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#### **ACKNOWLEDGEMENT**

It is our pleasure to introduce this ebook entitled "Financial Accounting 1: A Comprehensive Guide for Students." This ebook is written by Nuraisha Shafina Binti Abdul Rahman, Siti Zakiah Binti Abu Bakar and Masraya Binti Sait and serves as an invaluable resource for students enrolled in the Financial Accounting 1 course. The content has been carefully structured to help students achieve the course learning outcomes.

We would like to extend our gratitude to the reviewer, Adi Jaya Bin Adam, for his diligent work in reviewing the material to ensure clarity and precision. His contribution has greatly enhanced the quality and readability of this guide.

This ebook has been designed to provide students with a strong understanding of the principles of financial accounting, enabling them to meet the learning outcomes effectively. The dedication and effort of the writer and editors should be commended for their commitment to producing this resource.

Congratulations to the team for a job well done!

#### **PREFACE**

It is with great pleasure that I introduce this ebook, "Financial Accounting 1: A Comprehensive Guide for Students." This ebook is an essential resource for students enrolled in the Financial Accounting 1 course, particularly those pursuing the Diploma in Accountancy at Polytechnics.

The aim of this ebook is to help students develop a strong understanding of fundamental accounting principles, enabling them to prepare financial statements in accordance with approved accounting standards. This ebook covers the core concepts of financial accounting, including the accounting cycle, double-entry system, bookkeeping, and the preparation of financial statements. The content is designed to meet the course learning outcomes of Financial Accounting 1.

As educators, we recognize the financial challenges faced by many students, especially those from low to middle-income families. While reference books in the market can be quite expensive, this ebook provides an affordable alternative without compromising on the quality of the material. By aligning with the Polytechnic syllabus and the guidelines of the Ministry of Higher Education, this ebook offers students a complete, accessible, and relevant resource for their studies.

The content is presented in clear, straightforward language with plenty of practical examples and solutions to aid understanding. It is designed to support students in applying what they have learned and to ensure they are well-prepared to meet the demands of their academic and professional futures.

We hope this ebook serves as a helpful guide, enabling students to excel in their studies and develop the necessary skills to succeed in the field of financial accounting.

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# TOPIC 1: INTRODUCTION TO ACCOUNTING

#### **COURSE LEARNING OUTCOMES:**

1.1 DESCRIBE THE NATURE OF ACCOUNTING AND

**BOOKKEEPING** 

1.2 PROVIDE THE EXPLANATIONS OF BUSINESS ENTITIES AND

**ACTIVITIES** 

1.3 DISCUSS EACH TYPE OF THE ACCOUNTING FIELD



#### INTRODUCTION TO ACCOUNTING

#### 1.1 DESCRIBE THE NATURE OF ACCOUNTING AND BOOKKEEPING

**Bookkeeping** (C, R, S) - is the process of Classifying, Recording, and Summarizing business transactions.

Accounting (C, R, S + A & I) is the process of Classifying, Recording, and Summarizing business transactions in monetary units and Analyzing and Interpreting a business's financial data to assist stakeholders in making decisions.

#### **4 Accounting Process**

Stage 1: Classifying data from business documents

Stage 2: Recording transactions into Journals and Ledgers

**Stage 3:** Summarizing accounting data for a particular period in financial statements

**Stage 4:** Analyzing and Interpreting financial statements in which the result of the analysis will be used as a guide to make decisions by shareholders

++++ ++++



#### 1.1 DESCRIBE THE NATURE OF ACCOUNTING AND BOOKKEEPING

## Accounting VS Bookeeping



#### **Process**

Accounting represents a complete accounting process, from recording to interpreting the business financial information.



#### Understanding & Practices

Accounting involves more technical understanding and advanced accounting procedures.



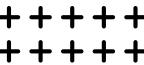
#### **Process**

Bookeeping is only limited to the recording process.



#### Understanding & Practices

Bookkeeping requires a basic understanding and practice of financial accounting.



#### INTRODUCTION TO ACCOUNTING

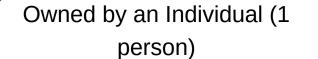
1.2 Provide the explanations of business entities and activities Sole **Proprietorship** 





#### **Partnership**

Companies



Managed and control by the

owner

**Unlimited liability** 

- Owned by two or more people (not more than 20)
- Private Limited Co: The minimum number of shareholders is one and not exceed 50 members.
- Public Limited Co: The minimum number of shareholders is two and there is no set maximum number.
- Managed and control by the Managed and control by the board of directors appointed by partners shareholders
- Unlimited liability except for **Limited Liability Partnership** (LLP)
- Limited liability

- Profits belongs to the owner and any losses incurred will be borne by the owner
- Profit or loss will be shared by the partners based on profit sharing ratio.
- Profit will be paid to the shareholders in the form of dividends

- Contributed by the owner
- Contributed by each partner
- Contributed by shareholders through purchase of company's shares

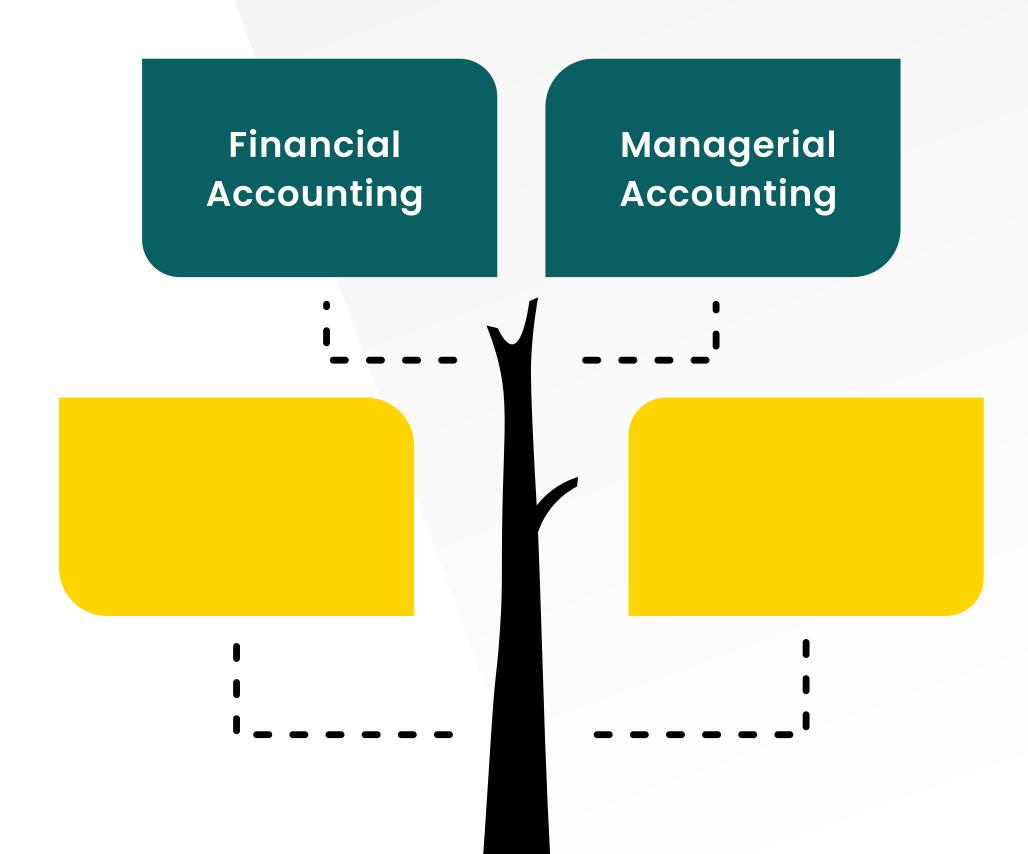


#### 1.3 Discuss each type of the accounting field

• Financial Accounting Involves recording and classifying business transactions and preparing and presenting financial statements to be used by internal and external users. In the preparation of financial statements, strict compliance with GAAP is observed and primarily concerned in processing historical data.

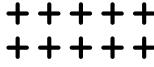
 Managerial Accounting or Management Accounting focuses on providing information for the use of internal users. This branch deals with the needs of the management rather than strict compliance with GAAP. It is usually involved in financial analysis, budgeting and forecasting, cost analysis, evaluation of business decisions, etc.

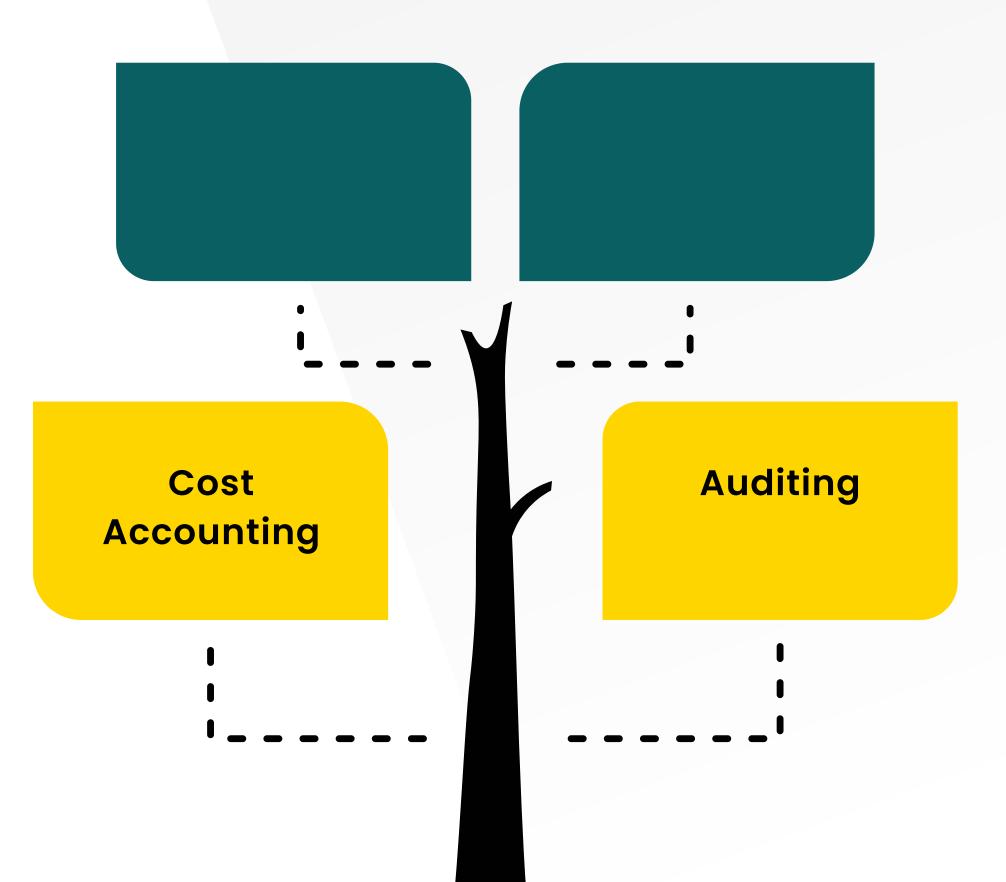




#### 1.3 Discuss each type of the accounting field

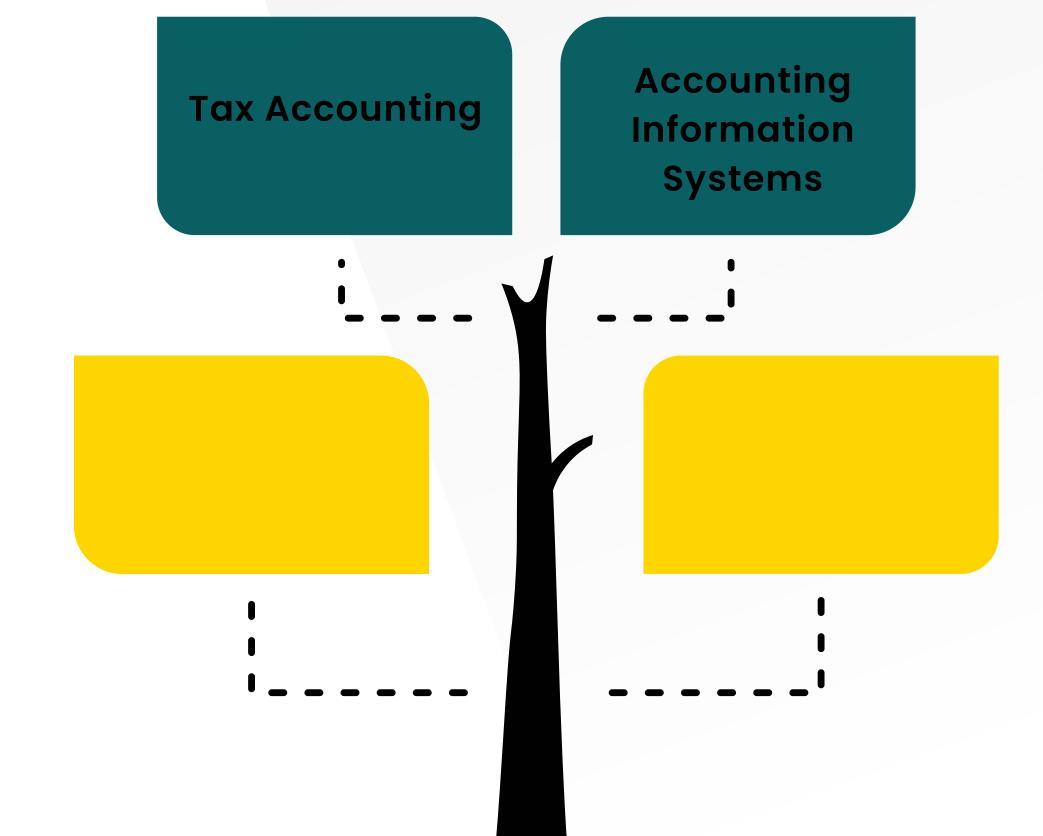
- Cost Accounting is a subset of management accounting. It refers to the recording, presentation, and analysis of manufacturing costs. Cost Accountants also analyze actual and standard costs to help managers determine future courses of action regarding the company's operations.
- Auditing involves External and Internal Auditing processes.
- --> External Auditing refers to the examination of financial statements by an independent party with the purpose of expressing an opinion as to fairness of presentation and compliance with GAAP.
- --> Internal Auditing focuses on evaluating the adequacy of a company's internal control structure by testing segregation of duties, policies, and procedures, degrees of authorization and other controls implemented by management.

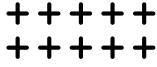




#### 1.3 Discuss each type of the accounting field

- Tax Accounting helps clients follow rules set by tax authorities. It includes tax planning and preparation of tax returns. It also involves determination of income tax, and other taxes, tax advisory services such as ways to minimize taxes legally, evaluation of the consequences of tax decisions, and other tax-related matters.
- Accounting Information Systems (AIS) involves the development, installation, implementation, and monitoring of accounting procedures and systems used in the accounting process. It includes the employment of business forms, accounting personnel direction, and software management.







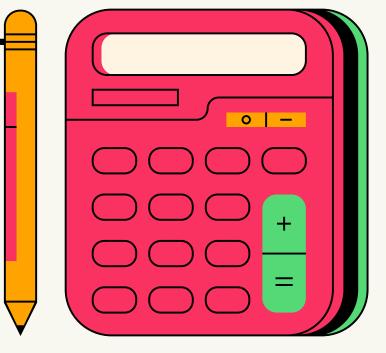


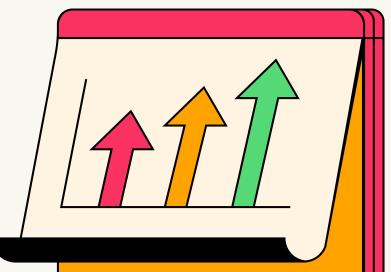


#### COURSE LEARNING OUTCOMES

2.1 DESCRIBE THE APPROVED ACCOUNTING STANDARDS IN MALAYSIA 2.2 DISCUSS / PRESENT THE CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

2.3 PROVIDE THE EXPLANATIONS OF THE FUNCTIONS OF REGULATORY AND PROFESSIONAL BODIES IN MALAYSIA



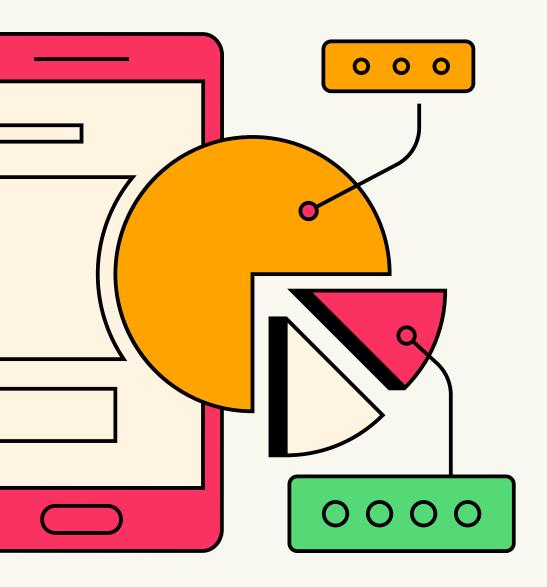


## 2.1 DESCRIBE THE APPROVED ACCOUNTING STANDARDS IN MALAYSIA

Malaysian Financial Reporting Standards (MRFS)	01
Malaysian Private Entities Reporting Standards (MPERS)	02
Private Entity Reporting Standards (PERS)	03



#### 2.1 Describe the approved accounting standards in Malaysia



### 01. MFRS

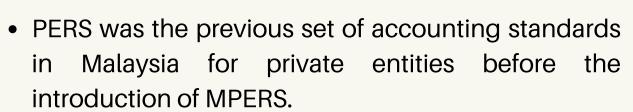
- The MFRS is the primary set of accounting standards in Malaysia. It is largely aligned with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The MFRS applies to public-listed companies, financial institutions, and other large entities.
- Before 2012, Malaysia used the Financial Reporting Standards (FRS) framework. In 2012, a convergence process was undertaken to bring Malaysian standards in line with IFRS, resulting in the introduction of MFRS.

#### 2.1 Describe the approved accounting standards in Malaysia

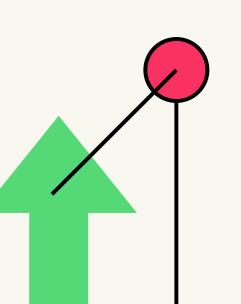


- MPERS is a framework introduced by the Malaysian Accounting Standards Board (MASB) for small and medium-sized private entities in Malaysia.
- It is a simplified version of the full Malaysian Financial Reporting Standards (MFRS), designed to reduce the financial reporting burden on private companies that are not publicly traded or do not have large revenue.
- MPERS is based on the IFRS for Small and Mediumsized Entities (IFRS for SMEs) with adjustments made to suit the Malaysian environment.

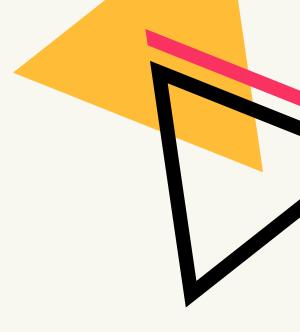




- It applied to private entities that were not required to comply with MFRS.
- The PERS framework was replaced by MPERS in January 2016, aligning with global best practices and making it easier for Malaysian companies to transition to IFRS when needed.

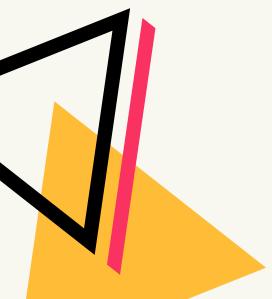






## What is Conceptual Framework for Financial Reporting?

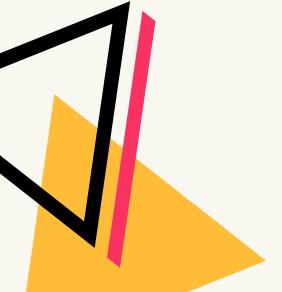
The Conceptual Framework for Financial Reporting provides the underlying principles and concepts for the preparation and presentation of financial statements issued by MASB. It serves as a foundation for the development of accounting standards and helps guide the application of accounting principles in situations where specific standards may not exist. The framework aims to ensure that financial reporting is consistent, transparent, and useful for decision-making by users of financial statements.





The Conceptual Framework identifies two primary/fundamental qualitative characteristics that make financial information useful:

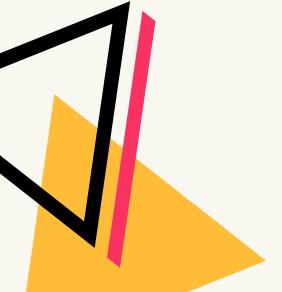
- Relevance: Information is relevant if it can influence the decisions of users. Relevant financial information helps users assess past, present, and future events or confirms or corrects prior evaluations. To be relevant, information must have predictive value (helps users predict future outcomes) or confirmatory value (provides feedback on previous evaluations).
- Faithful Representation: Financial information must faithfully represent the economic phenomena it purports to represent. It should be complete, neutral, and free from error. Faithful representation means the information is an accurate reflection of the underlying economic reality.

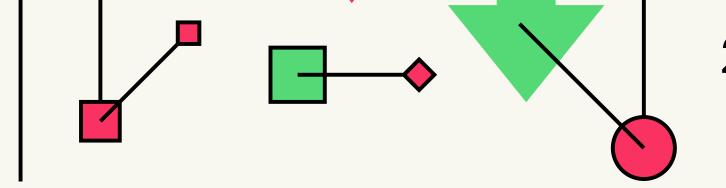




In addition to these primary characteristics, there are enhancing qualitative characteristics that improve the usefulness of financial information:

- Comparability: Information should be comparable over time and across entities, allowing users to identify trends and make comparisons.
- Verifiability: Information is verifiable if different knowledgeable and independent observers can reach a consensus on its representation.
- **Timeliness:** Information should be available in time to influence decision-making. It should not be outdated or delayed.
- **Understandability:** Information should be clear and comprehensible for users who have a reasonable knowledge of business and economic activities.





**Asset** 

01

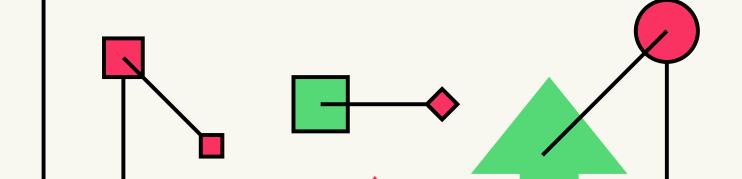














A present **economic resouce** controlled by the entity as a result of past events.

>> **Economic resource** is a right that has the potential to produce economic benefits.

#### For examples:

- Non-current Asset Asset life is longer than one accounting period
- Current Asset Asset that are easily converted into cash



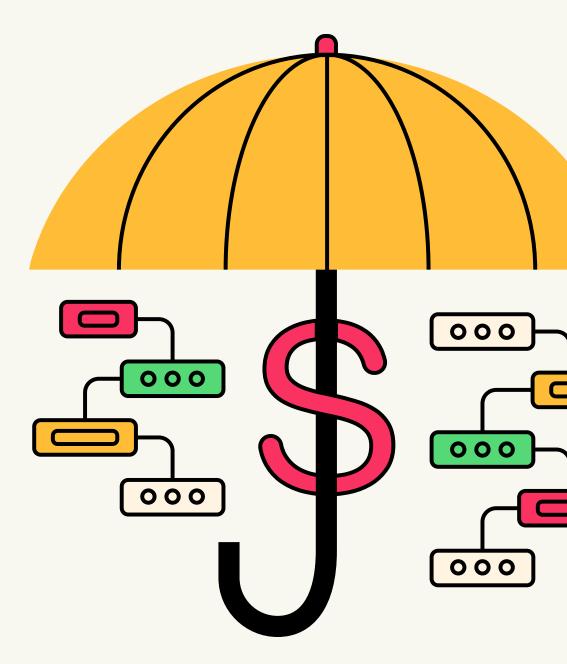
## 02 Liability

A present **obligation** of the entity to transfer an economic resource as a result of past events.

>>**Obligation** is a duty of responsibility that an entity has no practical ability to avoid.

#### For Examples:

- Non-Current Liabilities Debt that must be paid off after one accounting period
- Current Liabilities Debt that must be paid off within one accounting period



03

### **Equity**

The residual interest in the assets of the entity after deducting liabilities.

The basic formula for calculating equity is: Equity = Assets - Liabilities





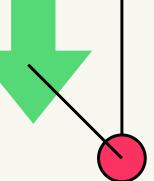
Income

04

Increases in economic benefits during the reporting period, in the form of inflows or enhancements of assets or reductions of liabilities, that result in increases in equity.

05 Expenses

Decreases in economic benefits during the reporting period, in the form of outflows or depletions of assets or increases in liabilities, that result in decreases in equity.



## Measurement of the Elements of 01 Financial Statements



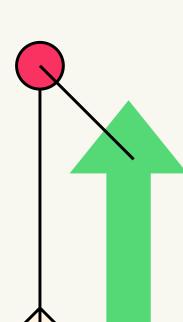
02

#### **Historical Cost**

A historical cost is a measure of value used in accounting in which the price of an asset on the balance sheet is based on its nominal or original cost when acquired by the company. The historical-cost method is used for assets under generally accepted accounting principles (GAAP).

#### **Current Value**

Current cost accounting refers to an approach that values assets at their fair market value rather than historical cost.



## 2.2 Discuss the Conceptual Framework for Financial Reporting Financial Reporting Assumptions

**Reporting Period** 

The reporting period refers to the specific time frame or duration for which financial statements are prepared.

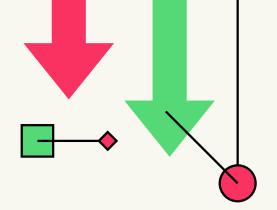
**Going Concern** 

The going concern assumption assumes that an entity will continue its operations in the foreseeable future and is not expected to go into liquidation or cease business.

**Reporting Entity** 

A reporting entity is a distinct economic unit for which financial statements are prepared. It could be:

- A single company or corporation (if it operates independently).
- A group of entities (if there is a parent company and subsidiaries, in which case consolidated financial statements are required).
- A division or branch of a larger corporate group (if it operates separately for accounting purposes).



### **Users of Financial Statement**

#### 1) INTERNAL USERS

Person inside a business Who use information for daily business decisions

**Top Management** 

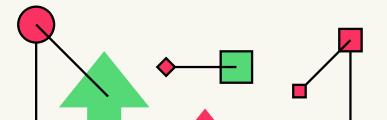
**Marketing Department** 

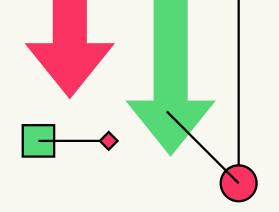
**Financial Manager** 

Shareholder

**Employees** 

**Store Department** 





### **Users of Financial Statement**

#### 1) EXTERNAL USERS

Person outside a business No involvement to daily business operations and decisions

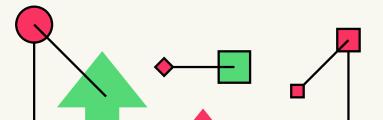
**Financial Institution** 

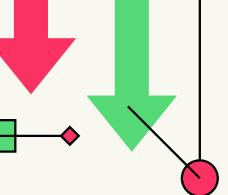
**Creditor/Supplier** 

**Investor** 

Government

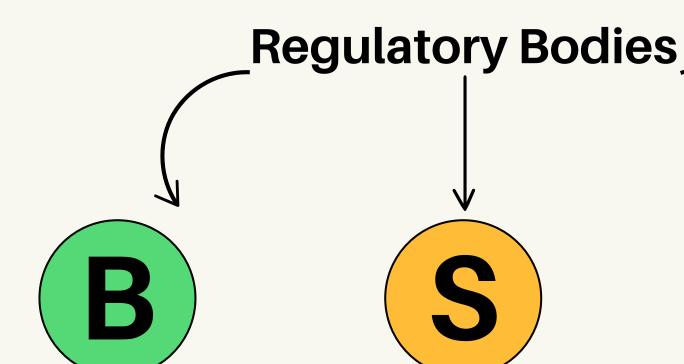
**Employee Union** 





#### 2.3 Provide the explanations of the functions of regulatory and professional bodies in Malaysia





**BANK NEGARA** 

**MALAYSIA** 

central bank of

to regulate and

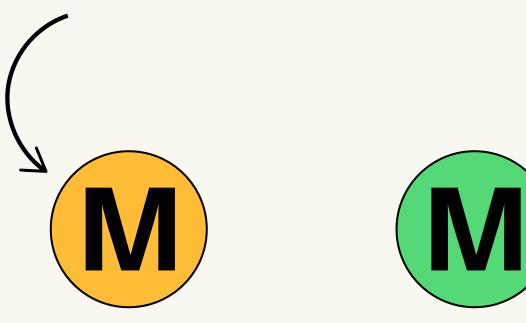


primary regulatory Malaysia, and its role is authority overseeing the securities and capital supervise the financial markets in Malaysia system in the country

#### **COMPANIES COMMISSION OF MALAYSIA**

regulatory body that responsible for the registration and regulation of companies and businesses in Malaysia

#### **Professional Bodies**



**MIA** 

national professional

body for accountants in

Malaysia.

#### **MASB**

responsible for establishing accounting standards in Malaysia. It develops and issues financial reporting standards for entities in the private and public sectors.

#### **DEFINITION**

Bookkeeping (C.R.S)

is the process of Classifying.

Recording,

Summarizing business

transaction

Accounting (C.R.S+A.I)

in monetary unit and Analyzing and Interpreting the financial data of business

in order to assist stakeholder in making decisions

#### ACCOUNTING VS BOOKKEEPING

-Process. Accounting involves complete Accounting process. While, bookkeeping represents recording process.

-Understanding & Practices.
Accounting involves technical
understanding and advanced
accounting procedures. While,
bookkeeping requires basic
understanding and practice of
financial accounting.

#### USERS OF ACCOUNTING INFORMATION

- 1. Internal Users
- person inside a business who use information for daily business decisions
- Ex: top management, shareholder, employees, etc
- 2. External Users
- Person outside a business who have no involvement to daily business operations and decisions
- Ex: Financial Institutions, creditors, government, etc



SUMMARY TOPIC 1 & 2



#### 3 TYPES OF BUSINESS ENTITY

1.Sole Proprietorship
-owned by an individual
2. Partnership
-two or more people (not more than 20
person)

3. Companies:

a. Public Limited Companies
 -minimum of two shareholders and no maximum members

b. Private Limited Companies

-minimum of 1 shareholder and 50

maximum members



#### **ACCOUNTING FIELD**

1.Financial Accounting

-recording and classifying business transactions, and preparing and presenting financial statements

2.Managerial Accounting

-providing information for use by internal users

3.Cost Accounting

-recording, presentation, and analysis of manufacturing costs

4.Auditing

-internal auditors: evaluating the adequacy of a company's internal control structure -external auditors: examination of financial statements by

an independent party

-tax planning and preparation of tax returns
5. Accounting Information Systems

-development, installation, implementation, and monitoring of accounting procedures and systems

#### QUALITATIVE CHARACTERISTICS

RELEVANCE,
MATERIALITY,
FAITHFUL REPRESENTATION,
COMPARIBILITY,
VERIFIABILITY,
TIMELINESS &
UNDERSTANDABILITY

APPROVED ACCOUNTING STANDARD MPERS, MFRS

REGULATORY & PROFESSIONAL BODIES MIA, MASB, MICPA, THE COMPANIES COMMISION OF MALAYSIA

ELEMENTS OF FINANCIAL STATEMENTS
ASSET, LIABILITY, EQUITY, INCOME & EXPENSES

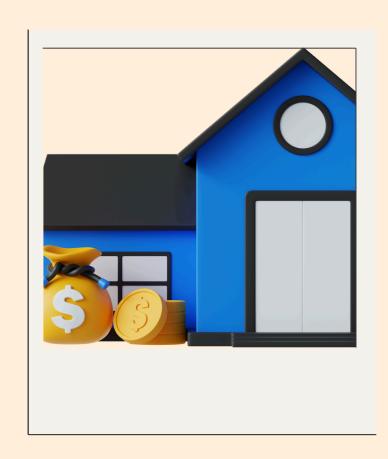
## TOPIC 3

## ACCOUNTING CLASSIFICATION & ACCOUNTING EQUATION

#### Course Learning Outcomes:

- 3.1 Discuss the accounting classification and the accounting equation
  - 3.2 Provide the explanations of the assets, equity and liabilities
    - 3.3 Provide the explanations of revenues and expenses
    - 3.4 Provide the explanations of inventory (finished goods)

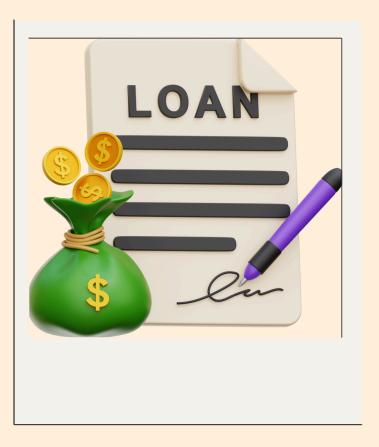
## ACCOUNTING CLASSIFICATION



#### **Assets**

An asset is a present
economic resource
controlled by the entity as a
result of past events.

Economic Resource = A right that has the potential to produce economic benefits.



#### Liabilities

A liability is a present obligation of the entity to transfer an economic resource as a result of past events.

Obligation = A duty or

responsibility to act or perform in a certain way.



#### Equity

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

Residual Interest = Whatever is left after paying debts.

## ACCOUNTING CLASSIFICATION



#### Expenses

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

#### **Examples:**

Purchases, Salaries, Rent, Depreciation, Bad debts.



#### Revenues

Revenue is income arising in the course of an entity's ordinary activities.

#### **Examples:**

Sales of goods, Fees for services, Interest income, Rental income.

## CATEGORIES OF ASSETS, LIABILITIES & EQUITY



#### Assets

#### **Current Assets**

- Expected to be converted into cash, sold, or consumed within one year.
- Examples: Cash, Accounts Receivable, Inventory.

#### Non-Current Assets

- Long-term resources used over more than one year.
- Examples: Property, Plant, Equipment (PPE), Intangibles.



#### Current Liabilities

- Obligations to be settled within one year.
- Examples: Accounts Payable, Short-term Loans, Accrued Expenses, Unearned Revenue

#### Non-Current Liabilities

- Obligations payable after more than one year.
- Examples: Long-term Loans, Bonds Payable, Lease Liabilities



#### Capital

 Initial investment and any additional contributions made by the owner(s) to the business.

#### **Drawings**

• Withdrawals made by the owner(s) for personal use.

#### Retained Earnings

 Net Profit/(Loss) of the company after reflect income and expenses

## INVENTORY (FINISHED GOODS)

Inventories are assets held for sale in the ordinary course of business, in the process of production for such sale, or in the form of materials or supplies to be consumed. (MFRS 102)

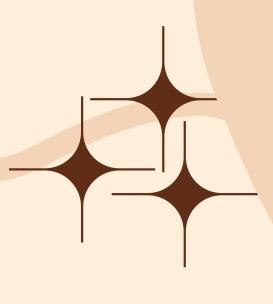
 Finished goods is refer to inventory that are held for sale in the ordinary course of business

#### Accounting Treatment:

- Classified as a current asset in Stament of Financial Position.
- Recorded at cost or net realizable value, whichever is lower.
- Purchase or sales of inventory will reflect increase in purchases or increase in sales account under Periodic Inventory System.

### ACCOUNTING EQUATION

ASSETS = LIABILITIES + EQUITY



## EXAMPLES OF TRANSACTION & ITS EFFECT TO ACCOUNTING CLASSIFICATION

Example	Increase	Decreae	Effect
Bought equipment by cash	Equipment ↑	Cash ↓	Asset exchange
Loan from NSA bank	Bank ↑ Loan ↑		Assets ↑, Liabilities ↑
Brought cash into the business	Cash ↑ Capital ↑		Assets ↑, Equity ↑
Received rental income by cash	Cash ↑ Rental Income ↑		Assets ↑ , Revenue ↑
Paid utilities by cheque	Utilities Expense ↑	Bank ↓	Expenses ↑, Assets↓

## EXAMPLES OF TRANSACTION (GOODS) & ITS EFFECT TO ACCOUNTING CLASSIFICATION

Example	Increase	Decreae	Effect
Bought goods (cash)	Purchases  ↑	<b>Cash</b> ↓	Expenses ↑, Asset ↓
Bought goods (credit)	Purchases	Accounts Payable ↑	Expenses ↑, Liability ↑
Sold goods (cash)	<b>Cash</b> ↑	Sales Revenue ↑	Asset↑, Revenue↑
Sold goods (credit)	Accounts Receivable ↑	Sales Revenue ↑	Asset↑, Revenue↑

#### Tutorial

#### *≤* Instructions:

- Record the effect of each transaction.
- Use '+' for increase, '-' for decrease.
- Complete the table showing which specific item (e.g., Cash, Loan, Capital, Revenue, Expense) is affected.

#### **Transactions**

- 1. 1 January: Owner started the business by depositing RM50,000 cash into a business bank account.
- 2. 3 January: Purchased office equipment for RM10,000 cash.
- 3. 5 January: Bought inventory worth RM8,000, paid RM5,000 cash, and the balance on credit.
- 4. 10 January: Sold inventory for RM12,000 cash.
- 5. 15 January: Sold inventory for RM9,000 on credit.
- 6. 20 January: Paid RM2,000 cash for utilities.
- 7. 25 January: Received RM5,000 cash from customer for earlier credit sale.

#### Answer Table Format

Use this format for each transaction:

Date	Assets +	Expenses =	Liabilities +	Owner's Equity +	Revenues

#### TOPIC 3: ACCOUNTING CLASSIFICATION & ACCOUNTING EQUATION



#### ASSETS (DR)

1) Non-Current Assets -useful life > 1 year -Ex: tangible assets such as furniture & building, non-tangible assets such as patent & trademark, and Investment 2) Current Assets -easily converted into cash -Ex: cash/bank, debtor, inventory



## LIABILITIES (CR)

1) Non-Current Liabilities -obligation to pay > 1 year -Ex: Long term loan, debentures, mortgage 2) Current Liabilities -obligation to pay < 1 year -Ex: Creditor, Short term loan, overdraft bank



#### OWNERS' EQUITY (CR)

1) Capital (CR) Ex: cash/assets brought into business 2) Drawings (DR) Ex: Cash/goods/assets taken by owner for personal use 3) Profit/(Loss) (DR/CR) If Profit=Owners' Equity Increases

If Loss=Owners' Equity Decreases



-Any cost incur in running business operations -Ex: Salary, utilities, depreciation, rental





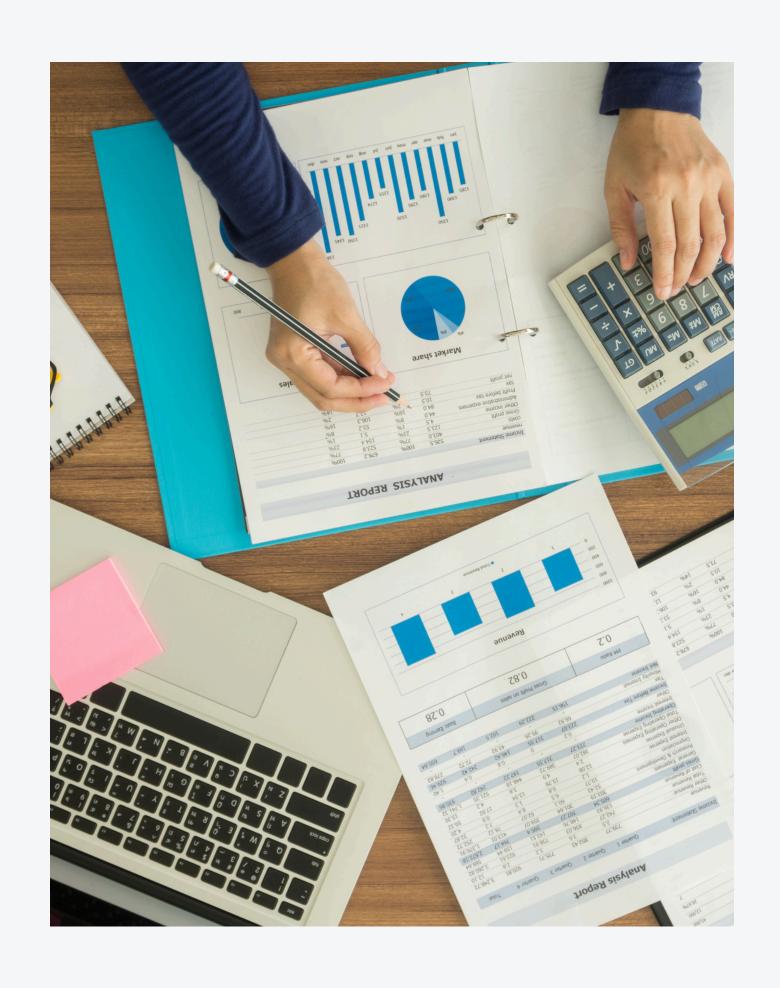
A+E+=L+0E+R A=L+E



-money earned from business operations -Ex: Interest income, rental income, sales, dividend income

Topic 4: Accounting **Process Books of** Accounts





## **Accounting Process**

- Identify transactions
- Record transactions
- Post to the General Ledger
- Calculate unadjusted
   Trial Balance
- Make adjusting entries
- Create adjusted Trial
   Balance
- Create FinancialStatements
- Make closing entries

- Source documents
- Book of original entry
- Ledger
- Trial Balance
- Adjustments
- Adjusted Trial Balance
- Financial Statements
- Financial Reports

## **Example of Source Documents**

#### **Quotation**

Sent by seller; outlines expected costs and terms before a sale is made.



#### **Purchase Order**

Issued by buyer;
requests
goods/services from a
seller with agreed
terms.



#### **Sales Order**

Created by a seller; confirms receipt and details of customer's order; internal documents.



#### Invoice

Issued by the seller; records details of goods/services sold and amount owed.



#### **Delivery Order**

Send by seller to buyer; lists items delivered for confirmation.



#### **Payment Voucher**

Authorizes and records a payment; includes details like payee, purpose, and amount; internal documents.

#### Payment Voucher

mount:	Date:	
Method Of Payms	ent:	
ash:	Check#	
o:		
he Sum Of:		
eing:		Payee:
aproved By:	Paid By:	Signature:



## **Example of Source Documents**

#### **Official receipts**

Confirms payment has been received; serves as proof of payment.



#### **Cheque Butt**

A stub attached to the cheque; used to record cheque details for internal tracking.



#### Cheque

A written order instructing a bank to pay a specific amount from the account holder.



#### **Credit Note**

Issued by seller to reduce amount owed due to returns or overcharging.



Payment is due within 15 days

Please make checks payable to: East Regain

#### **Debit Note**

Issued by buyer to request a reduction for returned goods or billing errors.



#### Memo

Often used for internal records to explain specific adjustments, transfers, non-cash transaction (like a depreciation entry or adjusting entry) or accounting decisions



## Book of Prime/Original Entry





- General Journalto record transactions that are not belong to special journal and not related to cash/bank transaction under cash book.
- Examples: purchases & sales of non-current assets, opening balances, drawing of goods, writing off bad debts, correction of errors, and increase in capital.



#### Special Journal

- to record purchases, sales and return of goods/inventory/stock
- Consists of Purchases Journal, Sales Journal, **Purchase Return Journal and Sales Return Journal**



#### Cash Book

- to record cash receipts and cash payments for both cash and bank
- Recorded in cash book format: 2 column or 3 column

## Format of General Journal

#### **General Journal**

Date	Particulars	Debit (RM)	Credit (RM)
Year Month Day	Debited Account	XX	
	Credited Account		XX
	(Narrations)		



## Format of Special Journal

#### Sales Journal

Date	Particulars	Amount (RM)
Year Month Day	Debtor Account	XX
Day	Debtor Account	XX
Day	Total	XX

Every special journal such as sales, purchases, sales returns and purchase returns uses the same format, you may only change the account name in the particular column. Sales Journal is to record debtor accounts, while Purchases Journal is to record creditor accounts.

## Format of Cash Book

Receipt (IN)	2-Column Cash Book	Payment (OUT)

Date	Particulars	Cash (RM)	Bank (RM)	Date	Particulars	Cash (RM)	Bank (RM)

Receipt (IN) 3-Column Cash Book Payment (OUT)

Date	Particulars	Discount Allowed	Cash (RM)	Bank (RM)	Date	Particulars	Discount Received	Cash (RM)	Bank (RM)



#### **TUTORIAL 1**

#### a) Relate the functions given to its source document.

Function	Source Document
Issued when sales price is understated.	
Issues by seller to shows the details of the good in term of price, quantity and credit terms.	
Issued when received payment from buyer either payment made by cash or cheque.	
Issued by seller when received cash payment from buyer.	

#### **TUTORIAL 2**

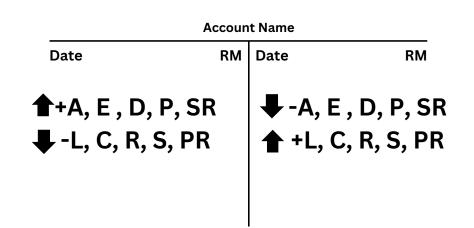
b)You are required to report each of the transactions above into its relevant books of prime entry.

Date	Transactions	Books of Prime Entry
2024 Jan 1	Aira, the owner of the company brought in her personal car into the business.	
4	Received Invoice from Jana Sdn Bhd for stock purchased.	
9	Goods that are arranged for delivery was purchased on credit by Kenchana Sdn Bhd.	
14	Kenchana Sdn Bhd returned defective goods due to malfunction.	
20	The company paid its debt owed to Jana Sdn Bhd by cheque.	
23	The owner took goods for her personal use.	

#### TOPIC 5: DOUBLE ENTRIES & LEDGER

TRANSACTIONS	DEBIT (RM)	CREDIT (RM)
Purchase/bought goods by credit	Purchases	Account Payable/Creditor
Purchase/bought goods by bank/cash	Purchases	Bank/Cash
Purchase Return (Goods returned to creditor)	Account Payable/Creditor	Purchase Return
Sales/sold goods by credit	Account Receivable/Debtor	Sales
Sales/sold goods by bank/cash	Bank/Cash	Sales
Sales Return ( Goods returned from debtor)	Sales Return	Account Receivable/Debtor
Purchase/Bought Non-Current Assets(NCA) by credit	NCA : Furniture, Office equipment, Motor Vehicle, etc	Account Payable/ Creditor
Purchase/Bought Non-Current Assets(NCA) by bank/cash	NCA : Furniture, Office equipment, Motor Vehicle, etc	Bank/Cash
Drawing goods	Drawing	Purchases
Drawing cash in hand/cheque	Drawing	Cash/Bank
Opening Balances/Additional Capital in term of Assets (Cash, bank, furniture, motor vehicle, etc) brought into the business	Assets (Cash, Bank, Furniture, Motor Vehicle, etc)	Capital
Paid expenses (Salary, utilities, rental, etc) by cash/bank	Expenses (Salary,	Cash/Bank

	Utilities, Rental, etc)	
Received revenues (Commission Received, Rental Received, Interest Income, etc) by cash/bank	Cash/Bank	Revenues (Commission Received, Rental Received, Interest Income, etc)
Received Cash Discount from Account Payable/Creditor (Discount Received)	Account Payable/Creditor	Discount Received
Give Cash Discount to Account Receivable/Debtor (Discount Allowed)	Discount Allowed	Account Receivable/Debtor



1. Set-up your ledger account based on your double entry name both for Debit and Credit side.

3. Description should be written as opposite double entry account name.

HOW TO PREPARE LEDGER ACCOUNT?

2. Apply the concept of debit and credit rules. Left hand side of the 'T' Account are to record Debit Entries. While, right hand side are to record Credit Entries.

4. Balancing off the ledger account. The account might be in debit balances, credit balances or zero balances.



Step 1: Start from Lournal Entries
-Prepare journal entries based on
transactions.

Example journal entry:

2023 Jan 1: Brought in

Cash of RM5,000 into

the business

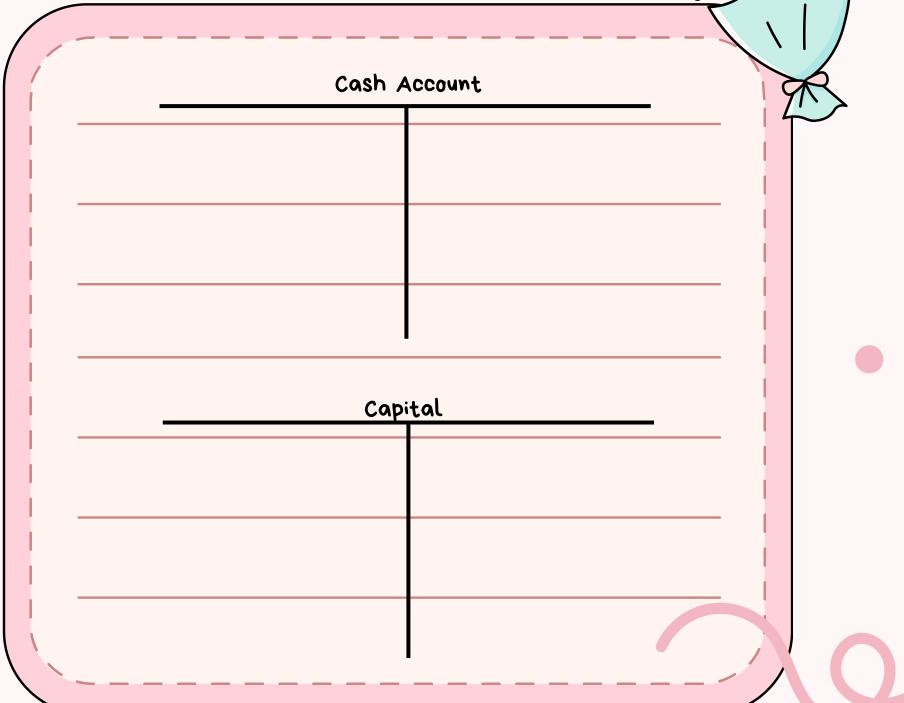
Dr Cash RM5,000

Cr Capital RM5,000

Step 2: Open Individual Leagur Accounts
-Greate a T-Account (or leagur format) for
every account involved:

2. Cash Account

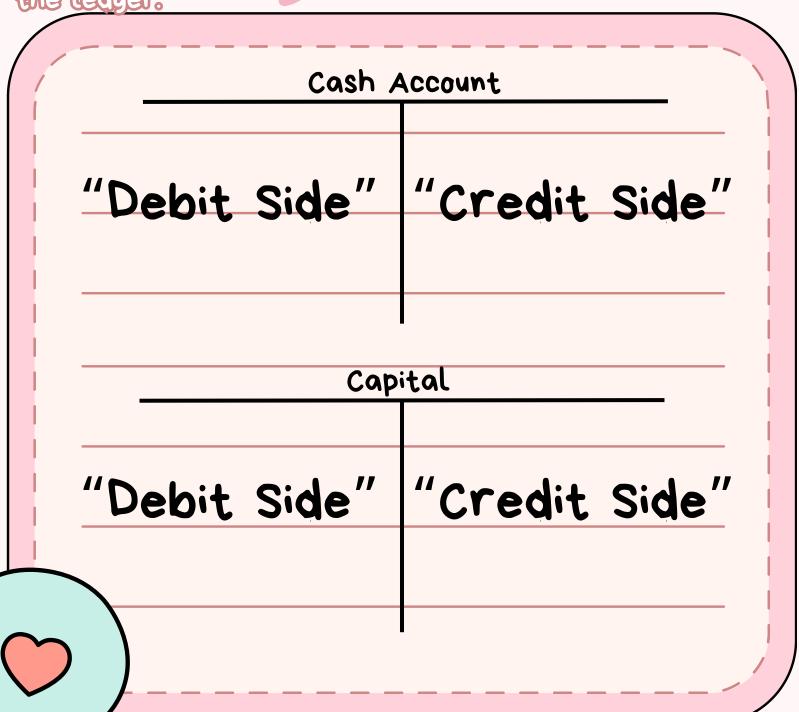
2. Capital Account



Step & Post Journal Entries into correct side of Leaguers
Accounts

1. If the account was debited in the journal record on the Debit side of the ledger.

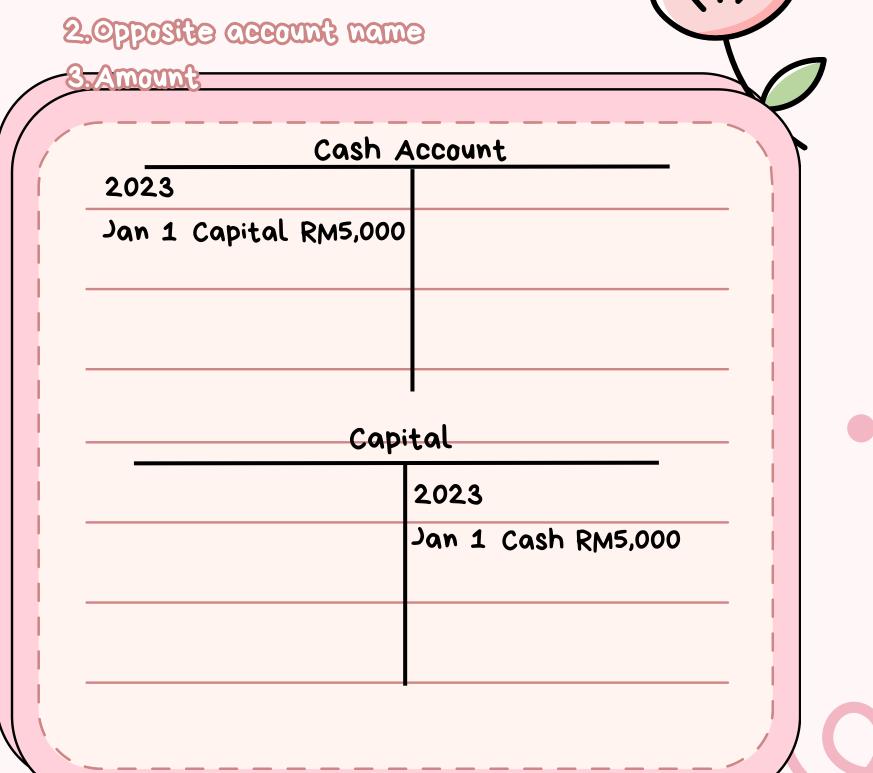
2. If the account was credited record on the Gredit side of the ledger.



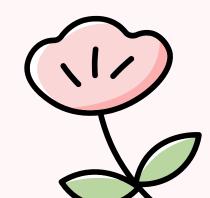
Step 4: Post every journal entry to their respective leager accounts.

Always records

1.Date



## Step 5: Balance the Leager Account



#### After all transactions are posted:

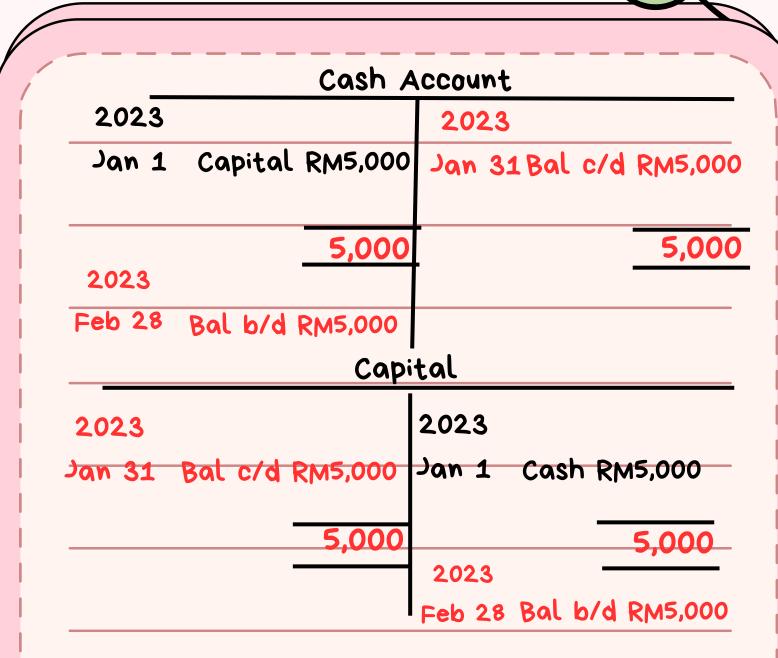
- Total up both the Debit and Credit sides. Largest value will be recorded as balancing figures for both sides.
- Find the difference (called Balance
   c/d "carried down").
- Bring the balance to the opposite side
   as Balance b/d "brought down" in
   the next period.

If debit > credit:

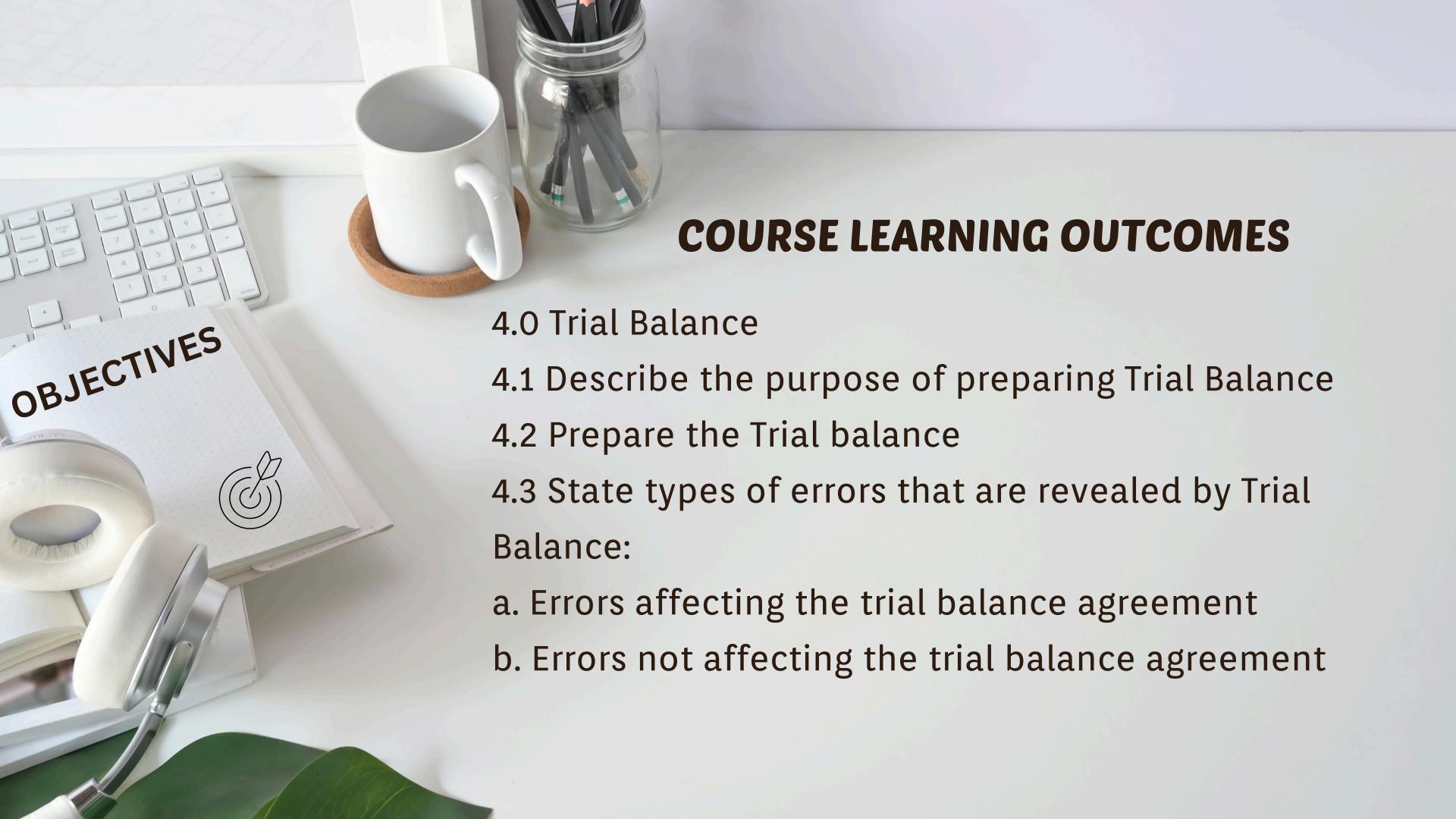
Debit balance

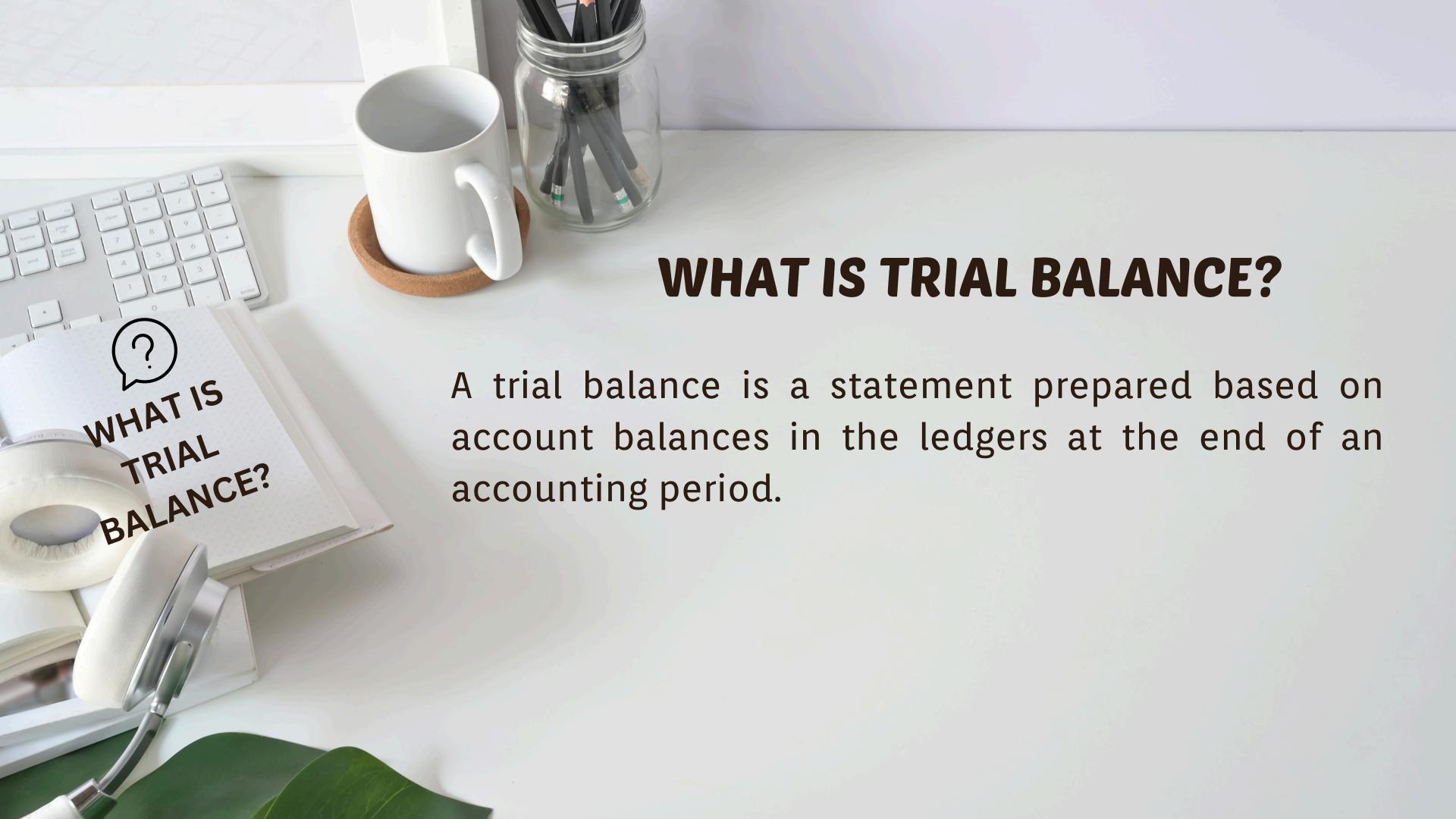
If credit > debit:

Credit balance











## DESCRIBE THE PURPOSE OF PREPARING TRIAL BALANCE

Check the accuracy of calculations

Verify the accuracy of postings from the book of original entry to ledgers

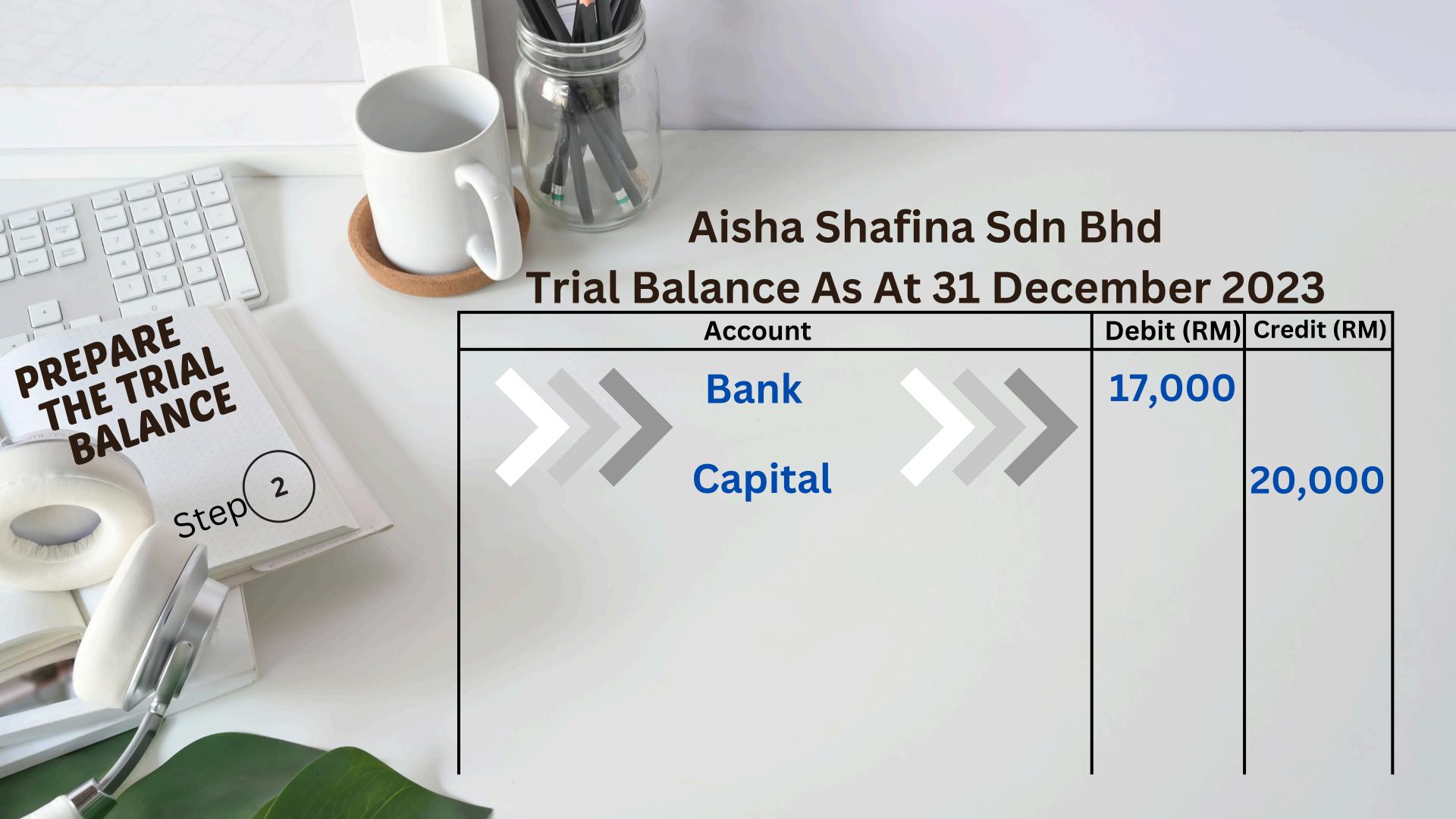
Verify the accuracy of double-entries

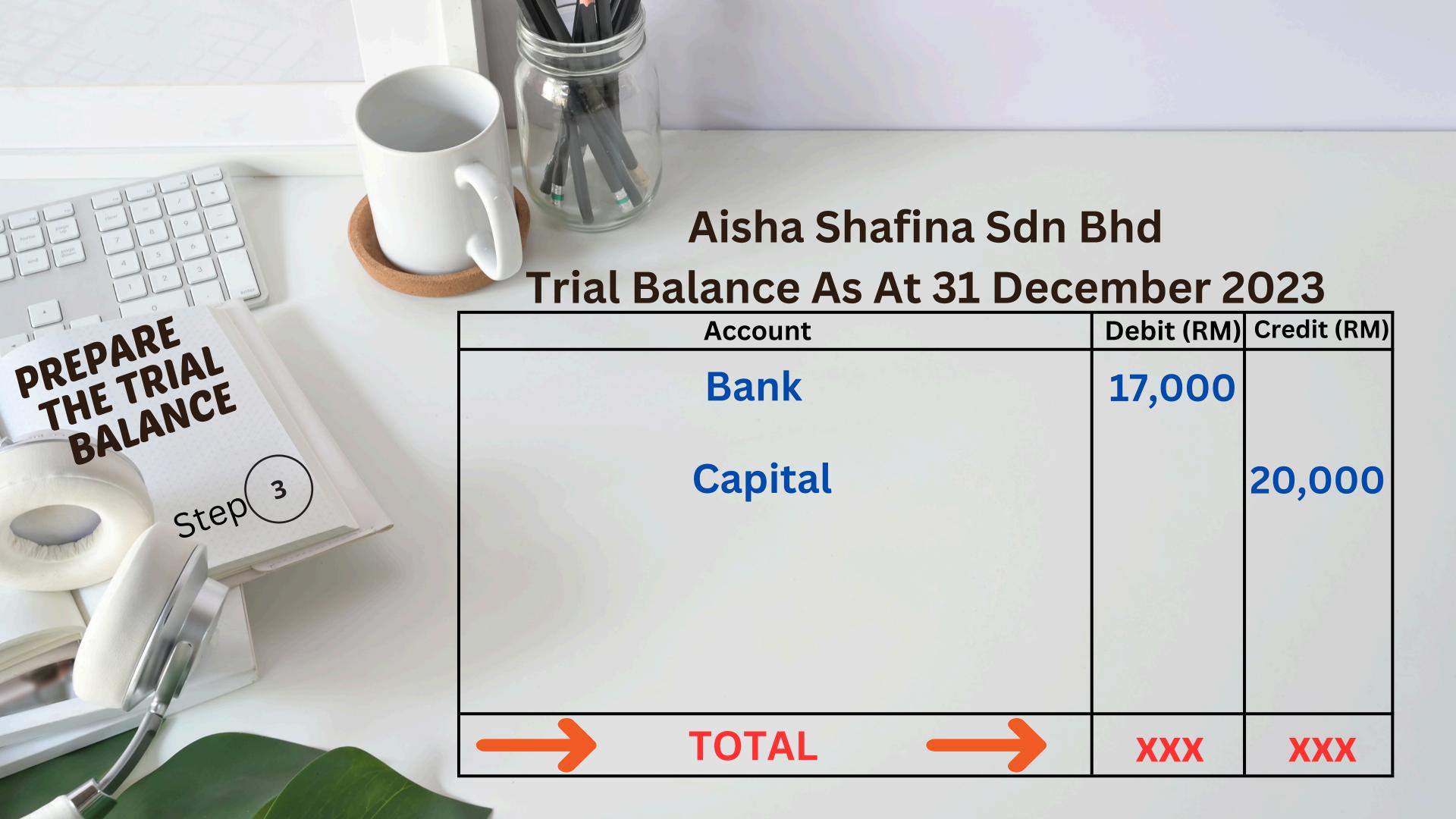
Prepare financial statements













prepare the

Balance



- Assets
- Expenses
- Drawings
- Purchases



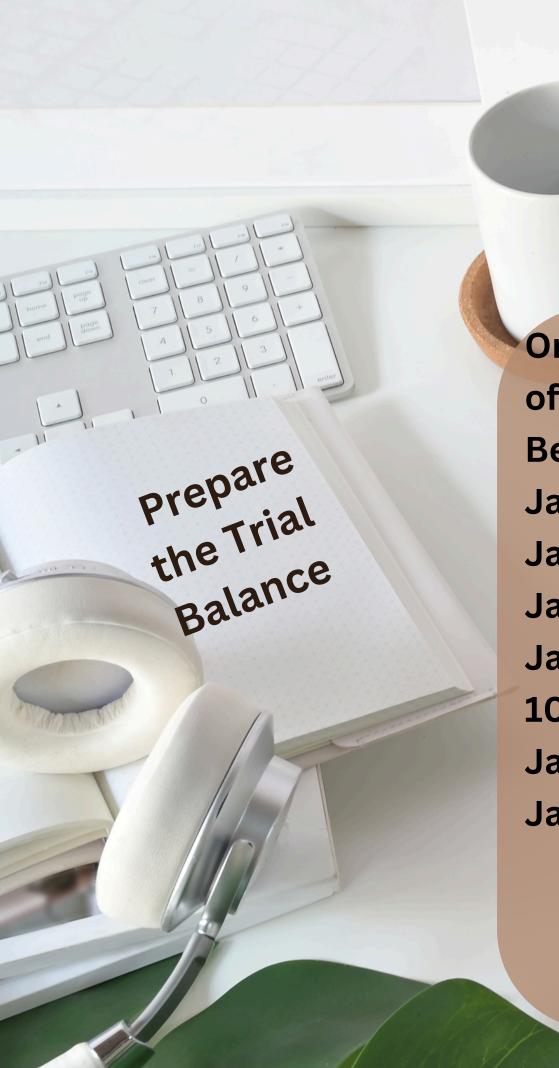
- Liabilities
- Capital
- Revenues
- Sales

# Format Prepare the Trial Balance of Trial Balance

#### **AISHA SHAFINA SDN BHD**

#### TRIAL BALANCE AS AT 31 DECEMBER 2023

ACCOUNT	DEBIT (RM)	CREDIT (RM)
Land and Building	250,000	
Plant and Machinery	50,000	
Fixtures and Fittings	30,000	
Vehicles	50,000	
Furniture	15,000	
Investment	10,000	
Premises	12,000	
Cash/Bank	102,000	
Account Receivables/Debtors	35,000	
Inventory	20,000	
Drawings	900	
Purchases	55,000	
Sales Return/Return Inwards	800	
Carriage Inwards	600	
Salary	40,000	
Utility Bills	7,000	
Advertising	600	
Stationeries	500	
Discount Allowed	2,200	
Rental Expenses	12,000	
Insurance	2,000	
Vehicle Maintenance	1,000	
Capital		142,400
Account Payables/Creditors	1 (C)	30,000
Bank Overdraft	a figure	200
Loan		200,000
Debentures		12,000
Mortgage		15,000
Sales		250,000
Purchase Return/Return Outwards		8,000
Commission Received		9,000
Rent Received		24,000
Discount Received		6,000
TOTAL	696,600	696,600



## TUTORIAL 1

On 1 Jan 2024, Johara Co. started a stationery business with capital consists of Van and Cash in Bank amounted RM60,000 and RM40,000 respectively. Below are the related transactions for the month:

Jan 2 : Sold goods worth RM50,000 to Bunga Enterprise on credit.

Jan 10: Purchase goods on credit from AJ Sdn Bhd amounted RM25,000.

Jan 12: Return goods to AJ Sdn Bhd due to defect goods amounted RM500.

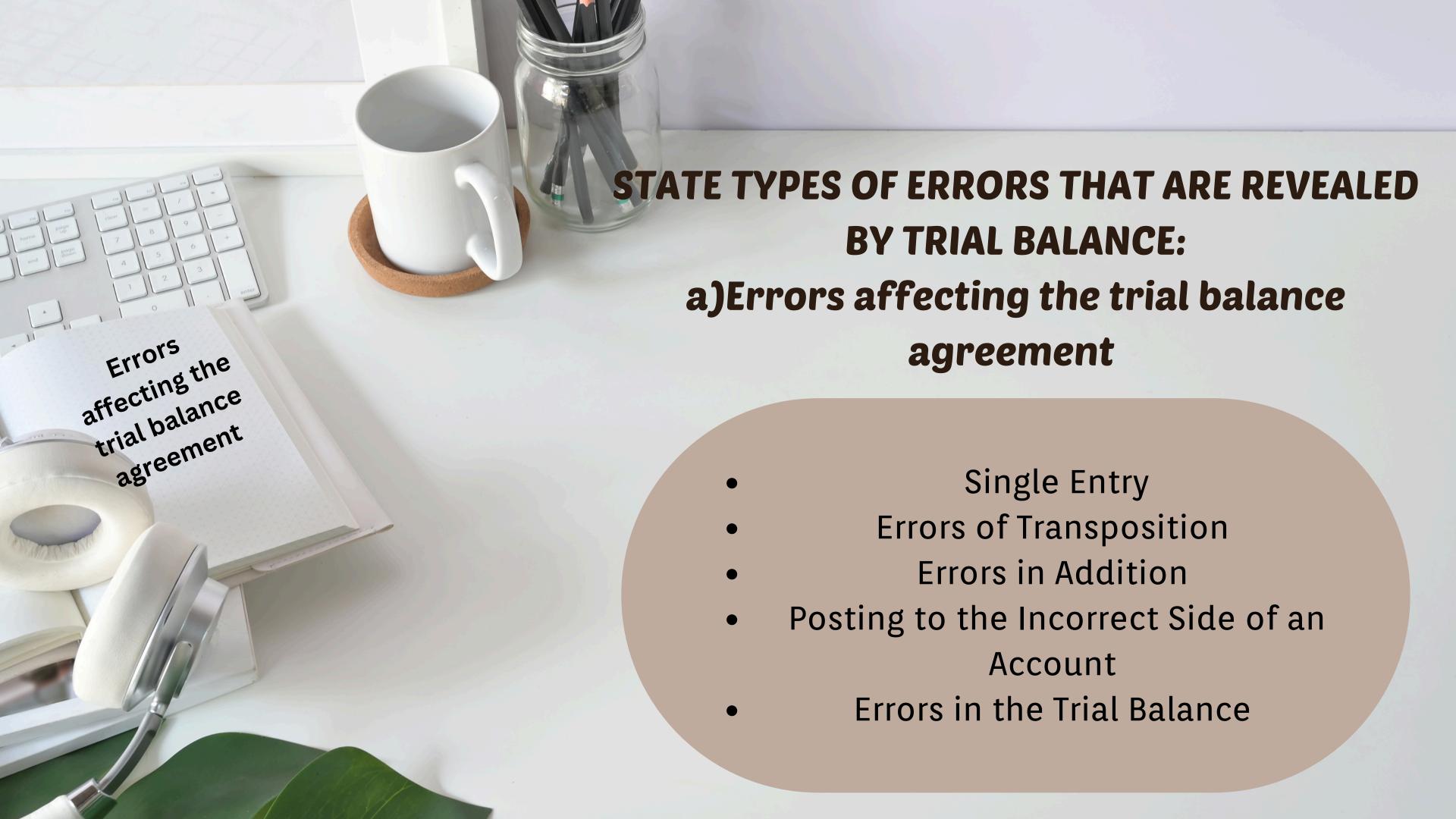
Jan 20: Bunga Enterprise settled all of the amount due by cash. Discount of

10% given.

Jan 25: Withdrawing Rm1,000 from bank for personal use.

Jan 26: Paid staff salary of RM3,000 and rental expenses of RM1,500 by cash.

You are required to prepare ledger account and transfer the account balances to trial balance.



## STATE TYPES OF ERRORS THAT ARE REVEALED BY TRIAL BALANCE: a)Errors affecting the trial balance agreement



#### SINGLE ENTRY

No entry was made to either debit or credit account.

Example: Credit Sales was only recorded in Sales Account but not recorded in Account Receivable.



Figures are written incorrectly.

Example: Cash Sales of RM1200 recorded in Cash account as RM1200 but recorded in Sales account as RM2200.



#### **ERRORS IN ADDITION**

The debit and credit side of an account are wrongly added.

Example: Cash Sales of RM200 and RM1200 are wrongly added in Cash Account as RM1600. However, added correctly in Sales Account of RM1400.

## STATE TYPES OF ERRORS THAT ARE REVEALED BY TRIAL BALANCE: a)Errors affecting the trial balance agreement

## POSTING TO THE INCORRECT SIDE OF AN ACCOUNT

The debit or credit entry of a transaction is posted to the wrong side of an account.

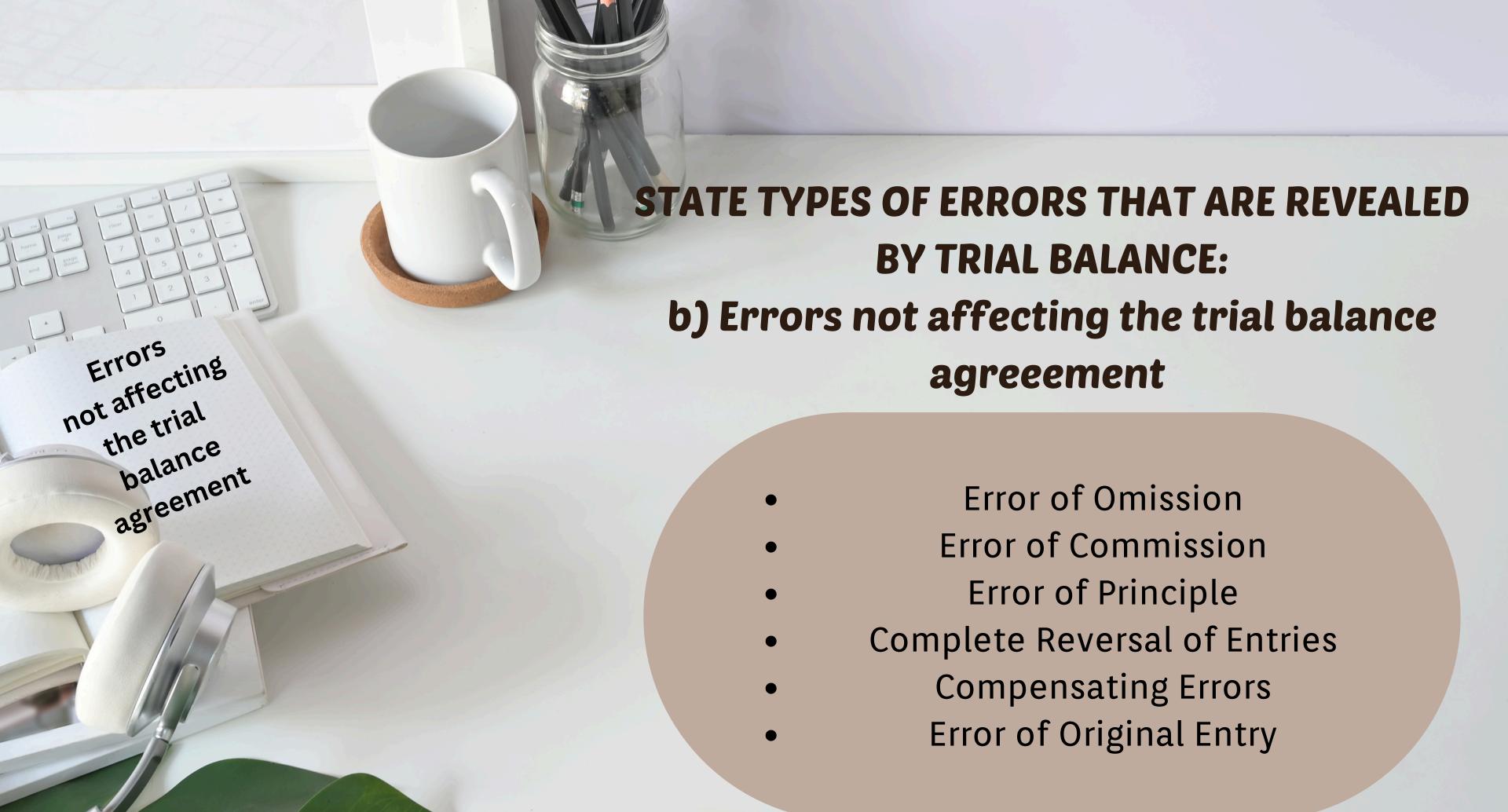
Example: Cash Sales recorded as DR Cash and DR Sales which Sales Account should be credited.



#### **ERRORS IN TRIAL BALANCE**

Error occurs when transferring account balances from the ledger to the trial balance.

Example: Cash
Account balances is
RM2000 but recorded
in trial balance as
RM200.



# STATE TYPES OF ERRORS THAT ARE REVEALED BY TRIAL BALANCE:

# b) Errors not affecting the trial balance agreeement



## **ERROR OF OMISSION**

Entire transaction has not been recorded or a transaction is completely omitted from the books of account.

Example: Cash Sales of RM300 are not recorded in ledger for both entries.



### **ERROR OF COMMISSION**

The correct amount is posted into a wrong account of the same category of account.

Example: Credit Sales
to Abu(Debtor)
recorded as DR Ali
Account (Debtor) and
CR Sales Account.



## **ERROR OF PRINCIPLE**

An amount is posted into an account but of a different category.

Example: Repair of motor vehicle of RM200 should be recorded under Repair and Maintenance Account (Expenses) but the amount is recorded in Motor Vehicle Account. (Asset).

# STATE TYPES OF ERRORS THAT ARE REVEALED BY TRIAL BALANCE:

# b) Errors not affecting the trial balance agreeement



The amount and the accounts are correct but each item is shown in the wrong side of the account.

Example: Cash Rm1000
paid to creditor should
be recorded as DR
Creditor CR Cash but it
was recorded as DR Cash
CR Creditor.



#### **COMPENSATING ERRORS**

An error on the debit side is compensated by an error of equal amount on the credit side.

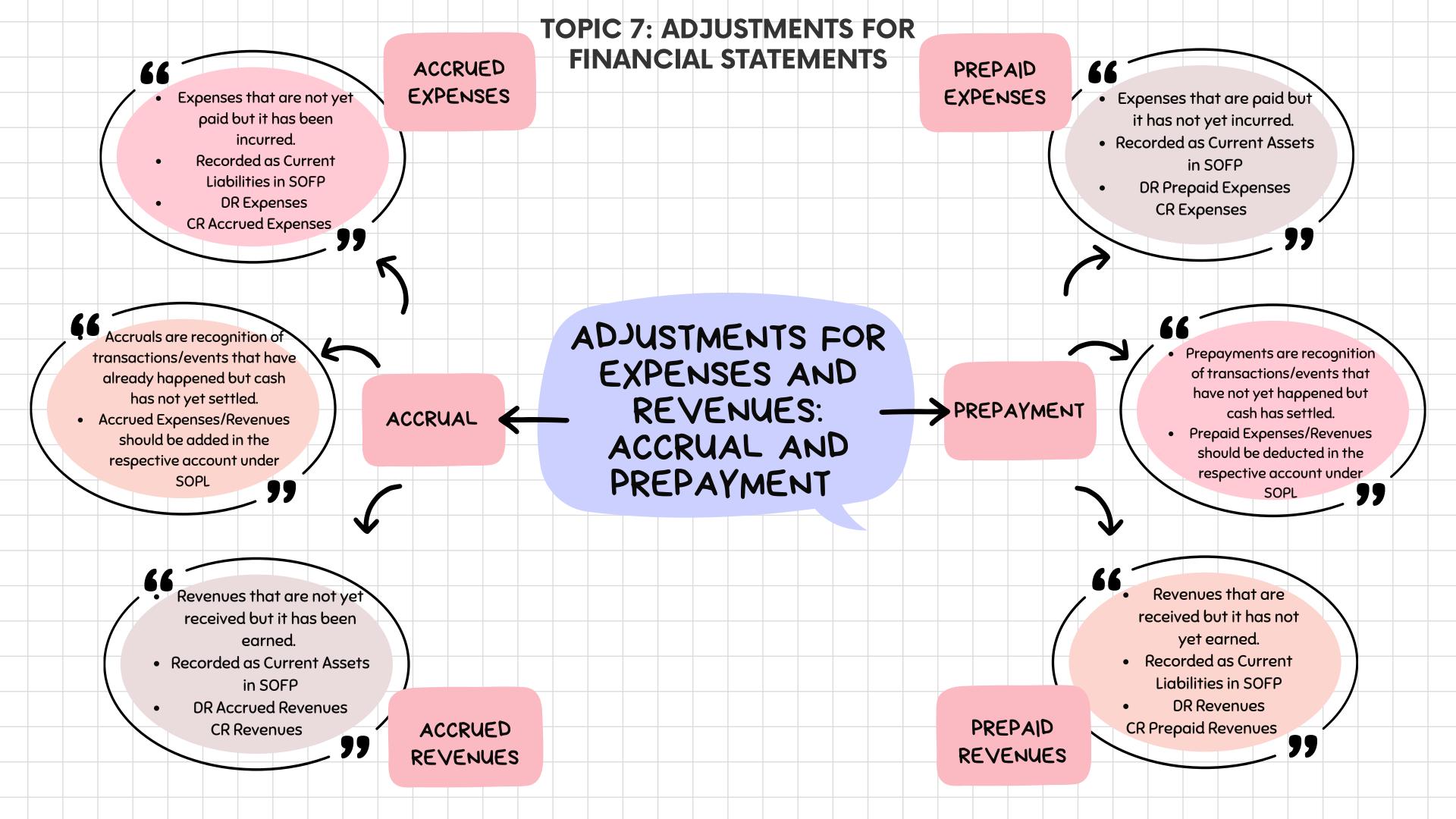
Example: Cash Sales of RM1000 was wrongly recorded in Sales Account as RM100. While, Credit Purchase of RM100 is wrongly recorded in Creditor Account as RM1000.



### **ERROR OF ORIGINAL ENTRY**

Errors were made in the books of original entry (journals).

Example: Credit Sales of RM455 recorded in Sales Journal as RM450 and was posted to ledger as RM450.



# ADJUSTMENS FOR DEBTOR:

Bad debts, Allowance for doubtful debts & Recoverable bad debts

# Bad debts

- 1. Debts that are unable to be collected from the customers due to customers' death, mentally incapacitated, cannot be traced or declared bankrupt.
- 2. Represents loss of a company and recorded as EXPENSES in SOCI.
- 3. It has DEBIT balance and will be DEDUCTED from DEBTOR A/C in SOFP.
- 4. <u>Double Entry:</u>
  DR Bad debts
  CR Debtor/Ac Receivable
  5. Net debtor= Debtor Unadjusted bad debts

# Allowance for Doubtful Debts (AFDD)

- 1. An estimate of debts that are not expected to be collected in the future accounting periods
- 2. Normally has a CREDIT balance and will be DEDUCTED from DEBTORS A/C in SOFP
- 3. Recorded in SOCI as Increase (Expense) and Decrease (Revenues) in AFDD (Take the difference amount)
- 4. <u>Double Entry (Increase in AFDD):</u>

DR Increase in AFDD CR AFDD

Double Entry (Decrease in AFDD):
DR AFDD

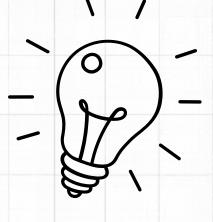
CR Decrease in AFDD

5. Formula AFDD

= % AFDD x Net Debtor

# Recoverable bad debts

- 1. Debts repaid by customers after the debts have been written off as bad debts.
- 2. Represents unexpected gains of a company and recorded as REVENUES in SOCI.
- 3. It has a CREDIT balance and will INCREASE the cash/bank received by the company under SOFP.
- 4. <u>Double Entry:</u>
  DR Cash/Bank
  CR Recoverable bad debts



# ADJUSTMENT FOR NON-CURRENT ASSETS: OEPRECIATION

### **DEPRECIATION**

- Depreciation is the cost of an asset that have been depreciated for a single period.
- It shows how much of the asset's value has been used up in the year.
- It is recorded as **EXPENSE** in **SOCI** and has **DEBIT** account balances in Trial Balance.
- Depreciation is systematic allocation of depreciable amount of an asset over its useful life.
- Depreciation is a ratable reduction in the carrying amount of a fixed asset.
- Depreciation begins when it is available for use and ceases when it is disposed of.

### ACCUMULATED DEPRECIATION

- Accumulated depreciation is the total amount of depreciation expense that has been allocated for an asset since the asset was put into use.
- It is recorded by OFFSETTING the asset and has CREDIT account balances in Trial Balance.

## CAUSES OF DEPRECIATION

- Wear and tear
- Perishability
- Usage rights
- Natural resource usage
- Inefficiency/ obsolescence

# FACTORS TO BE CONSIDERED IN DETERMINING DEPRECIATION

- Cost of the asset (purchase price + cost associated to bring the asset to a useable condition)
- Estimated Scrap value (Scrap value is the residual or salvage value that is expected to be realized after the sale of an asset at the end of its useful life)
   Estimated useful life

### **DEPRECIATION METHODS**

Straight Line Method (Cost)

(Cost – Scrap Value)/Estimated Useful Life

% Provision for depreciation x Cost of Assets

#### Reducing Balance Method

% Provision for depreciation x Net Book Value of Assets (opening balance)

Net Book Value = Cost of Assets - Accumulated depreciation

#### **TOPIC 8: FINANCIAL STATEMENTS WITH ADJUSTMENTS**

#### A) FORMAT STATEMENT OF COMPREHENSIVE INCOME (SOCI)

#### **Company Name**

#### Statement of Comprehensive Income for the Year Ended <u>Day Month Year</u>

	RM	RM	RM
Sales		Х	
(-) Sales return / return inwards		(X)	
(-) Discount allowed		(X)	
Net sales			Х
Less: Cost of goods sold			
Opening inventories / opening stock		Х	
Purchases	Х		
(-) Purchase return / return outwards	(X)		
(-) Discount received	(X)		
Net purchases		Х	
Add: Purchase expenses			
Carriage inwards / Freight inwards	Х		
Wages on purchases	Х		
Import duties / custom duties	Х		
Insurance on purchases	Х		

	Х	
Cost of goods available for sale	Х	
(-) Closing inventories / closing stock	(X)	
Cost of sales		(X)
GROSS PROFIT / (GROSS LOSS)		хх
Add: Revenue		
Interest received	Х	
Rental received	Х	
Bad debts recovered	Х	
Profit on assets disposal	Х	
Decrease in provision for doubtful debts	Х	Х
Less: Expenses		
Stationeries	Х	
Carriage outwards / freight outwards	Х	
Utilities	Х	
General / sundry / miscellaneous expenses	Х	
Administrative expenses	Х	
Interest on loan / interest on overdraft	Х	
Salaries	Х	

Bad debts	Х	
Advertising	Х	
Insurance	Х	
Commission paid	Х	
Rental	Х	
Depreciation	Х	
Increase in provision for doubtful debts / doubtful debt expenses	Х	(X)
NET PROFIT / (NET LOSS)		XX

#### B) FORMAT FOR STATEMENT OF FINANCIAL POSITION

#### **Company Name**

#### Statement of Financial Position as At <u>Day Month Year</u>

	RM	RM	RM
NON-CURRENT ASSETS			
Land		Х	
Building / premises		Х	
Motor vehicles	Х		
(-) Provision for depreciation	(X)	Х	
Plant and machinery	Х		
(-) Provision for depreciation	(X)	Х	
Investment		Х	XX
CURRENT ASSETS			
Closing inventories		Х	
Debtors / Account receivables	Х		
(-) Bad debts (additional)	(X)		
(-) Provision for doubtful debt	(X)		
Net Debtor		Х	
Prepayment expenses		Х	
Accrued revenues		Х	

Cash at bank	X	
Cash in hand	X	XX
		xxx
Financed by: OWNER'S EQUITY		
Opening capital	Х	
+ net profit / - net loss	Х	
Drawings	(X)	
Closing capital		Х
NON-CURRENT LIABILITIES		
Long term loan	Х	
Mortgage	Х	Х
CURRENT LIABILITIES		
Creditors / Account Payable	Х	
Accrued expenses	Х	
Advanced revenues	Х	
Bank overdraft	Х	X
		XXX





# PRACTICAL EXERCISE 1

On 1 Jan 2023, Azfar Co. started a stationery business with capital consists of Van and Cash in Bank amounted RM50,000 and RM30,000 respectively. Below are the related transactions for the month:

Jan 2 : Sold goods worth RM45,000 to Koperasi Makmur on credit.

Jan 10: Purchase goods on credit from Stabilo Sdn Bhd amounted RM20,000.

Jan 12: Return goods to Stabilo Sdn Bhd due to defect goods amounted RM400.

Jan 20: Koperasi Makmur settled all of the amount due by cash. Discount of 10% given.

Jan 25: Withdrawing Rm1,500 from bank for personal use.

Jan 26: Paid staff salary of RM4,000 and rental expenses of RM1,000 by cash.

You are required to prepare ledger account and transfer the account balances to trial balance.

You are required to prepare:

- a) Journal Entries
- b) Ledgers accounts and balance off the accounts.
- (c) Trial Balance as at 31 December 2023



# PRACTICAL EXERCISE 2

Coffee Mill is the leading fine-grained coffee powders producer in Malaysia. Below are the balances extracted from financial statement of their branch located in Kuching Sarawak.

Vehicle RM52,000
Cash at bank RM40,000
Cash in hand RM8,000
Furniture and fittings RM8,500

The following transactions took place in the month of June 2024.

June 1 Received invoice of RM4,000 from Classy Sdn Bhd for purchases of coffee beans.

June 3 Sent invoice of RM7,600 to Coffee Code for goods sold.

June 6 Received credit note of RM800 from Classy Sdn Bhd due to defect goods sold.

June 9 Sold goods on credit to Jaya Supermarket for RM7,000 with trade discount of 10%.

June 12 Owner took grained coffee powder amounted of RM1,200 from factory for personal consumed.

June 15 Purchase burglary insurance of RM800 from Kurnia Insurance and paid by cash.

June 18 Received payment by cheque from Coffee Code to settle all of the debts. Discount of RM150 given.

June 21 Sold goods worth RM600 to customer and received payment by cash

June 25 Took loan of RM20,000 from OKBank and transferred the money into bank account.

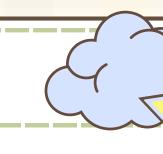
June 30 Paid Stationery RM220, Water and Electricity RM800, Salaries RM5,000 and Rental RM1,200 by cash.

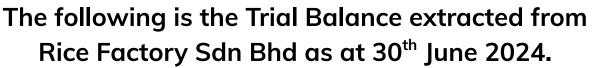
You are required to prepare

- a) Ledgers accounts from all transactions above and balance off the accounts.
- b) Trial balance as at 30 June 2024.

# PRACTICA







Rice Factory Sdn Bhd  Trial Balance as at 30th June 2024		
Accumulated Depreciation-Furniture		
& fittings		20,000
Accumulated Depreciation-Motor		
Vehicle		30,000
Rental	4,000	
Bad debts	3,000	
Bank		20,400
Hong Leong Bank Loan		122,000
Capital		175,000
Carriage inwards	3,000	
Cash	25,000	
Debtors and Creditors	37,000	32,000
Discounts	1,400	2,000
Drawings	2,000	
Electricity	2,200	
Fixed Deposit	40,000	
Furniture & fittings	60,500	
Insurance	3,800	
Interest income		2,500
Motor Vehicle	114,200	
Opening Inventories	28,000	
Premises	118,600	
Provision for doubtful debts		1,000
Purchase and Sales	72,200	195,000
Returns	400	600
Salaries	69,200	
Commission	1,700	
Carriage outwards	14,300	
	600,500	600,500

#### Additional information:

i.Closing inventory valued at RM24,000

ii.Electricity bills amounting to RM200 has not been paid

iii.Insurance was paid for period 1st January 2024 until 31st December 2024

iv.Interest on fixed deposit amounted RM4,500 was not yet received

v.Depreciation for the year ended 30 June 2024 is to be provided as follows:

Furniture and fittings 15% on net book value

Motor vehicle 10% on cost

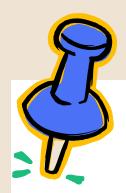
vi.Provision for doubtful debts was to be adjusted to 5% from the debtor's balance after taking into consideration a bad debt of RM1,600

#### You are required to:

a)Prepare the Statement of Comprehensive Income for the year ended 30<sup>th</sup> June 2024.

b)Prepare the Statement of Financial Position as at 30<sup>th</sup> June 2024.









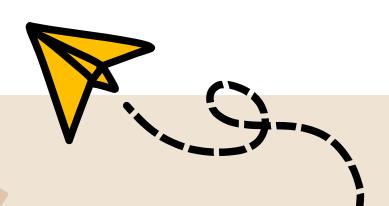


Fundamentals of Accounting
Oxford Fajar Polytechnic Series
Heng Seai Kie

Financial Accounting 1
Politeknik Merlimau
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#### Nuraisha Shafina Binti Abdul Rahman

As the main writer of this ebook, my greatest hope is that this guide will be more than just an ebook—it will be a trusted companion for students throughout their learning journey. I have designed the content to be as clear and practical as possible, with steps-by steps and plenty of examples to reinforce understanding. I believe that with the right resources, every student can master accounting fundamentals with confidence.

May this ebook inspire a love for learning and serve as a stepping stone to academic success.

#### Siti Zakiah Binti Abu Bakar

Being part of this project has been an incredibly rewarding experience. My role focused on ensuring that the explanations are aligned with the Polytechnic syllabus and are easily digestible for students. My hope is that this ebook will break down complex topics into manageable parts and remove the fear many students have when facing accounting subjects. I truly wish for this ebook to make learning more approachable, especially for those who struggle with traditional textbooks.

#### Masraya Binti Sait

I am proud to contribute to this educational effort that aims to bridge the gap between understanding and application. In my role, I helped ensure that the examples and exercises presented in the ebook reflect the actual needs of our students. My hope is that this ebook not only helps students score well in exams but also nurtures a deeper comprehension of accounting that stays with them for life. May this effort bring academic growth and spark curiosity among our learners.



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