial statements reflect the actual costs incurred to acquire or produce inventory items, which is crucial in a manufacturing-intensive industry like textiles.
	Textile companies deal with numerous transactions related to procurement, manufacturing, sales, and distribution. Determining materiality helps in deciding which items should be disclosed in detail in financial statements and which can be aggregated or omitted without affecting the overall understanding of financial performance.
	Expenses incurred in the textile industry, such as raw material costs, labor costs, and overhead expenses (like factory utilities and maintenance), are matched with related revenues. This concept ensures that the income statement reflects the true cost of goods sold and operational expenses in the same accounting period as the revenue generated.

4. Explain the importance of accounting information based on the users as below:

Users	Explanation
Employees	
Suppliers	
Customers	
Suruhanjaya Syarikat Malaysia (SSM)	
Lembaga Hasil Dalam Negeri Malaysia (LHDN)	

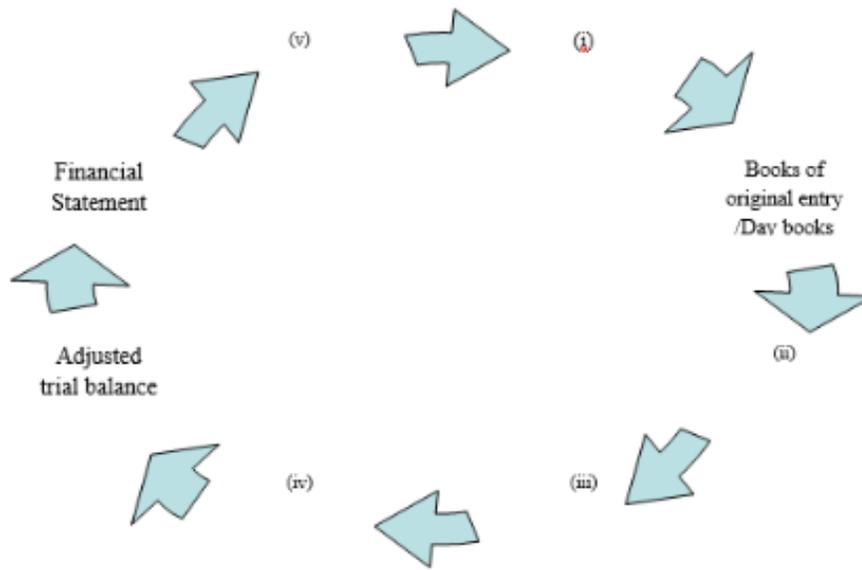
5. Explain the importance of accounting information based on the users as below:

Date	Transactions	RM
2021 Jul 1	Bank Cash in hands	10,000 3,500
3	Bought goods on credit from Lestari Supplier	2,780
5	Paid insurance with cheque.	290
8	Sold goods with cheque to Sarah	1,550
9	Paid Lestari Supplier RM 2,600 by cheque. Received discount RM180	
11	Repaid equipment by cash	100
14	Credit purchase from Syarikat JM Brothers	1,650
18	Returned defective goods to Syarika JM Brothers.	150
22	Send receipt to Boba Enterprise for cash received in bank.	2,110
23	Purchase stationery in cash	100
26	Issued invoice to Kedai Kamis for goods sold.	1,950
29	Paid rent RM1,000 and electric RM 500 by cheque.	
30	Purchase furniture with cheque.	1,200

You are required to:

- a) Prepare ledgers (balancing off the accounts).
- b) Display Trial Balance as at 31 July 2021.

6. State the accounting process as below:



7. Discuss the following type of accounting field

Financial Accounting	
Cost Accounting	
Management Accounting	
Auditing	
Taxation	

8. As at 31 December 2021 LNE Enterprise had machines with a cost of RM200,000 and with accumulated depreciation of RM20,000. The business had a depreciation policy of charging straight-line depreciation at the rate of 15% per annum, on a monthly basis.

- i) Identifies the amount of depreciation and accumulated depreciation of machine for year 2021 and 2022.
- ii) Recognize the amount into Statement of Comprehensive Income year ended 31 December 2022 & Statement of Financial Position as at 31 December 2022.

9. Explain the term as below by showing the double entry effect.

- i) Cash basis
- ii) Accruals and prepayment
- iii) Bad debt and allowance for doubtful debt

10. In January 2022, ABC Enterprise had machinery with a cost of RM200,000 and with an accumulated depreciation of RM20,000. The depreciation policy of the company is the straight-line method at the rate of 15% per annum.

- i) Identify the amount of depreciation and accumulated depreciation of the machine for the years 2022 and 2023.
- ii) Recognize the amount in the Statement of Comprehensive Income year ended 31 December 2023 & Statement of Financial Position as of 31 December 2023.

11. Adibah, who runs Timuran Trading, a business dealing in stationery has the following trial balance on 31 December 2023.

	Debit (RM)	Credit (RM)
Capital		600,000
Drawings	22,500	
Sales		2,000,000
Purchases	1,040,000	
Return inwards	20,000	
Return outwards		1,000
Stock as at 1 January 2020	300,000	
Deliver van	60,000	
Office machinery	120,000	
for depreciation: Delivery van Office machinery		22,600 24,000
Trade receivable	400,000	
Trade payable		80,000
Insurance on office machinery	3,000	
Provision for doubtful debts		1,800
General expenses	10,000	
Cash on hand	15,000	

	Debit (RM)	Credit (RM)
Bad debts	900	
Cash at bank	40,000	
Discount received		2,000
Wages and salaries	100,000	
Long term investments		600,000
	2,731,400	2,731,400

The following have to considered before preparing the financial statement:

1. The stock 31 December 2023 is RM12,000.
2. A debtor for RM 3,000 is to be written off a bad debt.
3. The provision for doubtful debts is to be adjusted to 1% of outstanding debtors.
4. RM 500 of the insurance on office machinery is prepaid expenses.
5. RM 700 of general expenses were owed for the current year.
6. The depreciation on delivery van is 25% per annum using the reducing balance method.
7. The depreciation for office machinery is 10% on cost per annum.

You are required to:

- a) Prepare Statement of Comprehensive Income for the year ended 31 December 2023.
- b) Organize new Statement of Financial Position as at 31 December 2023.

MODEL TEST 3

1.State the type of book of prime entry as below:

Transactions	Type of book of prime entry
Example: Bought new vehicle for a company on credit.	General Journal
i) Payment of a new machinery by cash.	
ii) Credit sales to Ladang Enterprise.	
iii) Bought goods from creditor Landy Enterprise.	
iv) Cash Sales from customer Anim.	
v) Paid office water & electricity bills by cash.	
vi) Paid packaging by cash.	
vii) Returned goods to creditor	

2. Fill up following table.

Duration	Starting Date	Closing Date
Quarterly	01.01.2023	
Monthly		31.01.2023
Semi-annually		30.06.2023
Annually	01.02.2023	
6 months	01.09.2023	

3. Match the best accounting concept based on below situation:

Accounting concept	Situation
	This concept ensures that financial statements of fashion companies are comparable over time. This concept is particularly important in the fashion industry where trends and seasonal variations can affect financial performance.
	This concept guides fashion companies in determining the significance of financial information. It allows for practical judgment in reporting transactions and ensures that only significant items are included in the financial statements.
	In fashion, revenue recognition can be complex due to the timing of sales and returns. The concept dictates that revenue should be recognized when it is earned, typically at the point of sale or delivery of goods, even if cash is received later. This is crucial in accurately reflecting the financial performance of fashion businesses.
	Fashion businesses typically follow standard of periods such as monthly, quarterly, and annually. Monthly reporting allows for frequent monitoring of financial performance, especially useful in a fast-paced industry where sales and expenses can fluctuate seasonally or due to trends.

4. Explain the importance of accounting information based on the users as below:

Date	Transactions	RM
2021 June	Balance as follows: Bank Cash in hands	20,000 2,200
2	Bought goods on credit from Lestari Supplier	2,000
5	Paid insurance with cheque.	290
6	Invest cash into the business.	6,000
8	Sold goods with cheque to Sarah	2,500
9	Paid Lestari Supplier RM 2,600 by cheque. Received discount RM180	
14	Credit purchase from Syarikat JM Brothers	1,650
18	Returned defective goods to Syarika JM Brothers.	80
22	Send receipt to Boba Enterprise for cash received in bank.	2,110
23	Purchase stationery in cash	100
26	Issued invoice to Kedai Kamis for goods sold.	1,200
30	Purchase furniture with cheque.	2,600

You are required to:

- a) Prepare ledgers (balancing off the accounts)
- b) Display Trial Balance as at 30 June 2021.

5. As at 31 December 2021 Line Enterprise had office equipment with a cost of RM300,000 and with accumulated depreciation of RM45,000. The business had a depreciation policy of charging straight-line depreciation at the rate of 15% per annum, on a monthly basis.

- i) Identifies the amount of depreciation and accumulated depreciation of machine for year 2021 and 2022.
- ii) Recognize the amount into Statement of Comprehensive Income year ended 31 December 2022 & Statement of Financial Position as at 31 December 2022.

6. Explain the term as below by showing the double entry effect.

- i) Cash basis
- ii) Accruals and prepayment
- iii) Bad debt and allowance for doubtful debt

7. In January 2022, Anna Enterprise bought a new office furniture with a cost of RM100,000 and with an accumulated depreciation of RM20,000. The depreciation policy of the company is the straight-line method at the rate of 20% per annum.

- i) Identify the amount of depreciation and accumulated depreciation of the machine for the years 2022 and 2023.
- ii) Recognize the amount in the Statement of Comprehensive Income year ended 31 December 2023 & Statement of Financial Position as of 31 December 2023.

8. Tok Abah, who runs Cafe Enterprise a business dealing in food & beverages has the following trial balance on 31 December 2023.

	Debit (RM)	Credit (RM)
Capital		60,000
Drawings	2,500	
Sales		200,000
Purchases	98,000	
Return inwards	2,000	
Return outwards		1,000
Stock as at 1 January 2020	3,000	
Deliver van	80,000	
for depreciation: Delivery van		6,000
Trade receivable	32,000	
Trade payable		8,000
Insurance on office machinery	3,000	
Provision for doubtful debts		1,800
General expenses	1,000	
Cash on hand	15,000	
Cash at bank	40,300	

You are required to:

- a) Prepare ledgers (balancing off the accounts)
- b) Display Trial Balance as at 31 Dec 2023.
- c) Prepare the Statement of Comprehensive Income
- d) Prepare the Statement of Financial Position as at 31 December 2023.

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