

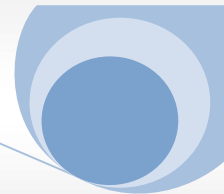


INTERNATIONAL COLLEGE  
of YAYASAN MELAKA

# Open Distance Learning

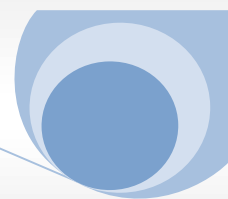
## **BACC1023** Financial Accounting 1

**ARMAN MAT SHAH**

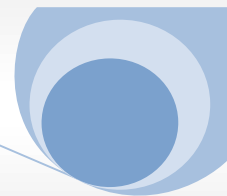


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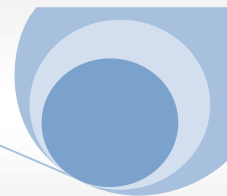
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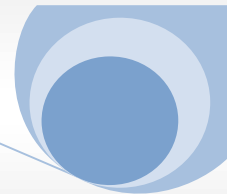
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## UNDERSTANDING COURSE GUIDE

Refer and understand this *Course Guide* carefully from the beginning to the end. It describes the course and how you use the course material. It suggests the learning time to complete the course successfully. Referring the *Course Guide* will help you to clarify important contents that you might miss or overlook.

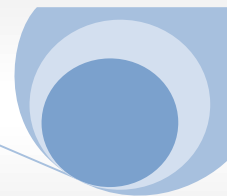
## ABOUT THE COURSE

BACC1023 Financial Accounting 1 is subject for Diploma in Accounting that offered by School of Business Management in ICYM. This course is worth 3 credit hours and should be covered to 14 weeks

You should be acquainted with learning independently and being able to optimize the learning modes and environment available to you. Make sure refer right course material and understand the course requirements as well as how the course is conducted.

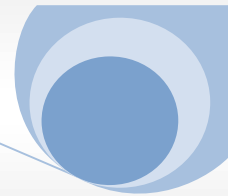
## LEARNING TIME SCHEDULE

It is a standard ICYM practice that learner accumulate 40 study hours for every credit hour. As for this three-credit hour course, you are expected to spend 120 study hours. Table 1 gives an estimation of how the 120 study hours could be accumulated.



**Table 1:** Estimation of Student Learning Time

Distribution of Student Learning Time by Chapter		CLO	Teaching and Learning Activities					Total
			Face to Face				Non-Face to Face (Independent Learning)	
			L	T	P	O		
Chapter 1		1	1	1			1	
Chapter 2		2			3	3	3	
Chapter 3		2	4	4			3	
Chapter 4		2			2	2	2	
Chapter 5		2			2	2	2	
Chapter 6		2			2	2	10	
Chapter 7		2	1	1			2	
Chapter 8		3			2	2	2	
Chapter 9		3			2	2	2	
Chapter 10		3			2	2	2	
Chapter 11		4	4	4			3	
Chapter 12					3	3	3	
Sub-Total SLT								83
Continuous Assessment			%	Face to Face		Non-Face to Face (Independent Learning)		
				Physical	Online			
1	Quiz	10		3	3			
2	Assignment	10		3	4			
3	Test	20		3	5			
4	Discussion	10		3	3			
Sub-Total SLT								27
Final Assessment			%	Face to Face		Non-Face to Face (Independent Learning)		
				Physical	Online			
1	Final Examination	50	2.5		7.5			
Sub-Total SLT								10
GRAND-Total SLT								120



## **COURSE LEARNING OUTCOME**

By the end of this course, you should be able to:

1. Explain basic accounting concepts in the business. (C2, PLO1)
2. Prepare bookkeeping, balancing of account and pre adjusted trial balance. (C3, PLO2)
3. Prepare the financial statements, including income statement and statement of financial position with year end adjustment. (C3, PLO2)
4. Prepare bank reconciliation for internal control. (C3, PLO2)

## **COURSE SYNOPSIS**

This course is divided into 10 topics. The synopsis for each topic can be listed as follows:

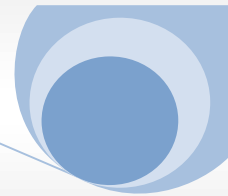
**Topic 1** students will learn the history of accounting, relationship between book-keeping and accounting, main users of accounting information and accounting concepts.

**Topic 2** students will learn the accounting equation, the statement of financial position and the effects of business transactions on accounting equation.

**Topic 3** students are introduced the double entry system for assets, liabilities and capital and will learn how to record assets, liabilities and capital as well as stocks, revenues and expenses in the accounts.

**Topic 4** students will learn how to balance off account and to prepare trial balance. Students also learn the errors that not affecting trial balance agreement.

**Topic 5** students will learn the concept and format of cash books and how to record transactions into cash book. Students also learn the function



and purpose of setting up the petty cash book as well as imprest system for petty cash.

**Topic 6** students will learn the books of original entry and the process of recording transactions into journals of original entry

**Topic 7** students will learn how to prepare the income statements and statement of financial position.

**Topic 8** students will learn the depreciation on non-current assets and methods of depreciation. Students also learn how to record ledger entries for depreciation.

**Topic 9** students will learn the bad debts and provision for doubtful debts. Students also learn how to record ledger entries for bad debts and provision for doubtful debts.

**Topic 10** students will learn the accrual and prepayment. Students also learn adjusting entries for accrual expenses and revenue as well as for prepaid expenses and revenue

**Topic 11** students will learn the purpose of Bank Reconciliation and how to prepare the bank reconciliation.

## LEARNING GUIDANCE

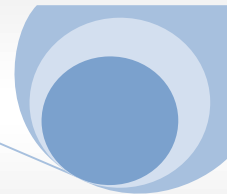
The learning guidance is important to understand before you go through this module. Understanding the learning guidance will help you to organize your study of this course in a more objective and effective way. Generally, learning guidance for each topic is as follows:

**Learning Outcomes:** This part is to measurable, observable, and specific statement that clearly indicates what you should know and be able to do because of learning in each chapter. By go through each topic, you can continuously gauge your understanding of the topic.

**Self-Learning Material:** To aid you in your subsequent learning and to report on what you have learned. The activities are in-text questions (ITO) and self-assessment questions (SAQ), assignment on each chapter of the material to monitor and develop your own learning.

**Activity:** Question and activity within module can be constructed to put back the dialogue between student and module in learning activity. With the given question or task, you are encouraged to read the description or explanation within a module, so you can answer the question or solve the problem proposed.

You are encouraged to read since you realize that without reading the



description or explanation, you will not be able to answer the question or the assignment. Text question is applied to you to pay attention to a certain problem rather than to assess the learning progress.

Self-assessment question is such a task that requires written answer from you. If you complete the task, you are asking to check your answer with the answer key provided in the module.

Self-assessment is developed in various form of test questions, there are easy question, fill in the blank, multiple choices, true-false and matching.

**Summary:** You will find this part at the end of each topic. This component helps you to recap the whole topic. By going through the summary, you should be able to gauge your knowledge retention level. Should you find points in the summary that you do not fully understand, it would be a good idea for you to revisit the details in the module.

**Key Terms:** This component can be found at the end of each topic. You should go through this component to remind yourself of important terms or jargon used throughout the module. Should you find terms here that you are not able to explain, you should look for the terms in the module.

**References:** The References section is where a list of relevant and useful textbooks, journals, articles, electronic contents, or sources can be found. The list can appear in a few locations such as in the *Course Guide* (at the References section), at the end of every topic or at the back of the module. You are encouraged to read or refer to the suggested sources to obtain the additional information needed and to enhance your overall understanding of the course.

## **ASSESSMENT METHOD**

Please refer to ICYM E Learning

## TOPIC 1

# Introduction to Accounting

### LEARNING OUTCOMES

By the end of topic, you should be able to:

1. Briefly describe the history of accounting
2. Explain the relationship between bookkeeping and accounting
3. List the main users of accounting information and what accounting information they are interested in
4. Understand basic accounting concepts and principles

## 1.1

### The history of accounting

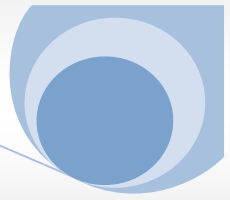
Accounting began because people needed to:

- i. Record business transactions
- ii. Know if they were being financially successful
- iii. Know how much they owned and how much they owed

It is known to have existed in one form or another since at least 3,500 BC (records exist which indicate its use at that time in Mesopotamia). There is also considerable evidence of accounting being practiced in ancient times in Egypt, China, Greece and Rome.

In 1494, Luca Pacioli wrote about a branch of accounting called 'bookkeeping' in which accounting began to be standardized and recognized as a process or procedure.

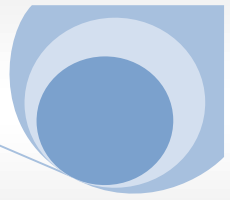
When accounting information was being recorded in the Middle Ages where it sometimes simply took the form of a collection of invoices which were given to an accountant to calculate the profit or loss of the business up to some point in time.



The accountant of Middle Ages would be someone who had learnt how to convert the financial transaction data into accounting information. Quite often, it would be the owner of the business who performed all the accounting tasks.

As business grew in size, so it became less common for the owner to personally maintain the accounting records and an employee would be given the job of maintaining the accounting records. Then, as companies began to dominate the business environment, managers became separated from owners (shareholders) often have no involvement in the day-to-day running of the business. This led to a need for some monitoring of the managers. Auditing of the financial records by accountants became the norm and this effectively established the accounting profession.

The first national body of accountants, The Institute of Chartered Accountants of Scotland was formed in Scotland in 1854 and other national bodies began to emerge gradually throughout the world, with the English Institute of Chartered Accountants being formed in 1880 and the first US national accounting body being formed in 1887.



## 1.2

## Relationship between book-keeping and accounting

### The meaning of bookkeeping

The process of recording data that relating with accounting transaction in the accounting books.

### The meaning of accounting

Accounting can be defined as 'the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information'.

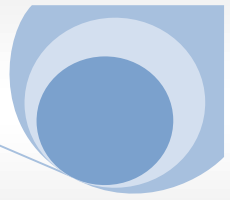
Accounting is concerned with the uses which accountants might make of the bookkeeping information given to them.

### The objectives of accounting

Accounting has many objectives, including letting people and organizations know:

- If they are making profit or loss
- What their business is worth
- What are transaction was worth to them
- How much cash they have
- How wealthy they are
- How much they are owed
- How much they owe to someone else

The primary objective is to provide information for decision making. The information usually financial but can be in volumes.



## 1.3

### Main users of accounting information

The main users of accounting information can be divided into two, which are:

#### **INTERNAL**

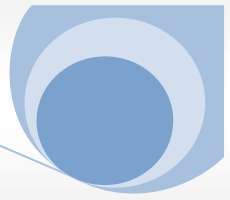
- i. Owner: They want to be able to see whether or not the business is profitable. They also want to know what the financial resources of the business are.
- ii. Management People: These are the day-to-day decision makers. They need to know how well things are progressing financially and about the financial status of the business.

#### **EXTERNAL:**

- i. Investors: They want to know whether or not to invest their money in the business.
- ii. A Prospective Buyer: When the owner wants to sell a business, the buyer will want to see such information.
- iii. Bank/Financial Institutions: If the owner wants to borrow money for use in the business, then the bank will need such information.
- iv. Tax Inspectors: They need it to be able to calculate tax payable.

#### **Checkpoint 1.1**

1. Who wrote about a branch of accounting called 'bookkeeping'?
2. Which institute is the first national body of accountants?
3. What is the meaning of bookkeeping?
4. Who are the external users of accounting information?



## 1.4

### Accounting concepts

Accounting concepts is a guidelines or rules that govern how accountant measure, process and communicate financial information. The concepts are set by various accounting organizations. The accounting concepts are used to provide information useful for making decision.

#### Professional Accounting Bodies

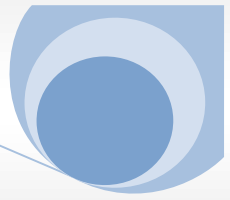
Professional Accounting Bodies exist to standardize and improve accounting practices by issuing accounting standards. Among of them are:

- i. Accounting Standards Board (UK) issues SSAP (Statement of Standards Accounting Practices)
- ii. FASB (Financial Accounting Standards Board, USA) issues GAAP (Generally Accepted Accounting Principles)
- iii. MASB (Malaysian Accounting Standards Board) issues MAS (Malaysian Accounting Standards)
- iv. IASC (International Accounting Standards Committee) issues IAS (International Accounting Standards)

#### The accounting concepts and principles

##### 1. Historical cost concept

It means that assets are normally shown at cost price. This is the basis for valuation of asset



## **2. The money measurement concept**

Accounting information can be measured in monetary units and most people will agree to the monetary value of the transaction

## **3. The business entity concept**

The business entity concept implies that the affairs of a business are to be treated as being quite separate from the non-business activities of its owner.

## **4. The time interval concept**

It means that financial statements are prepared at regular intervals of one year.

## **5. Going concern concept**

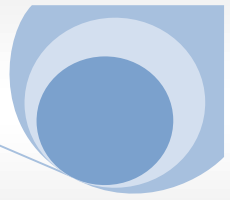
The going concern concept implies that the business will continue to operate for the foreseeable future.

## **6. Consistency concept**

The consistency concept says that when a business has once fixed a method for the accounting treatment of an item, it will enter all similar items that follow in exactly the same way.

## **7. The accruals concept**

It means that all income and charges relating to the financial period to which the financial statements related should be taken into account without regard to the date of receipt or payment. Determining the expenses used up to obtain the revenues is referred to as matching expenses against revenues.



### ACTIVITY



Discuss the different types of accounting information and use detailed examples.

- i. Operating information: discuss the need to track how much cash you have in your bank. When you pay bills or when you receive cash for sales you need to account for the changes in your financial records.
- ii. Financial information: discuss the need to communicate your financial position to the bank. If you apply for a loan the bank needs to know if you have the ability to repay it.
- iii. Managerial information: discuss the need for managers to use financial information when making business decisions. Talk about the need to prepare a budget.

Share your findings with the class.

## Self Assessment

Tutorial 1 Elearning

### KEY TERM

**Recording**

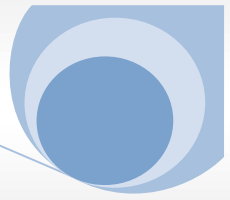
**Internal users**

**Book-keeping**

**Decision making**

**External users**

**Concepts**



## SUMMARY

- Accounting has existed for many years but a formal, generally accepted method of recording accounting data has only been in existence for the last 500 years.
- Accounting is concerned with the recording and classifying and summarising of data, and then communicating what has been learned from it.
- The main users of accounting information can be divided into two, which are internal and external.
- Accounting concepts are set by various accounting organizations to provide information useful for making decision.



## REFERENCES

Frank Wood & Alan Sangster. (2021). Business Accounting. (15th Edition), New Jersey: Prentice Hall

## TOPIC 2

# The Accounting Equation

### LEARNING OUTCOMES

By the end of topic, you should be able to:

1. Apply and calculate accounting equation
2. Recognize each element in Statement of Financial Position
3. Identify effect of business transactions

## 2.1

### Accounting equation

By adding up what the accounting records say belongs to a business and deducting what they say the business owes, it can be identified what a business is worth according to those accounting records. It is known as the accounting equation. If a business is to be set up and start trading, it will need resources. Let's assume that it is the owner of the business who supplied all of the resources. This can be shown as:

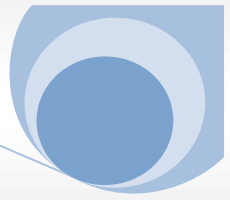
$$\text{Resources supplied by the owner} = \text{Resources in the business}$$

The amount of the resources supplied by the owner is called capital (equity) and the actual resource in the business is called assets. This means that when the owner has supplied all of the resources, the accounting equation can be shown as:

$$\text{Capital} = \text{Assets}$$

However, sometimes people other than the owner have supplied some of the assets and it can be called as liabilities. Liabilities are name given to the amounts owing to these people for these assets. The accounting equation has now changed to:

$$\text{Assets} = \text{Capital} + \text{Liabilities}$$



THUS, Accounting Equation;

$$\text{ASSET} = \text{LIABILITIES} + \text{OWNER'S EQUITY}$$

### Checkpoint 2.1

Write down the difference between asset and liabilities.

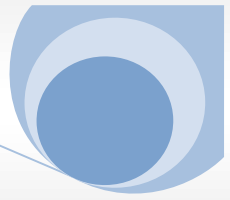
### ACTIVITY

Complete the gaps of the following:



	Assets	Liabilities	Capital
a)	RM12,000	RM8,000	?
b)			
c)	?	RM11,000	RM29,000
d)	RM16,000	?	RM13,000
e)	?	RM6,500	RM19,500
f)	RM35,000	?	RM15,000
g)	RM75,000	RM25,000	?

Show your calculations



## 2.2 Statement of Financial Position

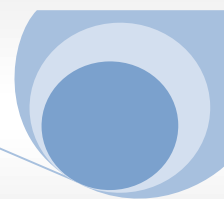
The accounting equation is expressed in a financial position statement called the **Statement of Financial Position**. It shows the financial position of an organization at a point of time.

### Items in Statement of Financial Position

- a. Non-current assets are assets that cannot be easily and readily converted into cash and cash equivalents. Eg: Furniture, building, motor vehicles.
- b. Current assets are assets that can be easily converted into cash and cash equivalents (typically within a year). Eg: Debtors, cash, bank, stocks, prepaid expenses, accrued revenue.
- c. Current liabilities are liabilities that are due and payable within one year. Eg: Creditors, overdraft, prepaid revenue, accrued expenses
- d. Non-current liabilities (long-term liabilities) are liabilities that are due after a year or more. Eg: Loan from bank.
- e. Owner's equity (Capital) are the amount of owner's interest or investment in the business.

### Checkpoint 2.2

1. Write down the difference between Non-current assets and Current assets.
2. Write down the difference between Non-current liabilities and Current liabilities.



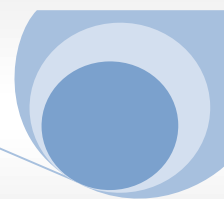
- **FORMAT OF STATEMENT OF FINANCIAL POSITION IN 'T' FORMAT:**

<i>Name of Business</i>			
<b>STATEMENT OF FINANCIAL POSITION as at...</b>			
<b><u>Non Current Assets</u></b>	RM	<b><u>Current liabilities</u></b>	RM
Building		Creditors	
Motor vehicles		<b><u>Long term liabilities</u></b>	
Furniture		Loan from Bank	
<b><u>Current Assets</u></b>		<b><u>Owner's Equity</u></b>	
Debtors		Capital	
Inventories		+ /- Net Profit/Loss	
Bank		- Drawing	
Cash			
Total			

- **FORMAT OF STATEMENT OF FINANCIAL POSITION IN NARRATIVE FORMAT:**

Name of business  
Statement of Financial Position as at .....

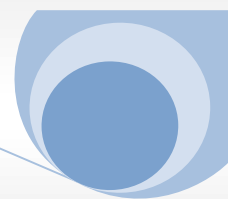
	<b><i>RM</i></b>	<b><i>RM</i></b>	<b><i>RM</i></b>
<b><u>Non-current asset:</u></b>			
Building		XXXX	
Motor Vehicles		XXXX	
Furniture		XXXX	



<b>TOTAL NON-CURRENT ASSET</b>			<b>xxxx</b>
<b>Add: Working Capital</b>			
<b><u>Current Assets:</u></b>			
Debtors	Xxx		
Inventories	xxx		
Bank	xxx		
Cash	<u>xxx</u>		
<b>TOTAL CURRENT ASSETS</b>		<b>xxx</b>	
<b><u>Less: Current Liabilities:</u></b>			
Creditors	Xxx		
Accrued expenses	<u>Xxx</u>	(xxx)	
<b>WORKING CAPITAL</b>			<b><u>xxx</u></b>
			<b><u>xxxx</u></b>
<b><u>Financed by:</u></b>			
Capital		xxxx	
Add: Net Profit		xxx	
Less: Drawings		(xxx)	xxxx
<b><u>Long Term Liabilities:</u></b>			
Loan from Bank			<u>xxx</u>
			<b><u>xxxx</u></b>

### Checkpoint 2.3

Why do you think the value for drawings is shown in brackets?



## 2.3

### Effects of business transactions on accounting equation

Any changes in one of the item will change the other item in accounting equation. In short, every business transaction has at least two effects in order to ensure the equality of accounting equation.

- **EXAMPLE 1:**

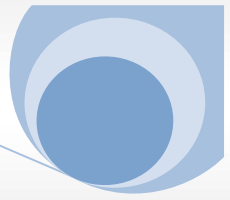
<b>Transaction:</b> The owner purchased furniture RM4,000 on cash		
<b>Effect:</b> (1) cash decrease RM4,000 (2) furniture increase RM4,000		
<b>Effect:</b>	Cash - RM4,000 Furniture + RM4,000	

- **EXAMPLE 2:**

<b>Transaction:</b> Purchased van RM20,000 on credit		
<b>Effect:</b> (1) Van increase RM20,000 (2) Creditor increase RM20,000		
<b>Effect:</b>	Van + RM20,000	Creditor + RM20,000

- **EXAMPLE 3:**

<b>Transaction:</b> Paid creditor RM8,000 on cash		
<b>Effect:</b> (1) cash decrease RM8,000 (2) creditor decrease RM8,000		
<b>Effect:</b>	Cash - RM8,000	Creditor - RM8,000



**Example :**

**1) The introduction of capital**

On 1 January 2021, Harrison started in business and deposited RM6,000 into a bank account opened specially for the business. This will increase an asset (bank) as well as increase capital.

**2) The purchase of an asset by cheque**

On 3 January 2021, Harrison bought a building for RM2,000 by cheque. The cash at the bank decreased and a building, is added.

**3) The purchase of an asset and the incurring of a liability**

On 6 January 2021, Harrison bought machinery for RM8,000 on credit. The machinery is added and liability is created. A person to whom money is owed for goods is known in accounting language as a creditor.

**4) Sale of an asset on credit**

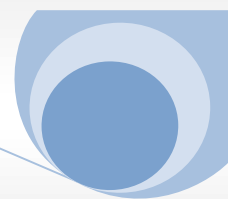
On 7 January 2021, vehicles was sold on credit for RM600. The vehicles decreased and the creation of debtor. The person who owes the business money is known as debtor.

**5) Sale of an asset by cheque**

On 13 January 2021, an old furnitures sold by cheque for RM400. Here furniturers is reduced while cash at bank is increased.

**6) The payment of liability**

On 15 January 2021, Harrison pays a cheque to creditor for RM3,000 as part of the amount owing. The asset of cash at bank is therefore reduced and the liability to the creditor is also reduced.



### 7) Collection of asset

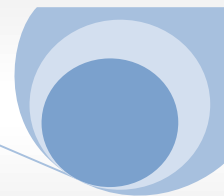
A debtor makes a part payment of RM200 by cheque on 18 January 2021. The effect is to reduce one asset, debtors and to increase another asset, cash at bank.

### 8) Sale of an asset by cash

On 20 January 2021, machinery was sold by cash RM100. Here one asset, machinery is reduced while another asset, cash at hand is increased.

#### Solution :

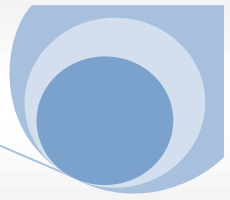
Example of transaction	Effect	
1) Owner paid capital into the bank	+ increase assets (bank)	Bank +RM6,000
	+increase capital	Capital +RM6,000
2) Bought building by cheque	+ increase assets (buildings)	Buildings +RM8,000
	- decreases assets (bank)	Bank - RM8,000
3) Bought machinery on credit	+ increase assets (machinery)	Machinery +RM7,000
	+ increase liabilities (creditors)	Creditors + RM7,000
4) Sold vehicles on credit	+ increase assets (debtors)	Debtors + RM600
	- decrease assets (vehicles)	Vehicles - RM600
5) Sold furnitures by cheque	+ increase assets (bank)	Bank +RM400
	- decrease assets (stock of goods)	Furnitures -RM400



6) Pay creditor by cheque	-decrease assets (bank)	Bank - RM3,000
	- decrease liabilities (creditors)	Creditors - RM3,000
7) Debtor pays money owing by cheque	+ increase assets (bank)	Bank +RM600
	+ decrease assets (debtors)	Debtors - RM600
8) Sold machinery for cash	+ increase assets (cash)	Cash +RM100
	-decrease assets (stock of goods)	Machinery -RM100

## ACTIVITY

	Asset	Liability	Equity
a. Bought a van on credit RM9,600.			
b. Repaid a loan RM12,000 by cash			
c. Introduced RM10,000 cash into the business.			
d. We pay creditor RM1,350 by cheque			
e. Bought a land by cash RM190,000			
f. Sold old van RM5,000 and received cheque.			
g. Debtor pays RM1,000 by cash.			
h. Bought machinery by cheque			
i. Sold old furnitures RM8,000 by cash.			



## Self Assessment

### Tutorial 1 Elearning

#### KEY TERM

**Assets**

**Equity**

**Liabilities**

**Statement of Financial Position**

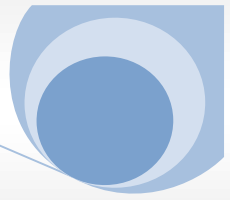
#### SUMMARY

- The accounting equation is:  $\text{Assets} = \text{Liabilities} + \text{Capital}$
- Statement of Financial Position shows the financial position of an organization at a point of time.
- Every transaction affects two items in the Statement of Financial Position.



#### REFERENCEES

Frank Wood & Alan Sangster. (2021). Business Accounting. (15th Edition), New Jersey: Prentice Hall



## TOPIC 3

# The double entry system and the general ledger

### LEARNING OUTCOMES

By the end of topic, you should be able to:

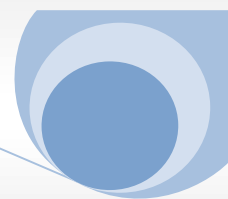
1. Understand the double entry system
2. Distinguish the differences of double entry system between assets, liabilities and capital.
3. Record increases and decreases of assets, liabilities and capital in the accounts.
4. Distinguish the differences between recording stocks, revenues and expenses.
5. To record the withdrawals by the owner.

## 3.1

### The double entry system

#### Introduction

Double-entry accounting is a system that requires two book entries. One debit and one credit for every transaction within a business. We need to show these effects when we first record each transaction. That is, when we enter the data relating to the transaction in the accounting books we need to ensure that the items that were affected by the transaction, and only those items, are shown as having changed. This is the bookkeeping stage of accounting and the process we use is called double entry.



## The accounts for double entry

Each account should be shown on a separate page in the accounting books. The double entry system divides each page into two halves. The left-hand side of each page is called the debit side, while the right-hand side is called the credit side. The title of each account is written across the top of the account at the centre.

Debit			Name of Account			Credit		
Date	Details	Amounts	Date	Details	Amounts	Date	Details	Amounts

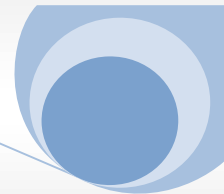
### 3.2

## The double entry system between assets, liabilities and capital

The double-entry rule is thus: if a transaction increases an asset account, then the value of this increase must be recorded on the debit or left side of these accounts. If a transaction decreases an asset account, then the value of this decrease must be recorded on the credit or right side of these accounts. If a transaction increases a liabilities or capital account, then the value of this increase must be recorded on the credit or right side of these accounts. If a transaction decreases a liabilities or capital account, then the value of this decrease must be recorded on the debit or left side of these accounts.

Thus, the double entry rules for bookkeeping are:

Accounts	To record	Entry to the account
Assets	An increase	Debit
	A decrease	Credit
Liabilities	An increase	Credit
	A decrease	Debit



Capital	An increase	Credit
	A decrease	Debit

### ACTIVITI 3.1

Below is a list of accounts. You have to state which side will be affected (debit or credit) if there is a decrease and an increase, and state also the normal balance of these accounts.

- a) Cash at bank
- b) Inventories
- c) Creditors
- d) Land
- e) Capital

## 3.3

### Recording assets, liabilities and capital in the accounts

#### Example

Write up the asset and liability and capital accounts to record the following transaction in the records of Perniagaan Azmi in the month of January 2022.

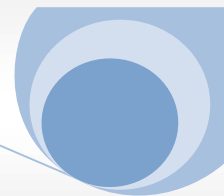
#### **January 2022**

- 1** Started the business with money at bank RM50,000
- 2** Purchased furniture RM5,000 by cheque
- 4** Azmi got loan from bank RM10,000 by cheque

#### Solution

- ❖ *1 January 2022* : Started the business with money at bank RM50,000

Accounts	Type	Effect	Ledger
----------	------	--------	--------



			<b>Debit (RM)</b>	<b>Credit (RM)</b>
Bank Capital	Asset Owner's Equity	Increase Increase	50,000	50,000

❖ *In ledger:*

<b>Bank</b>			
<b>2022</b>		<b>RM</b>	
Jan 1	Capital	50,000	

<b>Capital</b>			
		<b>2022</b>	<b>RM</b>
	Jan 1	Bank	50,000

❖ *2 January 2022* : Purchased furniture RM7,000 by cheque

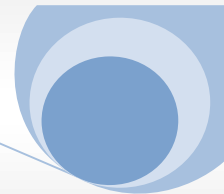
<b>Accounts</b>	<b>Type</b>	<b>Effect</b>	<b>Ledger</b>	
			<b>Debit (RM)</b>	<b>Credit (RM)</b>
Bank Furniture	Assets Assets	Decrease Increase	7,000	7,000

❖ *In ledger:*

<b>Bank</b>			
<b>2022</b>		<b>RM</b>	
Jan 1	Capital	50,000	

<b>Furniture</b>			
<b>2022</b>		<b>RM</b>	
Jan 1	Bank	7,000	



- ❖ 4 January 2022 : Azmi got loan from bank RM10,000 by cheque

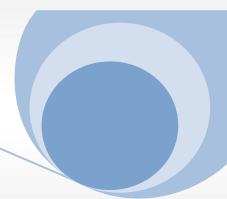
Accounts	Type	Effect	Ledger	
			Debit (RM)	Credit (RM)
Bank	Assets	Increase	10,000	
Loan	Liabilities	Increase		10,000

- ❖ In ledger:

Bank					
2022			RM	2022	
Jan 1	Capital		50,000	Jan 2	Furniture
					7,000
4	Loan		10,000		
Loan					
				2022	RM
				Jan 4	Bank
					10,000

### Checkpoint 2.1

Write down the double entry rules for assets, liabilities and capital.



### ACTIVITI 3.1

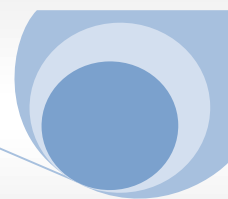
*Complete the following table:*

	DEBIT	CREDIT
a) Started business with cash in the bank		
b) Paid ABC Co. by cheque for the office furniture bought		
c) Owner introduces another cash into the firm.		
d) Received loan from Shark Ltd by cash.		
e) Owner commenced business with cash and equipment		
f) Bought fixtures paying by cheque.		
g) Issued cheque for loan payment to Shark Ltd.		
h) Bought a van on credit.		
i) Sold old furniture for cash		

### ACTIVITI 3.2

*Complete the following table:*

	Asset	Liability	Equity
a. Bought a van on credit RM9,600.			
b. Repaid a loan RM12,000 by cash			
c. Introduced RM10,000 cash into the business.			
d. We pay creditor RM1,350 by cheque			
e. Bought a land by cash RM190,000			
f. Sold old van RM5,000 and received cheque.			
g. Debtor pays RM1,000 by cash.			
h. Bought machinery by cheque			
i. Sold old furnitures RM8,000 by cash.			



## 3.4

### Recording stocks, revenues and expenses

#### Stock Account

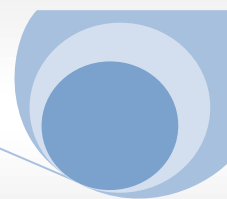
##### • Increase

- Purchase of goods
- Return in to the business of goods of previously sold
- i. **Purchases account:** when the business bought goods by cash or on credit...*expenses* account...**Debit** nature
- ii. **Return inwards /sales return account:** when the buyer or debtors return goods to the business...*negative revenue*...**debit** nature

##### • Decrease

- Sales of goods
- Return out to a supplier
- i. **Sales account:** when the business sold goods by cash or on credit....*revenue* account....**credit** nature
- ii. **Return outwards/ purchase return account:** when the business returned goods to supplier...*negative expenses*...**credit** nature

Accounts	To record	Entry to the account
Purchases	An increase A decrease	Debit Credit
Sales	An increase A decrease	Credit Debit
Return inwards	An increase A decrease	Debit Credit
Return outwards	An increase A decrease	Credit Debit



### ATTIVITÀ 3.3

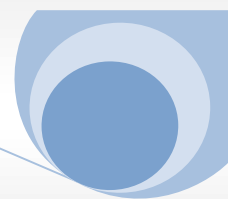
*Complete the following table:*

a) Bought goods and paid cash.		
b) Bought goods by cheque		
c) Sold goods on credit.		
d) Bought goods on credit.		
e) Sale of goods by cheque		
f) Sale of goods for cash		
g) A debtor returns goods to us.		
h) We return goods costing to the supplier.		
i) Took out goods for her personal purposes.		
j) Damaged goods return to Adha.		
k) Returned some of the goods to supplier		
l) Purchased furniture by cheque.		

### ATTIVITÀ 3.4

*Complete the following table:*

	DEBIT	CREDIT
a) Goods bought on credit from J Reid.		
b) Goods sold on credit to B Perkins.		
c) Vans bought on credit from H Thomas.		
d) Goods sold, a cheque being received immediately.		
e) Goods sold for cash.		
f) Goods purchased by us returned to supplier, H Hardy.		
g) Sold goods on credit to M Nasir.		
h) Goods sold returned to us by customer, J Nelson.		
i) Goods bought on credit from D Simpson.		
j) Goods we returned to H Forbes.		
k) Machinery sold for cash.		

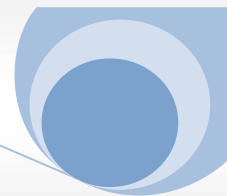


## Expenses and revenue

- Expenses is expenditure of the business and shown as **debit** entries
- The example of expenses are:
  - a) Rent
  - b) Salaries/wages
  - c) Insurance
  - d) Electricity and water bills
  - e) Repairs and fuel for car
  - a) Commissions
  - b) Stationery
  - c) Postages
  - d) Motor Expenses
  - e) General Expenses
- Revenue is opposite of expenses and therefore treated in the opposite way – appear on **credit** side of the revenue accounts.
- The example of revenue are:
  - a) Rent Receivable
  - b) Commission Receivable
  - c) Dividend Receivable
  - d) Interest dividend Receivable

**Complete the following table:**

	DEBIT	CREDIT
Paid for postage stamps by cash		
Paid for electricity by cheque		
Received rent in cash		
Paid insurance by cheque		
Received commission by cheque		
Paid for Motor Expenses by cash		
Paid for Insurance by cheque		



### 3.5

## Owner's Withdrawals

- The owner may, for example, withdraw cash for personal use. It could be debited directly to Owner's Capital but a separate account is kept to determine total withdrawals.
- Increases in owner's withdrawals are debited. Decreases in owner's withdrawals are credited.

- Withdrew goods from business for personal use:

***Dr. Drawing***

***Cr. purchase***

- Withdrew cash/bank from business for personal use:

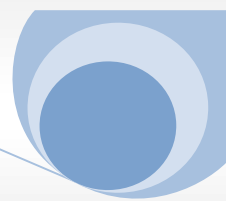
***Dr. Drawing***

***Cr. cash/bank***

### ACTIVITI 3.5

*Complete the following table:*

	DEBIT	CREDIT
The owner took cash out of the business for his own use.		
The owner took goods out of the business for his own use.		
The owner withdrew a cheque for personal use.		
The owner withdrew cash from bank for personal use.		
The owner withdrew inventories for personal use.		
The proprietor took cash for his own personal use.		
The proprietor took cheque for his own personal use.		



## Self Assessment

### Tutorial 1 Elearning

#### KEY TERM

**The double entry system**

**Account**

**Debit side**

**Credit side**

**Balance off account**

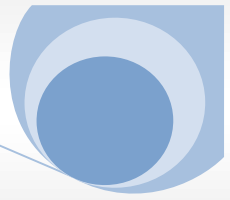
#### SUMMARY

- The double-entry system has two equal and corresponding sides known as debit and credit.
- Increases in assets are debited. Decreases in assets are credited.
- Increases in liabilities are credited. Decreases in liabilities are debited.
- Increases in owner's capital are credited. Decreases in owner's capital are debited.
- Increases in stock are debited in either purchases or return inwards accounts.
- Decreases in stock are credited in either sales or return outwards accounts.
- Expenses are shown as debit entries and revenues are shown as credit entries.
- Owner's withdrawal of cash or goods for personal use are debited in drawings account.



#### REFERENCES

Frank Wood & Alan Sangster. (2021). Business Accounting. (15th Edition), New Jersey: Prentice Hall



## Balancing-off accounts and trial balance

### TOPIC 4

#### LEARNING OUTCOMES

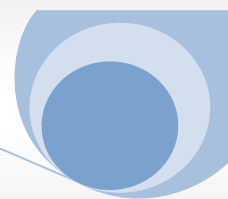
By the end of topic, you should be able to:

1. Balance-off accounts at the end of a period and bring down the opening balance to the next period.
2. Distinguish between a debit balance and a credit balance.
3. Prepare a trial balance from a set of accounts.
4. Explain why the debit and credit trial balance totals should equal one another.
5. Explain why some of the possible errors that can be made when double entries are being entered in the accounts do not prevent the trial balance from 'balancing'.

### 4.1

#### Balance off account

At the end of accounting period, the owner wants to know the item like: how much cash in hand, how much the amount owed by the business and the amounts of non-current assets. Thus, all the account should be balance off. Balance off account means that both sides of account; debit and credit should be differentiated and the difference is called balance. If total debit greater than total credit, the balance is called debit balance. However, if total credit greater than total debit, the balance is called credit balance.



## The technique to balance off account:

- i. Total up both sides; debit and credit side.
- ii. Differentiate both side and the difference will be entered into the side that has lower amount.

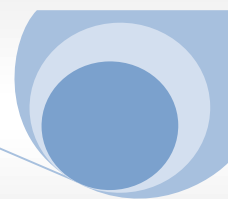
### EXAMPLE:

#### Cash Account

	RM
Amount in the debit side	25,400
Amount in the credit side	<u>12,800</u>
Differences (balance)	<u>12,600</u>

Cash			
2015	RM	2015	RM
Jan 1 Capital	25,000	Jan 3 Furniture	3,000
28 Salleh	400	9 Van	5,000
		10 Syarikat Jaya	1,500
		31 Drawing	300
		Syarikat Allen	3,000
		<b>Balance c/d</b>	<b><u>12,600</u></b>
	<u>25,400</u>		<u>25,400</u>
Feb 1 <b>Balance b/d</b>	<b>12,600</b>		

Look at the cash account, RM12,600 is entered into the credit side, so that the both total; debit and credit is same.



## 4.2

### A debit balance and a credit balance

#### Debit balance

That when an opening balance on an account is a debit, that account is said to have a debit balance. It also has a debit balance during a period whenever the total of the debit side before balancing exceeds the total of the credit side.

#### Credit balance

That when an opening balance on an account is a credit, that account is said to have a credit balance. It also has a credit balance during a period whenever the total of the credit side before balancing exceeds the total of the debit side.

## 4.3

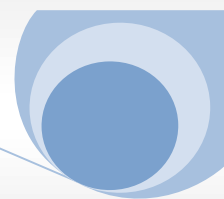
### Preparation of trial balance

We need to check that for each debit entry there is also an equal credit entry. In order to check that there is a matching credit entry for every debit entry, we prepare something called a trial balance. Trial Balance is a list of all ledger account balances prepared at the end of accounting period. The function is to check the accuracy of the ledger. After complete in preparing Trial Balance; total debit side should equal total credit side.

#### Trial balance's format

**Name of Business**  
***Trial balance as at.....***

Particular (name of account)	Debit	Credit



## The technique to prepare trial balance

Trial balance is prepared after all the account ledger is prepared. The way to prepare trial balance is by taking the opening balance of the next month or next year of accounting period which is the balance b/d and entered into the Trial Balance as shown above. After all the balance of the ledger is entered into the trial balance, the amount in both column; debit and credit must be total up. When the both column shown the same amount, it show the accuracy of the double entry of the account.

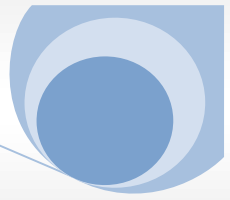
### Example

On 31 August 2020, Azam started the business RM3,000 at bank and cash in hand RM1 000.

<b>Bank</b>			
	<b>RM</b>		<b>RM</b>
Capital	<u>3 000</u>	Balance c/d	<u>3 000</u>
Balance b/d	3 000		
<b>Cash</b>			
	<b>RM</b>		<b>RM</b>
Capital	<u>1 000</u>	Balance c/d	<u>1,000</u>
Balance b/	1 000		
<b>Capital</b>			
	<b>RM</b>		<b>RM</b>
Balance c/d	4 000	Bank	3 000
	<u>4 000</u>	Cash	<u>1 000</u>
			<u>4 000</u>
		Balance b/d	4 000

### ***Perniagaan Azam*** ***Trial Balance as at 31 August 2020***

<b>Details</b>	<b>Debit (RM)</b>	<b>Credit (RM)</b>
Bank	3 000	
Cash	1 000	
Capital		<u>4 000</u>
<b>TOTAL</b>	<b><u>4 000</u></b>	<b><u>4 000</u></b>



## 4.4

### **The debit and credit side of trial balance should equal**

The purpose of a trial balance is to ensure that all entries made into an organization's general ledger are properly balanced. Therefore the total of all the items recorded in all the accounts on the debit side should equal the total of all the items recorded on the credit side of the accounts. If the debit total and credit total on a trial balance do not match, this indicates that one or more transactions were recorded in the general ledger that were unbalanced.

## 4.5

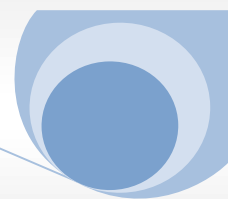
### **Errors not affecting trial balance agreement**

- a) Errors of Ommision: a transaction is completely omitted from the business record. Example: goods sold to Hasan RM90
- b) Error of commision: the correct amount is entered but in the wrong person's account. Example: sales to Husin, record in Husni's account RM100
- c) Error of principles: where an item is entered in the wrong class of account. Example: A fixed asset such as building recorded in purchases account
- d) Compensating errors: errors cancel out each other. Example: sales account is overstated by RM1,000 and same with purchases
- e) Errors of original entry: the original figure is incorrect yet double entry is still done using the correct figure. Example: sales of RM150 records as RM130 in sales and debtors account
- f) Complete reversal of entries: correct account are used but each item is shown on the wrong side of the account. Example: paid William RM200 by cheque ; suppose Cr.Bank , Dt.William BUT Dr. Bank, Cr. William.



## ACTIVITY

	Asset	Liability	Equity
a. Bought a van on credit RM9,600.			
b. Repaid a loan RM12,000 by cash			
c. Introduced RM10,000 cash into the business.			
d. We pay creditor RM1,350 by cheque			
e. Bought a land by cash RM190,000			
f. Sold old van RM5,000 and received cheque.			
g. Debtor pays RM1,000 by cash.			
h. Bought machinery by cheque			
i. Sold old furnitures RM8,000 by cash.			



## Self Assessment

### Tutorial 1 Elearning

#### KEY TERM

<b>Opening balance</b>	<b>Closing balance</b>
<b>Debit balance</b>	<b>Credit balance</b>
<b>Trial Balance</b>	

#### SUMMARY

- Closing all accounts upon which there is no balance outstanding.
- Balancing off accounts at the end of a period.
- Bringing down the opening balance on an account at the start of a new period.
- When an opening balance on an account is a debit, that account is said to have a debit balance. It is also a debit balance during a period whenever the total of the debit side exceeds the total of the credit side.
- When an opening balance on an account is a credit, that account is said to have a credit balance. It is also a credit balance during a period whenever the total of the credit side exceeds the total of the debit side.
- The trial balances are one form of checking the accuracy of entries in the accounts.
- There are errors can be made in the entries to the accounts that will not be shown up by the trial balance.
- That the trial balance is used as the basis for preparing financial statements.



#### REFERENCES

Frank Wood & Alan Sangster. (2021). Business Accounting. (15th Edition), New Jersey: Prentice Hall



## TOPIC 5

# Cash book and Petty Cash Book

### LEARNING OUTCOMES

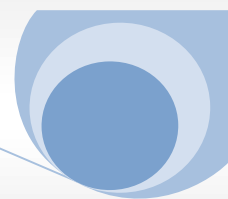
By the end of topic, you should be able to:

1. Understand the concept of cash book.
2. Explain the format of two-column and three-column cash books.
3. Enter up and balance-off cash books.
4. Make the entries for discounts allowed and discounts received both in the cash book and, at the end of a period, in the discount accounts in the general ledger.
5. Understand the function and purpose of setting up the petty cash book.
6. Establish and maintain an imprest system for petty cash.

### 5.1

### The concept of cash books

The cash book is used to record receipts and payments of cash. It works as a book of original entry as well as a ledger account. The entries related to receipt and payment of cash are first recorded in the cash book and then posted to the relevant ledger accounts. Moreover, a cash book is a substitute for cash account in the ledger. A company that properly maintains a cash book does not need to open a cash account in its ledger. The Cash Book consists of the cash account and the bank account put together in one book. This means that we can record all money received and paid out on a particular date on the same page.



## 5.2 The format of cash books

The pages of the cash book are divided into two halves, the debit side is on the left and the credit side is on the right. A cash book can be prepared in the following forms:

- A two column cash book
- A three column cash book

### A two column cash book

THE TWO COLUMN CASH BOOK

Date	Details	Bank	Cash	Date	Details	Bank	Cash

### A three column cash book

THE THREE COLUMN CASH BOOK

Date	Details	Discount Allowed	Bank	Cash	Date	Details	Discount Received	Bank	Cash

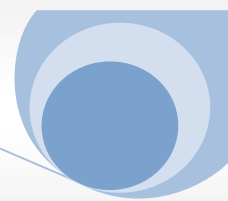
The three column cash book is an extension of the two column cash book.

### Cash discount

Reduction given by the supplier of goods to a buyer if the latter pays for them within a period stipulated by the seller at the time of sale. Cash discount is not deducted on the invoice but is calculated from the amount shown on the invoice and deducted at the time of payment.

### Discount allowed

Cash discounts allowed by a business to its customers when they pay their accounts quickly.



### Discount received

Cash discount received by a business from its supplier when it pays what it owes them quickly.

## 5.3

### Recording transactions into cash book

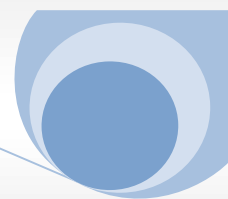
Recording transactions in the cash book follows the same rules as recording transactions in the cash account and in the bank account. Generally, cash transactions (transactions affecting cash in hand) are recorded in the cash column and bank transactions (transactions affecting cash at bank) are recorded in the bank column.

#### Debit Side

This side usually starts with either capital introduced if the business has just started or with opening balance of cash in hand and cash at bank for an ongoing business. On the **debit side, receipts** of cash and cheques are recorded, that is, items that **increase the cash balance or the bank balance. Examples** are Revenue (sales), rent received, commission received, cash received from customers, cheques received from customers.

#### Credit Side

In case the business has a bank overdraft at the start of a month, this side starts with an opening bank overdraft balance. On the **credit side, payments** of cash and cheques are recorded, that is, items that **decrease the cash balance or the bank balance. Examples** are Purchase of goods, payment to suppliers in cash, payment by cheque to suppliers, payment of electricity, rent, telephone expenses among many others.



### Contra entries in cash book

A contra both entries are made in the cash book itself, the transaction affecting both the cash account and the bank account. There are two such transactions that affect both cash account and bank account:

#### a) Deposit cash at the bank

This decreases the amount of cash available and credited to cash account (cash column of the cash book). It also increases the bank balance and is therefore, debited to bank account (bank column of the cash book).

#### b) Withdraw cash from bank for business use

This increases the amount of cash available for use in the business and debited to cash account (cash column of the cash book). It also decreases the bank balance and is therefore, credited to bank account (bank column of the cash book).

## 5.4

### Recording entries for discounts allowed and discounts received

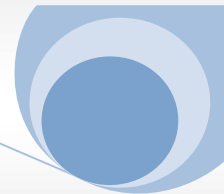
#### Discount Allowed

This is discount given to customers for prompt payment. For example, if a customer named Susan owes RM100 and is allowed a reduction of 5% for paying early, the customer finally pays RM95. If she pays by cheque, the bank column of the cash book is debited by RM95. If a 3-column cash book is being used, the discount allowed of RM5 is recorded on the same line in the discount allowed column.

#### Cash book

Date	Details	Discount allowed	Bank	Cash	Date	Details	Discount received	Bank	Cash
May 4	Susan	5	95						

In the above 3-column cash book extract, the entry on the debit side shows that on May 4, RM95 was received from Susan and she was given a cash



discount (discount allowed) of RM5. Adding the amount received (RM95) with the discount allowed (RM5) gives the amount settled by Susan (RM100). This may also represent the amount owed if the customer settles her full account.

### Discount Received

This is discount received from suppliers for prompt payment. For example, if we owe supplier Tony RM80 and we are given a discount of RM8 for prompt payment, we finally pay RM72. Therefore, the cash book is credited by RM72. If a 3-column cash book is being used, the discount received of RM8 is recorded on the same line in the discount received column.

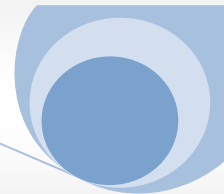
Cash book									
Date	Details	Discount allowed	Bank	Cash	Date	Details	Discount received	Bank	Cash
					May 7	Tony	8	72	

In the above 3-column cash book extract, the entry on the credit side shows that on May 7, RM72 was paid to Tony and the latter gave a cash discount (discount received) of RM8. Adding the amount paid (RM72) with the discount received (RM8) gives the amount settled by us (RM80).

### EXAMPLE

#### 2021

Sept 1	Proprietor puts capital into a bank account for the business.	10,940
2	Received cheque from M Boon.	315
4	Cash sales.	802
6	Paid rent by cash.	135
7	Banked RM50 of the cash held by the business.	50
15	Cash sales paid direct into the bank.	490
23	Paid cheque to S Wills.	277
29	Withdrew cash from bank for business use.	120
30	Paid wages in cash.	518



### Cash Books

Date	Details	Cash	Bank	Date	Details	Cash	Bank
Sept 1	Capital		10,94	Sept 7	Rent	135	
2	M Boon		315	23	Bank	50	
4	Sales	802		29	S Wills		277
7	Cash		50	30	Cash		120
15	Sales		490	30	Wages	518	
29	Bank	120		30	Balance c/d	219	11,398
		922	11,795			922	11,795
	Balance b/d	219	11,398				

### ACTIVITI

<b>2022</b>	Proprietor puts capital into a bank account for the business.	12,500
Jan 1		
2	Received cheque from Axon.	440
4	Cash sales.	640
6	Paid rent by cash.	240
7	Banked RM40 of the cash held by the business.	40
8	Paid insurance in cash.	100
10	Cash sales	700
12	Cash purchases	380
15	Cash sales paid direct into the bank.	500
17	Received cheque from Wati	150
20	Paid motor expenses by cheque	550
22	Withdrew cash from bank for personel use	270
23	Paid cheque to J Bond.	355
29	Withdrew cash from bank for business use.	200
30	Paid wages in cash.	300



Cash Books							
Date	Details	Cash	Bank	Date	Details	Cash	Bank
2	Axon		440	7	Bank	40	
				8	Insurance	100	
				12	Purchases	380	
				20	Motor		550
7	Cash		40	29	Cash		200
10	Sales	700					
15	Sales		500	30	Wages	300	
17	Wati		150				
29	Bank	300		30	Balance c/d	310	12,425
		1,540	13,530			1,54	13,530
	Balance	480	12,155				

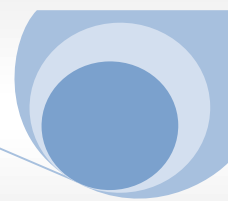
## 5.5

### The function and purpose of setting up the petty cash book

#### Petty Cash

Petty cash is money held in hand under the control of a specific person (the petty cashier) to meet daily small expenditure of the business. Example of the expenses that might be paid from petty cash may include the following:

- Payment for travelling expenses such as taxi fares for business purposes.
- Payment for small office expenses such as buying refreshments for staff meeting, stationery, postage stamps, etc.



### **Establishing The Petty Cash Fund**

The petty cash fund is established by issuing a cheque to the petty cashier, who is responsible to cash the cheque and place the money in a safe location to which only he has access. The journal entry is as follows:

Dr Petty cash  
Cr Cash at bank

The cash book is used to **record the receipt and payment of small amounts of cash**. The petty cash book is written up from receipts and petty cash vouchers (where employees are reimburse expenses).

A petty cash book is generally maintained on a columnar basis - a separate column being allotted for each type of expenditure. There is only **one money column on the debit side** and all sum received from time to time by the petty cashier from the chief cashier are entered in it. The **credit side consists of several analysis columns**.

Every payment made by the petty cashier is entered on this side twice - Firstly it is recorded in the total column and then to the appropriate column to which the expense is concerned. The total of the "total column" will naturally agree with the total of all subsidiary columns. The difference between the total of the debit items and that of the "total column" on the credit side at any time will represent the balance of the petty cash in hand and this should tally with the petty cashier's actual holding of cash.

The posting from the petty cash book to the respective accounts in the ledger are made directly in total at the end of every month or any other fixed period.

## 5.6

### Establish and maintain an imprest system for petty cash

#### The Imprest System

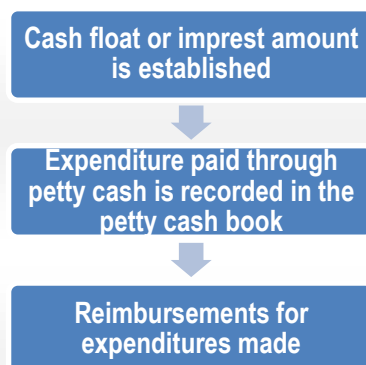
The more scientific method of maintaining petty cash so far introduced into practice is the **imprest system**. Under this system **a fixed sum of money is given to the petty cashier to cover the petty expenses for the month**. At the end of a month the petty cashier submits his statement of petty expenses to the chief cashier. The chief cashier on the receipt of such statement refunds to the petty cashier the exact amount spent by him during the month, thus making the imprest for the next month the same as it was at the beginning of the current month.

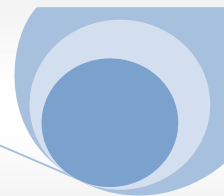
It is to be noted that the amount of cash in the hands of the petty cashier is a part of the cash balance, therefore it should be included in the cash balance when the latter is shown in the trial balance and the balance sheet. It should also be kept in mind that petty cash book is not like the cash book. It is a branch of cash book.

When cash withdrawn from the bank to restore the float to its original amount the ledger entry consists of:

Dr Petty cash book

Cr Cash book





### THE PETTY CASH BOOK

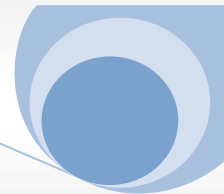
DEBIT		CREDIT						
Amount received	Date	Details	Total amount	Telephone and postage	Cleaning	Printing and stationery	Travelling expenses	Miscellaneous expenses

#### EXAMPLE

A Stone uses a columnar petty cash book to record his cash payments. He also operates an imprest system with a float of RM150. During August 2012 the cash transactions were as follows:

- 1 Postage stamps RM5.
- 2 Cleaning materials RM13.
- 4 Recorded delivery RM2.
- 5 Gratuity to delivery man RM4.
- 7 Tea, milk, etc RM1.
- 9 Rail fare RM11.
- 10 Paper clips and pens RM6.
- 13 Windows cleaner RM10.
- 18 Travelling expenses RM7.
- 21 Envelopes RM3.
- 22 Postage stamps RM9.
- 24 Stationery RM14.
- 27 Taxi fare RM12.
- 28 Office cleaning RM8.
- 31 Received reimbursement to make float up to RM150.

You are required to make the necessary entries in the petty cash book using appropriate analysis columns, and show the relevant general ledger account entries.

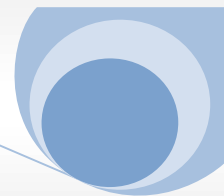


### The Petty Cash Book

Debit Amount received	Credit							
	Date	Details	Total Amounts	Telephone and postage	Cleaning	Printing and stationery	Travelling expenses	Miscellaneous expenses
b/d 150	2012 Aug 1	Stamps	5	5				
	2	Materials	13		13			
	4	Recorded delivery	2	2				
	5	Gratuities	4					4
	7	Tea and milk	1					1
	9	Rail fare	11				11	
	10	Clips and pens	6			6		
	13	Windows cleaner	10		10			
	18	Travelling	7				7	
	21	Envelopes	3			3		
	22	Stamps	9	9				
	24	Stationery	14			14		
	27	Taxi	12				12	
	28	Office cleaning	8		8			
<u>105</u>	31	Reimbursement	105	16	31	23	30	5
	31	Balance c/d	<u>150</u>					
<u>255</u>			<u>255</u>					
b/d 150	Sep 1							

### THE LEDGER ENTRIES

Telephone and postage					
Date	Details	Amount	Date	Details	Amount
Aug 31	Total per PCB	16			
Cleaning					
Date	Details	Amount	Date	Details	Amount
Aug 31	Total per PCB	31			
Printing and stationery					
Date	Details	Amount	Date	Details	Amount
Aug 31	Total per PCB	23			



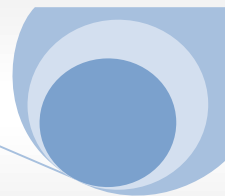
Travelling expenses					
Date	Details	Amount	Date	Details	Amount
Aug 31	Total per PCB	30			

Miscellaneous expenses					
Date	Details	Amount	Date	Details	Amount
Aug 31	Total per PCB	5			

Cash book (bank account)					
Date	Details	Amount	Date	Details	Amount
Aug 31	Balance b/d	xxx	Aug 31	Total per PCB	105

## Self Assessment

Tutorial 1 Elearning



## KEY TERM

**Two-column**

**Discounts allowed**

**Imprest system**

**Three-column**

**Discounts received**

## SUMMARY

- A cash book consists of a cash account and a bank account put together into one book.
- Two-column Cash Book containing a debit and a credit column for the bank account, and a debit and a credit column for the cash account.
- The bank columns in the Cash Book are for cheques and any other transfers of funds that have been made into or out of the bank account.
- A folio column is included in the Cash Book so as to help trace entries made into accounts in the ledgers and so as to provide assurance that the double entries have been made.
- Cash discounts are given to encourage people to pay their accounts within a stated time limit.
- Three-column cash book containing a debit and a credit column for the bank account, a debit and a credit column for the cash account, and a debit and a credit column for discount.
- The Petty Cash Book saves the Cash Book and the ledger accounts from containing a lot of trivial detail.
- The cashier should periodically check the work performed by the petty cashier.
- All payments made by the petty cashier should have petty cash vouchers as evidence of proof of expense.
- After entering petty cash transactions into the Petty Cash Book, we should transfer the totals for each expense recorded in the Petty Cash Book to the appropriate ledger accounts.



## REFERENCEES

Frank Wood & Alan Sangster. (2021). Business Accounting. (15th Edition), New Jersey: Prentice Hall



## TOPIC 6

# The Journals

### LEARNING OUTCOMES

By the end of topic, you should be able to:

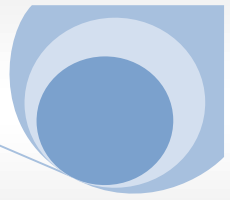
1. Describe the basic accounting cycle.
2. Explain what each book of original entry is used for
3. Describe the process of recording transactions into journals and then recording a summary of the transactions involving similar items in a ledger
4. Explain what is cash book and the process of recording the transactions into cash book.

### 6.1

## Basic accounting cycle

**Source document** – a form which provides details of a transaction and evidence that the transaction was occurred (*receipt, sales invoice, credit note, cheque*)

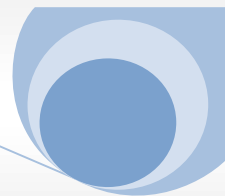
**Original entry** (journal) → **Double entry accounts** (ledger) → **Trial balance** → **Income statement** → **Statement of Financial Position**



## 6.2

### Books of original entry

- Books of original entry are the books in which we first record transaction. It also known as journal or day books. Journal is the book of original entry which summarized information from similar source documents.
- It can be divided into two which are:
  - a) General Journal**
  - b) Special Journal**
- **Special Journal** include;
  - i. **Sales day book @ sales journal** - for credit sale
  - ii. **Purchase day book @ purchase journal** – for credit purchases
  - iii. **Return inwards day book @ return inwards journal-** for stock return by the debtors who previously sales to them as recorded in the sales journal
  - iv. **Return outwards day book @ return outwards journal-** for stocks return to creditors who previously purchased from them as recorded in the purchases journal
  - v. **Cash book** – for receipt and payments of cash and cheque
- **General journal** is used to record the item that was not recorded in the special journal. The example of business transaction that recorded in the general journal as follow:
  - a) Sales and purchases of non-current assets on credit
  - b) Start-up the business
  - c) Stock drawing by the owner
  - d) Adjusting entry on the balance day adjustment



## 6.3

### Recording transactions into journals of original entry

#### Format of journals

##### Sales Journal

Sales Journal			
<i>Date</i>	<i>Name of debtors</i>	Folio	<i>Total</i> (RM)
	Credit Sales Account		

##### Purchases Journal

Purchases Journal			
<i>Date</i>	<i>Name of creditors</i>	Folio	<i>Total</i> (RM)
	Debit Purchases Account		

##### Sales Return Journal / Return inwards journal

Return inwards Journal			
<i>Date</i>	<i>Name of debtors</i>	Folio	<i>Total</i> (RM)
	Debit Return inwards Account		

##### Purchases Return Journal / return outwards journal

Return outwards Journal			
<i>Date</i>	<i>Name of debtors</i>	Folio	<i>Total</i> (RM)
	Credit Return outwards Account		



## General journal

General Journal			
<b>Date</b>	<b>Details</b> Dr. Cr. (description of each transaction)	<b>Debit</b>	<b>Credit</b>

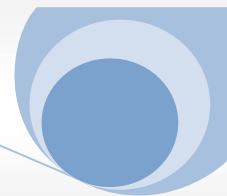
- General journal have 3 information per transaction:
  - Account to be debited
  - Account to be credited
  - The description of the transaction

### ACTIVITI 4.1

Joyah Kepoh a sole trader who keeps records of her transactions. Her transactions for the month of April were follows:

- Bought goods on credit from: Ahmad RM1500
- Goods sold on credit to: Ameera RM500
- Credit purchases from: Aisha RM70
- Goods sold on credit to: BBA Enterprise RM100
- Bought goods on credit from Hafiz RM400
- Goods sold on credit to Aminah RM660
- Goods return to: Ahmad RM330
- Goods return from Ameera RM40
- Bought machinery on credit from Sowat Ltd RM4,000
- Return Inwards from Aminah RM200
- Sold old furniture on credit to Bakar Enterprise for RM3,600
- Return Outwards to Hafiz RM440

Sales Journal		
<b>Date</b>	<b>Name of debtors</b>	<b>Total</b>
April 1 5 9		
	Credit Sales Account	<b>1260</b>

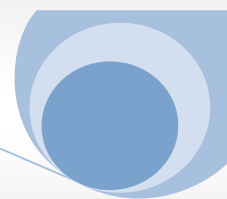


<b>Purchases Journal</b>		
<b>Date</b>	<b>Name of creditors</b>	<b>Total</b>
April 3	Aisha	70
8	Hafiz	400
12		
	Debit Purchases Account	<b>1970</b>

<b>Sales Return Journal</b>		
<b>Date</b>	<b>Name of debtors</b>	<b>Total</b>
April 14	Ameera	40
16	Aminah	200
	Debit Sales return Account	<b>240</b>

<b>Purchases Return Journal</b>		
<b>Date</b>	<b>Name of creditors</b>	<b>Total</b>
April 13	Hafiz	440
23		
	Credit Purchases return Account	<b>770</b>

<b>General Journal</b>			
<b>Date</b>	<b>Details</b>	<b>Debit RM</b>	<b>Credit RM</b>
<b>2017</b>			
April 15	Machinery Sowat Ltd	4,000	4,000
22	Bakar Enterprise Furniture (Sold old furniture on credit to Bakar Enterprise)	3,600	3,600



### ACTIVITI

You are to enter up the sales, purchases, returns inwards and returns outwards day books from the following details, then to post the items to the relevant accounts in the sales and purchase ledgers. The total of the day books are then to be transferred to the accounts in the General Ledger.

May 1 Credit sales: T Thompson RM56; L Rodriguez RM148; K Barton RM145.

3 Credit purchases: P Potter RM144; H Harris RM25; B Spencer RM76.

7 Credit sales: K Kelly RM89; N Mendes RM78; N Lee RM257.

9 Credit purchases: B Perkins RM24; H Harris RM58; H Miles RM123.

11 Goods returned by us to: P Potter RM12; B Spencer RM22.

14 Goods returned to us by: T Thompson RM5; K Barton RM11; K Kelly RM14.

17 Credit purchases: H Harris RM54; B Perkins RM65; L Nixon RM75.

20 Goods returned by us to B Spencer RM14.

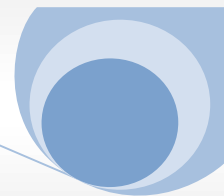
24 Credit sales: K Mohammed RM57; K Kelly RM65; O Green RM112.

28 Goods returned to us by N Mendes RM24.

31 Credit sales: N Lee RM55.

- **Answers:**

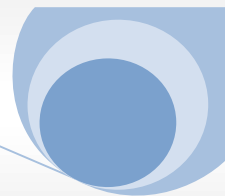
Sales Journal		
<i>Date</i>	<i>Name of debtors</i>	<i>Total</i>
	Credit Sales Account	1,062



Purchases Journal		
<i><b>Date</b></i>	<i><b>Name of creditors</b></i>	<i><b>Total</b></i>
	Debit Purchases Account	644

Sales Return Journal		
<i><b>Date</b></i>	<i><b>Name of debtors</b></i>	<i><b>Total</b></i>
	Debit Sales return Account	54

Purchases Return Journal		
<i><b>Date</b></i>	<i><b>Name of creditors</b></i>	<i><b>Total</b></i>
	Credit Purchases return Account	48



## Self Assessment

### Tutorial 1 Elearning

#### KEY TERM

**Original entry**

**On Credit transaction**

**Sales Journals**

**Purchases Journals**

**Return Inwards Journal**

**Return Outwards Journal**

**Generals Journals**

#### SUMMARY

- Source document is a form which provides details of a transaction and evidence that the transaction was occurred.
- Books of original entry are the books in which we first record transaction.
- Journal is the book of original entry which summarized information from similar source documents.
- The sales journal is used to record the sales on credit of those goods bought specifically for resale.
- The purchases journal is used to record the purchases on credit of those goods bought specifically for resale.
- The return inwards journal is used to record the return of goods made by customers.
- The return outwards journal is used to record the return of goods made to suppliers.
- The general journal is used to record transactions that are not appropriate to any other books of original entry.



#### REFERENCEES

Frank Wood & Alan Sangster. (2021). Business Accounting. (15th Edition), New Jersey: Prentice Hall



## TOPIC

# The Preparation of financial statement

### LEARNING OUTCOMES

By the end of topic, you should be able to:

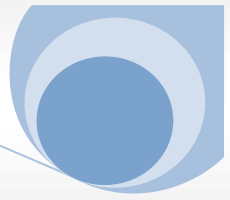
5. Explain the purpose of income statements
6. Calculate gross profit and net profit.
7. Prepare an income statement from information given in a trial balance.
8. Explain the purpose of Statement of Financial Position
9. Prepare Statement of Financial Position

## 7.1

### Purpose of income statements

The main reason why people create a business is to make profits. The calculation of such profits and losses is probably the most important objective of the accounting function. The owners will want to know how the actual profits compare with the profits they had hoped to make. Knowing what profits are being made helps businesses to do many things. The profits are calculated by drawing up an income statement.

An income statement lists a company's income, expenses, and resulting profits over a specific time frame, usually a quarter or fiscal year. Companies create income statements for managers, investors, auditors, lenders, vendors and any other interested parties. An income statement is prepared in order to find gross profit and net profit.



## 7.2

### Calculation of gross profit and net profit

#### Gross profit

Gross profit is the profit a business makes after subtracting all the costs that are related to manufacturing and selling its products or services. You can calculate gross profit by deducting the cost of goods sold (COGS) from your total sales. Where the cost of goods sold is greater than the sales revenue, the result is a gross loss.

#### Net profit

Net profit consists of the gross profit plus any revenue other than that from sales (such as rents received or commissions earned) less the total costs used up during the period other than those already included in the 'cost of goods sold'. Where the costs used up exceed the gross profit plus other revenue, the result is said to be a net loss.

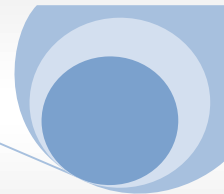
## 7.3

### Preparation of income statements

Before drawing up an income statement you should prepare the trial balance. This contains nearly all the information needed.

An income statement typically includes the following information:

- a) Revenue: How much revenue business generated during a reporting period
- b) Costs of goods sold (COGS): The total costs associated with component parts of whatever product or service a company makes and sells
- c) Gross profit: Revenue minus costs of goods sold
- d) Expenses: How much money a business spent during a reporting period
- e) Net profit: Gross profit minus expenses

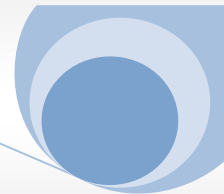


**i. Narrative Format:**

Name of Business

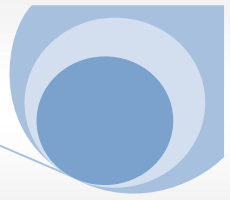
Statement of Comprehensive Income for the year ended .....

	RM	RM	RM
Sales		xxxx	
- Sales return/return inwards		(xxx)	
Discount allowed		(xxx)	
<b>Net Sales</b>			<b>xxxx</b>
<b><u>Less: Cost of Goods Sold (COGS)</u></b>			
Opening Stock		xxxx	
Add: Purchases	xxxx		
- Purchases return/return outwards	(xxx)		
- Discount received	(xxx)		
+ Carriage inwards	xxx		
+ Import duties	xxx		
<b>Net Purchases</b>		<b>xxxx</b>	
Less: Closing stocks		(xxx)	
<b>COGS</b>			<b>(xxx)</b>
<b>GROSS PROFIT</b>			<b>xxxx</b>
<b><u>Add: Revenue</u></b>			
Commission received		xxx	
Rent revenue		xxx	xxx
			xxx
<b><u>Less: Expenses</u></b>			
Carriage outwards			
Rent		xxx	
Insurance		xxx	(xxx)
<b>NET PROFIT</b>			<b>xxxx</b>



i. **T-Format**

Name of Business			
Statement of Comprehensive Income for the year ended.....			
<b><u>Cost of Goods Sold (COGS)</u></b>		Sales	xxx
Opening Stocks	xxx	Sales return	<u>(xxx)</u>
Add: Purchases	xxx	<b>Net Sales</b>	<b>xxx</b>
-Purchases return	(xx)		
+Carriage inwards	xxx		
+Import duties	<u>xx</u>		
<b>Net Purchases</b>	xxx		
Less: Closing stock	<u>(xx)</u>		
<b>COGS</b>	xxx		
<b>GROSS PROFIT</b>	<u>xxx</u>	<b>GROSS LOSS</b>	<u>xxx</u>
	<u>xxx</u>		<u>xxxx</u>
<b>GROSS LOSS</b>	xxx	<b>GROSS PROFIT</b>	
<b><u>Expenses:</u></b>		<b><u>Revenue:</u></b>	
Wages	xxx	Rent revenue	xxx
Electricity bills	xxx	Commission received	xxx
<b>NET PROFIT</b>	<u>xxx</u>	<b>NET LOSS</b>	<u>xxx</u>
	<u>xxx</u>		<u>xxx</u>



## 7.4

### **Purpose of Statement of Financial Position**

Statement of Financial Position contain details of assets, liabilities and capital. The items and amounts to be entered in the Statement of Financial Position are found in the accounting books. They comprise those accounts with balances that were not included in the income statement. All these accounts that continue to have balances must be assets, capital or liabilities. The purpose of the statement of financial position is to present true information about the company's assets, liabilities, and equity. It helps to reveal the financial position of the company as at a particular date.

## 7.5

### **Preparation of Statement of Financial Position**

#### **How to make a Statement of Financial Position**

Now that you know what's in a Statement of Financial Position, how do you make your own? Follow these steps:

**Step 1:** Pick the Statement of Financial Position date

**Step 2:** List all of your assets

**Step 3:** Add up all of your assets

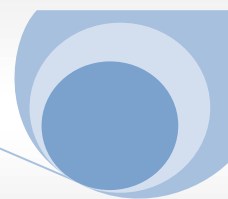
**Step 4:** Determine current liabilities

**Step 5:** Calculate long-term liabilities

**Step 6:** Add up liabilities

**Step 7:** Calculate owner's equity

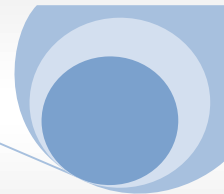
**Step 8:** Add up liabilities and owners' equity



**i. Narrative Format:**

Name of business  
Statement of Financial Position as at .....

	<b>RM</b>	<b>RM</b>	<b>RM</b>
<b><u>Non-current asset:</u></b>			
Building			xxxx
Motor Vehicles		xxxx	
Less: Accumulated Depreciation		(xxx)	xxxx
Furniture		xxxx	
Less: Accumulated Depreciation		(xxx)	xxxx
<b>TOTAL NON-CURRENT ASSET</b>			<b>xxxx</b>
<b><u>Add: Working Capital</u></b>			
<b><u>Current Assets:</u></b>			
Debtors	Xxx		
Less: PFDD	(xx)	xxx	
Inventories		xxx	
Bank		xxx	
Cash		xxx	
<b>TOTAL CURRENT ASSETS</b>		<b>xxx</b>	
<b><u>Less: Current Liabilities:</u></b>			
Creditors	Xxx		
Accrued expenses	Xxx	(xxx)	
<b>WORKING CAPITAL</b>			<b>xxx</b>
			<b>xxxx</b>
<b><u>Financed by:</u></b>			
Capital		xxxx	
Add: Net Profit		xxx	
Less: Drawing		(xxx)	xxxx
<b><u>Long Term Liabilities:</u></b>			
Loan from Bank			xxx
			<b>xxxx</b>

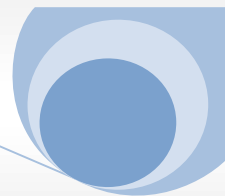


i. **T – Format**

Name of business

Statement of Financial Position as at .....

<b><u>Non-current asset:</u></b>		<b><u>Owner's Equity:</u></b>	
Furniture	xxxx	Capital	xxx
Less: Accumulated Depreciation	(xxx)	Add: Net Profit	xxx
Building	xxx	Less: drawing	<u>(xxx)</u>
Motor Vehicles	<u>xxx</u>		xxxx
<b>Total Non-current asset</b>	<b>xxx</b>		
		<b><u>Current Liabilities:</u></b>	
		Creditors	xxx
		Bank overdraft	xxx
		Prepaid revenue	xxx
		<b><u>Long Term Liabilities:</u></b>	
		Loan from Bank	xxx
<b><u>Current Assets:</u></b>			
Stocks	xxx		
Debtors	xxx		
Bank	xxx		
Cash	xxx		
Prepaid expenses	xxx		
<b>Total Current assets</b>	<b>xxx</b>		
	<b><u>xxxx</u></b>		<b><u>xxxx</u></b>



## Self Assessment

### Tutorial 1 Elearning

#### KEY TERM

**Income statement**

**Gross profit**

**Net profit**

**Cost of goods sold**

**Expenses**

**Statement of Financial Position**

#### SUMMARY

- The purpose of the income statement is to show the reader how much profit or loss an organization generated during a reporting period.
- Both gross profit and net profit are found on the income statement.
- The purpose of the statement of financial position is to show the company's assets, liabilities, and equity as at a particular date.



#### REFERENCES

Frank Wood & Alan Sangster. (2021). Business Accounting. (15th Edition), New Jersey: Prentice Hall



## TOPIC 8

# The adjustment: Depreciation of non-current assets

### LEARNING OUTCOMES

By the end of topic, you should be able to:

1. Explain what is non-current assets
2. Explain the nature of depreciation
3. Calculate depreciation using both the straight line and reducing balance methods.
4. Calculate and make the necessary entries to record depreciation expense.
5. Prepare the extract of Income Statement and Statement of Financial Position with respect to the depreciation expense and provision for depreciation.

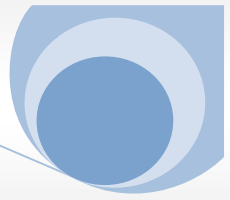
## 8.1

### Depreciation On Non – Current Assets

#### The nature of non-current assets

-Non-current assets are long-life assets that are expected to be used in the business for several years and have not been bought for the purposes of resale. Non-current assets can be tangible or intangible:

- a) Tangible non-current assets have a physical existence, so they can be seen and touched. Examples include land, buildings, machinery, equipment, furniture, motor vehicles and computers.
- b) Intangible non-current assets do not have a physical substance. Examples include brand name, patents, goodwill and trademark. Intangibles can be valuable assets that will be used in the business for several years, so they meet the definition of being non-current assets.



## 8.2

### The Nature Of Depreciation

Depreciation is the allocation of the depreciable amount of an asset over its estimated useful life or economic life.

Factors that cause depreciation are:

- Expected physical wear and tear
- Obsolescence

For example of a machine that originally cost RM1,500 and was expected to be used for three years. Suppose the business also expected that the machine could be sold for RM300 at the end of the third year. This is what is known as its residual value: the estimated amount that the asset can be sold for at the end of its useful life. In this case, the net cost of using this machine over its life is only RM1,200: i.e. the original purchase price of RM1,500 minus the RM300 that the business expects to get back after three years. This RM1,200 is known as the depreciable amount, and it represents the total amount that must be spread over the asset's useful life. The simplest method would be to spread it evenly, in which case the depreciation expense of using the machine would be RM400 in each of the three years of its life.

**Depreciable amount** is cost of asset minus residual value.

**Estimated useful life** is the period over which an asset is expected to be available for use by the company or period over which asset will provide benefit to the company.



## 8.3

### Methods of depreciation

In order to calculate the depreciation the following **data are needed**:

- The historical cost of the asset
- The length of the asset's expected useful economic life to the business;
- The estimated residual value of the asset at the end of its useful economic life. **Residual value** is the estimated proceeds of sale at the end of the asset's useful life to the business.

The depreciation methods which can be used to calculate depreciation are:

- Straight line method
- Reducing balance method

#### The straight line method

$$\text{Annual depreciation expense} = \frac{\text{Cost} - \text{Estimated Residual Value}}{\text{Estimated Useful Life (in years)}}$$

Or

$$\text{Depreciation expense} = \text{Rate of depreciation} \times \text{Cost of asset}$$

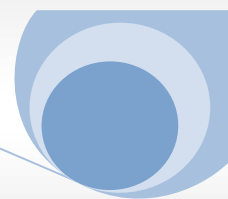
#### The reducing balance method

$$\text{Rate of depreciation} = 1 - (\sqrt[n]{\text{Residual value} / \text{Cost}})$$

Where  $n$  refers to the **estimated useful life**.

$$\text{Depreciation expense} = \text{Rate of depreciation} \times \text{Net book value of asset}$$

Net book value is Cost of asset minus Accumulated depreciation at the start of financial year.



### EXAMPLE 1

Gemilang Bhd has an accounting year ending on 31 December. On 1 January 2022 company purchased a machine for RM50,000, which has an expected useful life of four years and an estimated residual value of RM20,480.

#### Required:

Calculate the amount of depreciation in each year of the asset's useful life using:

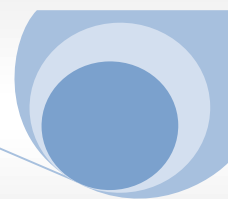
- a) straight line method
- b) reducing balance method

#### SOLUTION

- a) Straight line method

$$\begin{aligned}\text{Annual depreciation expenses} &= \frac{\text{RM50,000} - \text{RM20,480}}{4} \\ &= \text{RM7,380 per annum}\end{aligned}$$

Year	Depreciation expenses (RM)	Accumulated depreciation (RM)	Book value at year end (RM)
0 (1/1/2022)	-	-	50,000
1 (31/12/2022)	7,380	7,380	42,620
2 (31/12/2023)	7,380	14,760	35,240
3 (31/12/2024)	7,380	22,140	27,860
4 (31/12/2025)	7,380	29,520	20,480



b) Reducing balance method

$$\text{Depreciation rate} = 1 - (\sqrt[4]{20,480/50,000}) = 1 - (0.8) = 0.2 = 20\%$$

Year	Depreciation (RM)		Accumulated depreciation (RM)	Book value (RM)
	Calculation	Depreciation charge		
0 (1/1/2022)				50,000
1 (31/12/2022)	20% x 50,000	10,000	10,000	40,000
2 (31/12/2023)	20% x 40,000	8,000	18,000	32,000
3 (31/12/2024)	20% x 32,000	6,400	24,400	25,600
4 (31/12/2025)	20% x 25,600	5,120	29,520	20,480

## 8.4

### Ledger entries for depreciation

In recording the accounting entries for depreciation, the two main accounts are the depreciation account and accumulated depreciation account or provision for depreciation account.

The depreciation account is an expense account and is used to record the annual depreciation charge. As such, this account is closed and transferred to the income statement.

The accumulated depreciation account or also known as the provision for depreciation account is a statement of financial position account and is used to record the reduction in value of the asset from its original cost. The balance at the end of the accounting period represents the cumulative or accumulated depreciation charge since the date of acquisition.

#### Journal entry for depreciation:

**Debit:** Depreciation expense account

**Credit:** Provision for depreciation account



**The depreciation expense account is transferred to the income statement thus:**

**Debit:** Income statement

**Credit:** Depreciation expense account

### **EXAMPLE 14.3**

On 1 January 2020 company purchased a machine for RM100,000. The depreciation rate is 20% per annum. Company used straight line method in order to calculate for depreciation.

#### **Required:**

- a) Calculate the depreciation expenses per annum.
- b) Show the relevant journal and ledger entries for the year ended 31 December 2020 and 31 December 2021.
- c) The relevant extract from the income statement for the year ended 31 December.
- d) The relevant extracts from the statement of financial position as at 31 December 2020 and 31 December 2021.

#### **SOLUTION**

- a) Depreciation expenses per annum

$$= \text{RM}100,000 \times 20\%$$

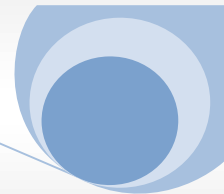
$$= \text{RM}20,000 \text{ per year}$$

- b) Journal entries 31 December 2020

Dr Depreciation expense account    20,000

Cr Accumulated depreciation account    20,000

(to record the depreciation charge per annum)



Dr Income statement 20,000  
 Cr Depreciation expense account 20,000  
 (to record the depreciation expense in the income statement)

### **Ledger entries 31 December 2020**

Depreciation expense account					
		RM			RM
Dec 31	Accumulated depreciation	20,000	Dec 31	Income statement	20,000

Accumulated depreciation account					
		RM			RM
Dec 31	Balance c/d	20,000	Dec 31	Depreciation expense	20,000

### **Journal entries 31 December 2021**

Dr Depreciation expense account 20,000  
 Cr Accumulated depreciation account 20,000  
 (to record the depreciation charge per annum)

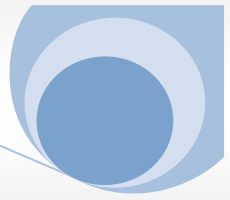
Dr Income statement 20,000  
 Cr Depreciation expense account 20,000  
 (to record the depreciation expense in the income statement)

### **Ledger entries 31 December 2021**

Depreciation expense account					
		RM			RM
Dec 31	Accumulated depreciation	20,000	Dec 31	Income statement	20,000

Accumulated depreciation account					
		RM			RM
Dec 31	Balance c/d	40,000	Jan 1	Balance b/d	20,000
			31 Dec	Depreciation expense	20,000
		<u>40,000</u>			<u>40,000</u>

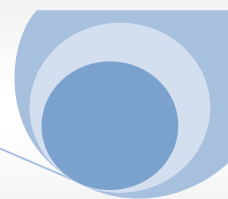


c) Statement of financial position (extract) as at 31 December 2020

<b>Non current asset</b>	<b>RM</b>
Machine – at cost	200,000
Less: Accumulated depreciation	<u>(20,000)</u>
Net book value	<u>180,000</u>

Statement of financial position (extract) as at 31 December 2021

<b>Non current asset</b>	<b>RM</b>
Machine – at cost	200,000
Less: Accumulated depreciation	<u>(40,000)</u>
Net book value	<u>160,000</u>



## 8.5

### Preparation of Income Statement and Statement of Financial Position for depreciation

Depreciation expenses are recorded as expenses and will be transferred into Income Statement at the end of accounting period. Provision for depreciation will be balance off and the balance will be brought forward to the next accounting period. In the Statement of Financial Position, the total of provision for depreciation or accumulated depreciation will be deducted from the cost non-current assets.

#### Example :

On 1 January 2021, Syarikat Damai bought a machine at a price of RM8,250. A machine is depreciated at the rate of 10% per year on straight line method

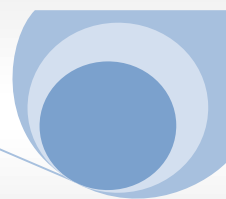
Calculation: Annual depreciation =  $10\% \times \text{RM}8\,250 = \text{RM}825$

#### **Income Statement for the year ended 31 December**

<b>2021</b>	<b>RM</b>
<b>Expenses :</b>	
Depreciation expenses machine	825

#### **Statement of Financial Position as at 31 December 2021**

<b>Non current Assets</b>	<b>RM</b>	
<b>RM</b>		
Machine	8 250	
Less: Accumulated depreciation for machine	<u>825</u>	7 425



## Self Assessment

### Tutorial 1 Elearning

#### KEY TERM

**Non-current assets**

**Estimated useful life**

**Net book value**

**Residual value**

**Straight line method**

**Reducing balance method**

#### SUMMARY

- Depreciation is a way of systematically allocating the original cost of an asset (minus its residual value) over its estimated useful life.
- Accumulated depreciation in the Statement of Financial Position is the total amount of an asset's original cost that is deemed to have been used up since it was first bought, and that this figure is offset against the cost of the asset in the balance sheet.
- The cost minus the accumulated depreciation on an asset is known as net book value.
- Most commonly used methods to calculate depreciation are the straight line and reducing balance methods.
- The depreciation charge on an asset for the year is debited to the depreciation expense account and credited to the accumulated depreciation account.
- The depreciation expense account is closed and transferred to the income statement.
- The balance of the accumulated depreciation account at the end of the accounting period represents the accumulated depreciation charge since the date of acquisition and shown in Statement of Financial Position.
- In the Statement of Financial Position, the total of provision for depreciation or accumulated depreciation will be deducted from the cost non-current assets.



#### REFERENCES

Frank Wood & Alan Sangster. (2021). Business Accounting. (15th Edition), New Jersey: Prentice Hall



## TOPIC 9

# The adjustment: Bad debts and allowance for doubtful debts

### LEARNING OUTCOMES

By the end of topic, you should be able to:

1. Describe the nature of bad debts.
2. Prepare the adjusting entry to write off bad debts.
3. Prepare the adjusting entry bad debts recovered.
4. Describe the provision for doubtful debts
5. Calculate and make the necessary entries to make a provision for doubtful debts.
6. Prepare the extract of Income Statement and Statement of Financial Position with respect to bad debts and provision for doubtful debts.

## 9.1

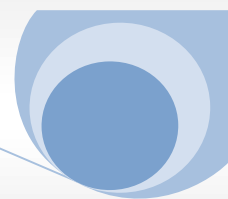
### Bad Debts And Allowance For Doubtful Debts

#### Bad Debts

Bad debts is a normal business expenses that are done on the last day of the fiscal year. It happens when a customer (trade receivables) is unwillingly or unable to pay the amount owed or debts that we are unable to collect. It is used only when the debts has been proved to be a bad debts and is written off.

Reasons for bad debts:

- a) Unable to trace the credit customers
- b) Credit customer being bankrupt
- c) Death of a credit customer



## 9.2

### Ledger entries for bad debts

#### Writing off bad debts

This is done by crediting the debtor's account to cancel the asset and increasing the expenses account of bad debts by debiting bad debts account. When a debt is regarded as irrecoverable (bad debts) written off the entries in the ledger are as follows:

**Dr** Bad debts account

**Cr** Trade receivables accounts

Bad debts are treated as a loss or an expense. At the end of the accounting period, bad debt account is closed income statement.

**Dr** Income statement

**Cr** Bad debts account

#### Example:

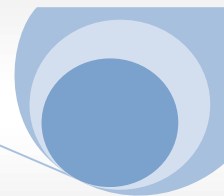
Accounting period for Syarikat Makmur ended 31 December 2020. On 3rd July, one of the debtors, Marco was announced as bankruptcy and her debts RM842 was declared as bad debts.

You are required to record bad debts in journal and ledger.

#### Solution:

##### GENERAL JOURNAL

Date	Details	Folio	Dr.	Cr.
<b>2020</b> July 3	Bad debts Marco <i>(debts are written off as bad debts)</i>		<b>RM</b> 842	<b>RM</b> 842
Dec.31	Income Statement Bad Debts <i>(transferred bad debts into Income Statement)</i>		842	842



Marco					
2020		RM	2020		RM
Jan 1	Balance b/d	842	July 3	Bad debts	842
Bad Debts					
2020		RM	2020		RM
July 3	Marco	842	July 3	Income statement	842

### Example 2

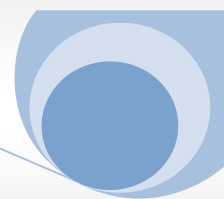
Dayana Enterprise has the following listing of accounts receivable in its books as at 31 December 2021:

	RM
Alifah	500
Bakar	3,500
Cecelia	800
Devi	4,500

It was discovered that Alifah's business has gone into liquidation and thus, is only able to pay RM100. Cecilia is unable to pay her outstanding debts.

### Required:

Show the journal entry and ledger to record the receipt of RM100 cash and to record the bad debts in Dayana Enterprise's books.



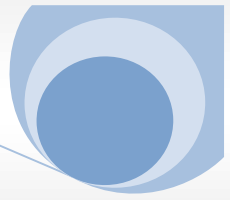
**Solution:**

**GENERAL JOURNAL**

Date	Details	Folio	Dr.	Cr.
<b>2012</b>			<b>RM</b>	<b>RM</b>
Dec 31	Cash / Bank		100	
	Bad debts		400	
	Trade receivable - Alifah			500
	<i>(receipt of cash and bad debts written off)</i>			
Dec.31	Bad debts		800	
	Trade receivable - Cecilia			800
	<i>(bad debts written off)</i>			

The T-account will appear as follows:

<b>Alifah</b>					
<b>2020</b>			<b>RM</b>	<b>2020</b>	
Jan 1	Balance b/d		500	Dec 31	Cash / Bank
					Bad debts
			<u>500</u>		<u>500</u>
<b>Cecilia</b>					
<b>2020</b>			<b>RM</b>	<b>2020</b>	
Jan 1	Balance b/d		800	Dec 31	Bad debts
			<u>800</u>		<u>800</u>
<b>Bad Debts</b>					
<b>2020</b>			<b>RM</b>	<b>2020</b>	
Dec 31	Alifah		400	Dec 3	Income statement
	Cecilia		800		
			<u>1,200</u>		<u>1,200</u>



### 9.3

## Bad Debts Recovered

**Definition:** When debts previously written off as bad are subsequently paid. This situation occurs when a customer that had been previously written off as bad debt subsequently comes forward to repay his / her debt.

When this occurs, the following 2 step journal entry must be made in the books:

### Journal entry:

**Dr:** Trade receivables accounts

**Cr:** Bad debts recovered account

(to re-instate the customer as part of the accounts receivable)

**Dr:** Cash / Bank accounts

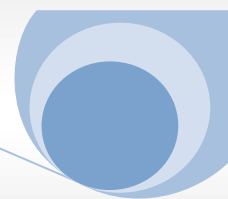
**Cr:** Trade receivables accounts

(to record the receipt of cash / cheque)

### Example

William Inc sells goods on credit. His financial year ends on 31 December. On 10 August 2020, he sold goods to Danny for RM3,200.

Later that year, Danny's business went into liquidation before the debt owed to William could be repaid. At the end of that financial year, William decided to write off this amount as bad debt. This was the only bad debt that William incurred in that financial year.



On 16 March 2021, William received a cheque for RM600 from the administrators of Danny's business in a partial and final settlement of the debt.

**Required:**

- a) Show the following accounts in the books of William, in respect of the above transaction:
- i) Danny's personal account
  - ii) Bad debts
  - iii) Bad debts recovered
- b) Show the extract of Income Statement for the year ending 31 December 2012

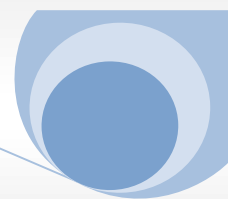
**Solution:**

Danny			
2020	RM	2020	RM
Aug 10 Sales	3,200	Dec 31 Bad debts	3,200
2021	RM	2021	RM
Mar 16 Bad debts recovered	600	Mar 16 Bank	600

Bad Debts			
2020	RM	2020	RM
Dec 31 Danny	3,200	Dec 31 Income statement	3,200

Bad Debts recovered			
2021	RM	2021	RM
Mar 16 Income statement	600	Mar 16 Danny	600

Bank			
2021	RM	2021	RM
Mar 16 Danny	600	Mar 16	600



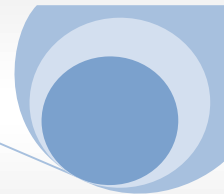
## 9.4

### Provision For Doubtful Debts

The need for a provision for bad debts essentially arises because goods sold and recognized as sales revenue in one accounting year may not become known to be a bad debt until the following accounting year. Thus the profit of the year in which the goods are sold would be overstated by the amount of bad debt. In order to adjust for this, a provision in respect of probable bad debts created in the year of sale (matching concept). It used to estimate of amount of debtors at the year end to become bad debts.

#### Double entry

	DT	KT
When provision is first made (expenses)	<i>Income Statement</i>	Provision for doubtful debts
Increasing of Provision For Doubtful Debts (expenses)	<i>Income Statement</i>	Provision for doubtful debts
Decreasing of Provision For Doubtful Debts (revenue)	Provision for doubtful debts	<i>Income Statement</i>



## **Introduction Of Provision For Doubtful Debts**

### **Example 1:**

On 31 December 2020, total debtors of Syarikat Jazmi is RM20,000. 5% of these debtors are estimated as bad. You are required to record provision for doubtful debts in ledger

### **SOLUTION:**

Provision for doubtful debts =  $5\% \times \text{RM}20,000 = \text{RM}1,000$

To record these accounts are as follows:

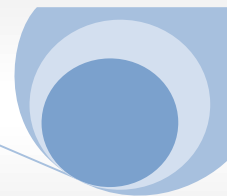
<b>Provision for doubtful debts</b>					
<b>2020</b>		<b>RM</b>	<b>2020</b>		<b>RM</b>
Dec 31	Balance c/d	<u>1,000</u>	Dec 31	<i>Income Statement</i>	<u>3,200</u>
			<b>2021</b>		
			Jan 1	Balance b/d	1,000

### **Income Statement for the year ended 31 December 2020**

<b>Expenses :</b>	<b>RM</b>
Provision for doubtful debts	1 000

### **Statement of Financial Position as at 31 December 2020**

<b>Current assets:</b>	<b>RM</b>
Debtors	20 000
<i>Less: Provision for doubtful debts</i>	<u>1 000</u> 19 000



## Increase of Provision For Doubtful Debts

### Example 2

On 31 December 2021, trial balance of Syarikat Johan shown as follow:

	<b>Debit</b>	<b>Credit</b>
	<b>RM</b>	<b>RM</b>
Debtors	28 000	
Provision for doubtful debts		1 000

Syarikat Johan still record provision for doubtful debts 5% every year.  
You are required to record provision for doubtful debts in ledger.

### **SOLUTION:**

Provision for doubtful debts 2021 =  $5\% \times \text{RM}28\,000 = \text{RM}1\,400$

Provision for doubtful debts 2020 = RM1 000

Increasing of Provision for doubtful debts =  $\text{RM}1\,400 - \text{RM}1\,000 = \text{RM}400$

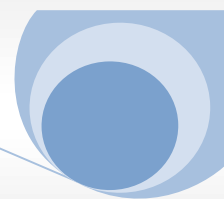
<b>Provision for doubtful debts</b>			
<b>2021</b>	<b>RM</b>	<b>2021</b>	<b>RM</b>
Dec 31 Balance c/d	1,400	Jan 1 Balance b/d	1,000
		<i>Income Statement</i>	400
	1,400		1,400
		<b>2022</b>	
		Jan 1 Balance b/d	1,400

### **Income Statement for the year ended 31 December 2020**

<b>Expenses :</b>	<b>RM</b>
Provision for doubtful debts	400

### **Statement of Financial Position as at 31 December 2020**

<b>Current assets:</b>	<b>RM</b>
Debtors	28 000
Less: Provision for doubtful debts	<u>1 400</u> 26 600



## Decrease in Provision for Doubtful Debts

### Example 3

On 31 December 2021, trial balance of Syarikat Johan shown as below:

	<b>Debit</b>	<b>Credit</b>
	<b>RM</b>	<b>RM</b>
Debtors	25 000	
Provision for doubtful debts		1 400

Syarikat Johan still provided 5% for Provision for doubtful debts every year.

### **SOLUTION:**

Total Provision for doubtful debts 2021 =  $5\% \times \text{RM}25\,000 = \text{RM}1\,250$

Total Provision for doubtful debts 2021 = RM1 400

Decrease of Provision for doubtful debts =  $\text{RM}1\,400 - \text{RM}1\,250 = \text{RM}150$

### **Provision for doubtful debts**

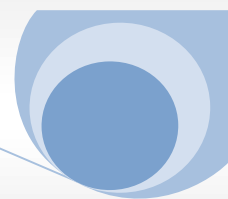
<b>2021</b>	<b>RM</b>	<b>2021</b>	<b>RM</b>
Dec 31 <i>Income Statement</i>	150	Jan 1 Balance b/d	1,400
Balance c/d	1,250		
	1,400		1,400
		<b>2022</b>	
		Jan 1 Balance b/d	1,400

### **Income Statement for the year ended 31 December 2020**

<b>Other income:</b>	<b>RM</b>
Provision for doubtful debts	150

### **Statement of Financial Position as at 31 December 2020**

<b>Current assets:</b>	<b>RM</b>
Debtors	25 000
Less: Provision for doubtful debts	<div style="display: inline-block; text-align: right;"> <u>1 250</u> </div> <div style="display: inline-block; text-align: right; vertical-align: bottom;">             23 750           </div>



#### **Example 4**

The total debtors of Syarikat Surinder for the year ended 31 Mei 2020, 2021, and 2022 as shown below:

<b>Year</b>	<b>Debtors (RM)</b>
2020	40 000
2021	48 000
2022	43 000

Syarikat Suria provided Provision for doubtful debts 5% from debtors for every year. You are required to show the account of provision for doubtful debts, Income Statement and Statement of Financial Position for the year 2020, 2021 and 2022.

#### **Year**

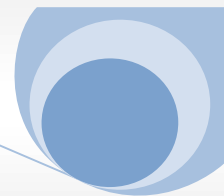
2020 :  $5\% \times \text{RM}40\,000 = \text{RM}2\,000$

2021 :  $5\% \times \text{RM}48\,000 = \text{RM}2\,400$

2022 :  $5\% \times \text{RM}43\,000 = \text{RM}2\,150$

#### **SOLUTION:**

<b>Provision for doubtful debts</b>					
<b>2020</b>		<b>RM</b>	<b>2020</b>		<b>RM</b>
Dec 31	Balance c/d	<u>2,000</u>	Dec 31	<i>Income Statement</i>	<u>2,000</u>
<b>2021</b>			<b>2021</b>		
Dec 31	Balance c/d	2,400	Jan 1	Balance b/d	2,000
				<i>Income Statement</i>	400
		<u>2,400</u>			<u>2,400</u>
<b>2022</b>			<b>2022</b>		
Dec 31	<i>Income Statement</i>	250	Jan 1	Balance b/d	2,400
	Balance c/d	<u>2,150</u>			
		<u>2,400</u>			<u>2,400</u>
<b>2023</b>			<b>2023</b>		
			Jan 1	Balance b/d	2,150



### **Income Statement for the year ended 31 December .....**

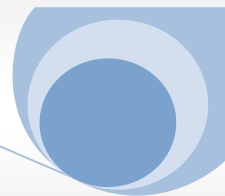
<b>2020</b>	<b>RM</b>
<b>Expenses :</b>	
Provision for doubtful debts	2,000
<b>2021</b>	
<b>Expenses :</b>	
Provision for doubtful debts	400
<b>2022</b>	
<b>Other income :</b>	
Provision for doubtful debts	250

### **Statement of Financial Position as at 31 December.....**

<b>2020</b>	<b>RM</b>
<b>Current assets:</b>	
Debtors	40 000
<i>Less:</i> Provision for doubtful debts	<u>2 000</u> 38 000
<b>2021</b>	<b>RM</b>
<b>Current assets:</b>	
Debtors	48 000
<i>Less:</i> Provision for doubtful debts	<u>2 400</u> 45 600
<b>2022</b>	<b>RM</b>
<b>Current assets:</b>	
Debtors	43 000
<i>Less:</i> Provision for doubtful debts	<u>2 150</u> 40 850

### **Self Assessment**

Tutorial 1 Elearning



## KEY TERM

**The trade receivables**

**Irrecoverable debts**

**Bad Debts Recovered**

**Provision for Doubtful Debts**

## SUMMARY

- The amounts due from customers that a business is unable to collect are called bad or irrecoverable debts. It must be written off.
- The writing off a bad debt involves debiting the bad debts expense account and crediting the customer's account.
- If a bad debt previously been written off is unexpectedly recovered, then the amount received will be credited to a bad debts recovered account.
- The provision of doubtful debts shows that a certain proportion of its debts will not be paid. The amount of any provision must be based on evidence.
- The entire provision for doubtful debts will be offset against the figure for trade receivables in the Statement of Financial Position.
- An increase in the provision for doubtful debts will be debited to the in the income statement (expense) account and the a reduction in the provision for doubtful debts will be credited to the the income statement (revenue).
- In the Statement of Financial Position, the total of provision for doubtful debts will be deducted from the trade receivables.



## REFERENCES

Frank Wood & Alan Sangster. (2021). Business Accounting. (14th Edition), New Jersey: Prentice Hall



## TOPIC 10

# The Adjustment For Accrual And Prepayment

### LEARNING OUTCOMES

By the end of topic, you should be able to:

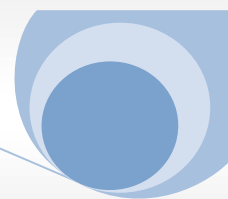
1. Explain the the difference between cash and accrual accounting.
2. Make adjustment for accruals to determine the actual amount in the income statement and show the recording of accruals in the statement of financial position.
3. Make adjustment for prepayments to determine the actual amount in the income statement and show the recording of accruals in the statement of financial position.

### 10.1

## Accrual Versus Cash Basis Of Accounting

In accounting there are two bases which are widely used in recognizing expenses and revenues: accrual basis and cash basis of accounting.

The difference between accrual and cash accounting lies in the timing of when sales and purchases are recorded in your accounts. Accrual accounting recognizes revenue when it's earned, and expenses when they occur (but not paid) , but cash accounting recognizes revenue and expenses only when money changes hands. In the cash basis of accounting, revenues are recognizing when cash is received and that expenses are recorded when cash is paid. Under this basis, cash receipts are treated as revenues and cash payments are handled as expenses. It should be noted that the cash basis of accounting is not consistent with the generally accepted accounting principles (GAAP).



## 10.2

### Adjusting entries for accrual expenses and revenue

#### Accrued Expenses

Expenses incurred in the current accounting period but not yet paid or recorded. Even though the payment only be made on the next accounting period, it was the current expenses. Accrued expenses must be added with the expenses that have been paid during current accounting period to get the exact amount of expenses in the current accounting period. The exact amount is transferred into Income Statement while accrued expenses amount is shown in the Statement of Financial Position as current liabilities.

#### Journal entry for accrued expenses:

**Debit:** Expenses account

**Credit:** Accrued expenses account

#### The expenses account is transferred to the income statement thus:

**Debit:** Income statement

**Credit:** Expenses account

#### Example :

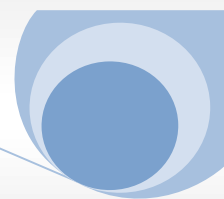
For the year ended 31 December 2021, the total of RM5,000 for salaries was paid from 1 January 2021 until 31 October 2021. On the balance day, salaries for two months still not yet paid. Show the balance day adjustment in journal and ledger.

#### Solution:

Salaries from 1 January 2021 until 31 October 2021 (10 months) is RM5,000.

Thus, monthly salaries :  $\text{RM5 000} \div 10 = \text{RM500}$

Accrued salaries (2 months) :  $\text{RM500} \times 2 = \text{RM1 000}$



### GENERAL JOURNAL

Date	Details	Folio	Dr.	Cr.
<b>2021</b> Dec. 31	Salaries Accrued salaries <i>(salaries not yet paid)</i>		<b>RM</b> 1 000	<b>RM</b> 1 000
	Income Statement Salaries <i>(Salaries paid transferred into Income Statement )</i>		6 000	6 000

### Salaries

<b>2021</b>		<b>RM</b>	<b>2021</b>		<b>RM</b>
Oct 31	Bank	5,000	Dec 31	Income Statement	6,000
Dec 31	Accrued salaries	1,000			
		<u>6,000</u>			<u>6,000</u>
			<b>2022</b>		

### Accrued Salaries

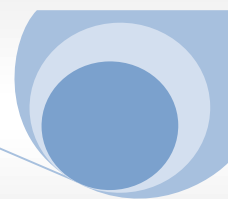
<b>2021</b>		<b>RM</b>	<b>2021</b>		<b>RM</b>
Dec 31	Balance c/d	<u>1,000</u>	Dec 31	Salaries	<u>1,000</u>
			<b>2022</b>		
			Jan 1	Balance b/d	1,000

### Income Statement for the year ended 31 December 2021

<b>Expenses :</b>	<b>RM</b>
Salaries	6,000

### Statement of Financial Position as at 31 December 2021

<b>Current Liabilities:</b>	<b>RM</b>
Accrued salaries	1,000



## **Accrued Revenue**

Revenue which have been earned in the current accounting period but have not yet received or recorded. Even though the money only be received on the next accounting period, it was the current revenue. Accrued revenue must be added with the revenue that have been received during current accounting period to get the exact amount of revenue in the current accounting period. The exact amount of revenue is transferred to Income Statement and accrued revenue is shown in Statement of Financial Position as current assets.

### **Journal entry for accrued revenue:**

**Debit:** Accrued revenue account

**Credit:** Revenue account

### **The revenue account is transferred to the income statement thus:**

**Debit:** Revenue account

**Credit:** Income statement

### **Example :**

For the year ended 31 December 2021, the total of RM9,000 for rent was received from 1 January 2021 until 30 September 2021. On the balance day, rent for three months still not yet received. Show the balance day adjustment in journal and ledger.

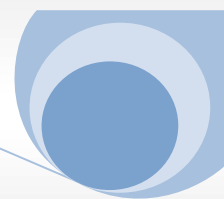
You are required to record the above adjustment on ledger and journal

### **Solution:**

Rent received from 1 January 2010 until 30 September 2021 (9months) is RM9,000.

Thus, monthly rent received :  $\text{RM9 000} \div 9 = \text{RM1 000}$

Accrued rent received (3 months) :  $\text{RM1 000} \times 3 = \text{RM3 000}$



### GENERAL JOURNAL

Date	Details	Folio	Dr.	Cr.
			RM	RM
<b>2021</b> Dec. 31	Accrued rent received Rent received (rent not yet received)		3 000	3 000
	Rent received Income Statement (rent received transferred into Income Statement)		12 000	12 000

#### Rent received

<b>2021</b>		RM	<b>2021</b>		RM
Dec 31	Income Statement	12,000	Sept 31	Bank	9,000
			Dec 31	Accrued Rent received	3,000
		<u>6,000</u>			<u>12,000</u>

#### Accrued Rent received

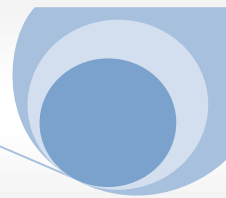
<b>2021</b>		RM	<b>2021</b>		RM
Dec 31	Rent received	<u>3,000</u>	Dec 31	Balance c/d	<u>3,000</u>
<b>2022</b>					
Jan 1	Balance b/d	3,000			

#### Income Statement for the year ended 31 December 2021

<b>Other incomes :</b>	RM
Rent received	12,000

#### Statement of Financial Position as at 31 December 2021

<b>Current receivables Liabilities:</b>	RM
Accrued Rent received	3,000



## 10.3

### Adjusting entries for prepaid expenses and revenue

#### Prepaid Expenses

Expenses which have been paid and recorded in the current accounting period but will not be incurred until the future accounting period. Amounts owing to the business and are therefore assets. In order to calculate profit for the current accounting period, prepaid expenses is deducted from the expenses paid to get the exact amount of expenses. A prepaid expense is shown in Statement of Financial Position as current assets.

#### Journal entry for accrued expenses:

**Debit:** Prepaid expenses account

**Credit:** Expenses account

#### The expenses account is transferred to the income statement thus:

**Debit:** Income statement

**Credit:** Expenses account

#### Example :

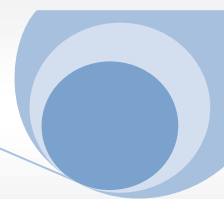
Total advertising expenses paid by Syarikat Keen Joe is RM9,000 from 1 Jan 2020 until 31 March 2021. Accounting period ended on 31 December 2020. Show the entry on journal and ledger.

#### Solution:

Advertising from 1 Jan 2020 until 31 March 2021 (15 months) RM9,000

Thus, monthly expenses:  $\text{RM9 000} \div 15 = \text{RM600}$

Prepaid expenses (3 months)  $\text{RM600} \times 3 = \text{RM1 800}$



## GENERAL JOURNAL

Date	Details	Folio	Dr.	Cr.
2020 Dec. 31	Prepaid Advertising expenses Advertising expenses ( <i>advertising paid in advance</i> )		RM 1 800	RM 1 800
	Income Statement Advertising expenses ( <i>total of advertising expenses transferred into Income Statement</i> )		7 200	7 200

### Advertising expenses

2021		RM	2021		RM
Oct 31	Bank	9,000	Dec 31	Prepaid Advertising expenses	1,800
				<i>Income Statement</i>	<u>7,200</u>
		<u>9,000</u>			<u>9,000</u>

### Prepaid Advertising expenses

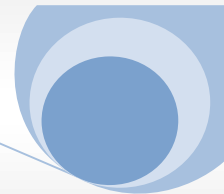
2021		RM	2021		RM
Dec 31	Advertising expenses	<u>1,800</u>	Dec 31	Balance c/d	<u>1,800</u>
2022					
Jan 1	Balance b/d	1,800			

### Income Statement for the year ended 31 December 2021

Expenses :	RM
Advertising expenses	7,200

### Statement of Financial Position as at 31 December 2021

Current Assets:	RM
Prepaid Advertising expenses	1,800



## Prepaid Revenue

Revenue which have been received and recorded in the current accounting period but which will not be earned until the future accounting period. It cannot be assumed as revenue for the current accounting period even though the money has been received. In order to calculate profit for the current accounting period, prepaid revenue is deducted from the revenue received to get the exact amount of revenue. A prepaid revenue is shown in Statement of Financial Position as current liabilities.

### Journal entry for accrued revenue:

**Debit:** Revenue account

**Credit:** Prepaid revenue account

### The revenue account is transferred to the income statement thus:

**Debit:** Revenue account

**Credit:** Income statement

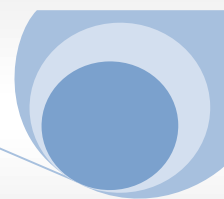
### Example :

Total rent received by Syarikat Keen Joe is RM5,400 from 1 Jan 2020 until 31 March 2021. Accounting period ended on 31 December 2020. Show the entry on journal and ledger.

### Solution:

Monthly rent;  $\text{RM5 400} \div 15 = \text{RM360}$

Prepaid rent received (3 months)  $= \text{RM360} \times 3 = \text{RM1,080}$



### GENERAL JOURNAL

Date	Details	Folio	Dr.	Cr.
<b>2021</b>			<b>RM</b>	<b>RM</b>
Mar 31	Rent revenue		1 080	
	Prepaid rent revenue <i>(rent received in advance)</i>			1 080
	Rent revenue		4 320	
	Income Statement <i>(total rent revenue transferred into Statement of Comprehensive Income)</i>			4 320

#### Rent received

<b>2021</b>		<b>RM</b>	<b>2021</b>		<b>RM</b>
Dec 31	Prepaid Rent received	1,080	Sept 31	Bank	5,400
	<i>Income Statement</i>	<u>4,320</u>			
		<u>6,000</u>			<u>12,000</u>

#### Prepaid Rent received

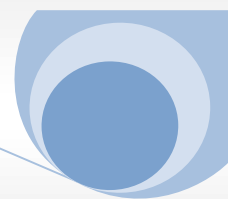
<b>2021</b>		<b>RM</b>	<b>2021</b>		<b>RM</b>
Dec 31	Balance c/d	<u>1,080</u>	Dec 31	Rent received	<u>1,080</u>
			<b>2022</b>		
			Jan 1	Balance b/d	1,080

#### Income Statement for the year ended 31 December 2021

<b>Other incomes :</b>	<b>RM</b>
Rent received	4,320

#### Statement of Financial Position as at 31 December 2021

<b>Current Liabilities:</b>	<b>RM</b>
Prepaid Rent received	1,080



## Self Assessment

### Tutorial 1 Elearning

#### KEY TERM

**Accrual basis**

**Cash basis**

**Accrued Expenses**

**Accrued Revenue**

**Prepaid Expenses**

**Prepaid Revenue**

#### SUMMARY

- The adjustments are needed so that the expenses and income shown in the financial statements equal the expenses incurred in the period and the revenue that has arisen in the period.
- The balances relating to the adjustments will be shown on the statement of financial position at the end of the period as current assets and current liabilities.
- Record appropriate entries in the accounts and financial statements at the end of a period for accrued expenses, prepaid expenses, accrued income and prepaid income.



#### REFERENCES

Frank Wood & Alan Sangster. (2021). Business Accounting. (15th Edition), New Jersey: Prentice Hall



## TOPIC 11

# The bank reconciliation statement

### LEARNING OUTCOMES

By the end of topic, you should be able to:

1. Explain the purpose of bank reconciliation
2. Identify factors that cause differences between the bank statement balance and the cash book balance at a particular date.
3. Prepare Statement of bank reconciliation

## 11.1

### Purpose of bank reconciliation

To ascertain whether or not the balance shown in the cash book at the end of a given accounting period is correct by comparing it with that shown on the bank statement supplied by the bank.

#### Bank statement

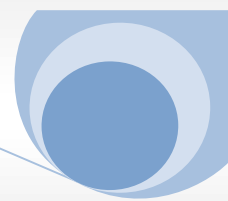
Statement that was prepared by the bank and sended to their customers on a regular basis. It also can be requested by a customer of the bank at any time.

#### Cash book

Accounting books that was prepared by the business.

#### Bank reconciliation statement

The statement that was prepared by the business to show why the balance on the business bank account as shown in the cash book and the balance on the account as shown by the bank's records would not be the same.



## 11.2

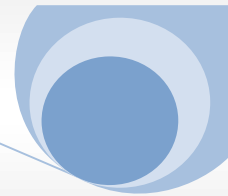
### **Reason for differences between cash book balance and bank statement balance**

#### **Items recorded in the bank account but yet to be recorded by the bank**

- i. Amount not yet credited, unpresented or outstanding lodgements.  
This happens when a business deposit money or cheque but the amount does not appear in the bank statement since the deposits has yet to be processed by the bank; but has been recorded by the business.
- ii. Cheque not yet presented, unpresented or outstanding cheques.  
Cheque issued for payment to accounts payable or others have not been cashed or banked, that is, when cheque drawn for payment and sent to account payable, the record in the business books has been made, but for some reasons the accounts payable has not presented it to the bank for clearance.

#### **Items recorded in the bank statement but yet to be recorded by the business**

- i. Direct debit  
The bank debited the account of the business for payments such as insurance premiums, rates, fees, and subscriptions. The permission for the payment must first be obtained by the accounts payable who then makes the necessary arrangement with the bank for the account of the business to be debited.
- ii. Standing instructions/order  
This is similar to the direct debit. However, for the bank to do that the instruction comes from the business itself rather than the creditor.



iii. Bank service charge

This is a fee charged by the bank for operating the account of the business and / or issuing the cheque book.

iv. Bank GIRO credit or credit transfer

The business account is credited with amount paid by creditor or other organization direct into the business bank account.

v. Interest revenue on current account

The interest is credited to the account of the business and is paid by certain bank based on large enough balance of cash in the account.

vi. Dishonoured cheques

A cheque that the bank will not honour upon presentation by the business for clearance. However, the business has already recorded the cheque in the cash book for settlement of a debt.

vii. Errors

Transposition errors.

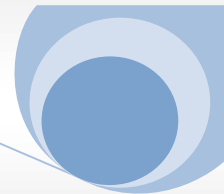
### 11.3

## Preparation of bank reconciliation

**STEP 1:** Make a comparison between bank account and bank statement.

**STEP 2:** Tick (✓) for the item that included in both records

**STEP 3: Prepare adjusted cash book.** Enter the unticked items on the bank statement to the adjusted cash book. Get the new balance from the adjusted cash book.



**STEP 4: Prepare the bank reconciliation statement.** Enter the new balance from the adjusted cash book into bank reconciliation statement. Enter the unticked items on the cash book to the bank reconciliation statement. These unticked item would be treated as either uncredited amount (debit item) and unpresented cheque (credit item).

Adjusted Cash Book (Bank Column)	
Balance b/d	Balance c/d

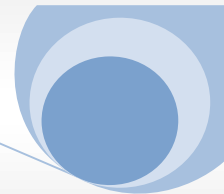
  

Bank Reconciliation Statement as at.....	
Balance as at adjusted Cash Book	xxx
Add: Cheque not yet presented	<u>xxx</u>
	xxx
Less: Amount not yet credited	<u>xxx</u>
Balance as at Bank Statement	<u>xxx</u>

## EXAMPLE

Bank Statement for Bank Syarikat Pacific Sdn. Bhd. show the different balance with its Cash Book on 30 September 2010. The Bank Statement and Cash Book are shown as below:

KERJASAMA ISLAMIC BANK				
Bank Statement				
Berkat Sdn Bhd, No 6, Jalan Putih Satu, 40100 Shah Alam.			Date: 30 April 2013	
Date	Details	Dr.	Cr.	Balance
2013 (April)		RM	RM	RM
1	Balance b/d			820
2	236128	160 (✓)		660
4	Bank giro credit		144 (✓)	804
14	Dividend		100	904
16	236129	50 (✓)		854
17	Bank giro credit		114(✓)	968
23	236131	64 (✓)		904
25	Cheque's book	15		889
28	Bank giro credit		34 (✓)	923
	Services charge	10		913



Cash book						
Date	Details	Amount (RM)	Date	Details	Cheque no	Amount (RM)
Apr 1	Balance b/d	820	Apr 5	Purchases	236128	160 (✓)
2	Sales	144 (✓)	10	Electricity	236129	50 (✓)
18	Sales	114 (✓)	16	Rent	236131	64(✓)
24	Sales	34(✓)	18	Purchases	236133	88
30	Sales	58	20	Wages	236134	56
			30	Balance c/d		752
		1,170				1,170

Required:

- Prepare the adjusted cash book.
- Prepare the bank reconciliation statement.

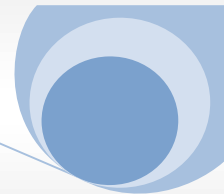
## SOLUTION

Updated Cash Book					
2010		RM	2010		RM
Sept. 30	Balance b/d	752	Sept. 30	Cheque' Book	15
	Dividend	100		Services charge	10
				Balance c/d	827
		852			852
Oct. 1	Balance b/d	827			

### Bank Reconciliation Statement as at 30 September 2010

	RM	RM
Balance as at updated Cash Book		827
Add:   Cheque no 236133	88	
Cheque no 236134	56	<u>144</u>
		971
Less:   Sales		<u>58</u>
Balance as at Bank Statement		913

The new balance from the bank reconciliation statement will be the same as the bank statement supplied by the bank.



### Example

Berkat Sdn Bhd is a retail shop owned by Encik Azzril. Below is its cash book for the month of April 2013.

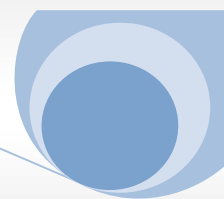
Cash book						
Date	Details	Amount (RM)	Date	Details	Cheque no	Amount (RM)
Apr 1	Balance b/d	827.38	Apr 5	Purchases	236128	111.70 (✓)
2	Sales	192.35 (✓)	10	Electricity	236129	43.82 (✓)
18	Sales	249.50 (✓)	16	Purchases	236130	87.77 (Error)
24	Sales	304.20 (✓)	18	Rent	236131	30.00
30	Sales	192.80	20	Purchases	236132	59.09 (✓)
			25	Purchases	236133	71.18 (✓)
			30	Wages	236134	52.27
			30	Balance c/d		1,310.40
		1,766.23				1,766.23

However, on 10 May 2022 Encik Azzril received a Bank Statement from Kerjasama Islamic Bank for the month of April and it was found that the balance of his cash book and the bank statement was different.

Bank Statement				
Date	Details	Dr.	Cr.	Balance
2013 (April)		RM	RM	RM
1	Balance b/d			1,053.29
2	236127	210.70 (✓)		842.59
3	Bank Giro Credit		192.35 (✓)	1,034.94
6	236126	15.21 (✓)		1,019.73
6	Charges	12.80		1,006.93
9	236129	43.82 (✓)		963.11
10	427519	19.47		943.64
12	236128	111.70 (✓)		831.94
17	Standing order	32.52		799.42
20	Sundry credit		249.50 (✓)	1,048.92
23	236130	77.87 (Error)		971.05
23	236132	59.09 (✓)		911.96
25	Bank Giro Credit		21.47	933.43
27	Sundry credit		304.20 (✓)	1,237.63
30	236133	71.18 (✓)		1,166.45

Required:

- Prepare the adjusted cash book.
- Prepare the bank reconciliation statement.



## SOLUTION

Adjusted Cash Book					
2013			2013		
Apr 30	Balance b/d	1,310.40	Apr 30	Charges	12.80
	Bank giro credit	21.47		427519	19.47
	Error	9.90		Standing order	32.52
				Balance c/d	1,276.98
		<u>1,341.77</u>			<u>1,341.77</u>
May 1	Balance b/d	1,276.98			

### Bank Reconciliation Statement as at 30 April 2013

	RM	RM
Balance as at updated cash book		1,276.98
Add: Unpresented cheque		
Rent (236131)	30.00	
Wages (236134)	<u>52.27</u>	82.27
		<u>1,359.25</u>
Less: Uncredited amount		
Sales		<u>(192.80)</u>
Balance as at bank statement		<u>1,166.45</u>

## 11.4

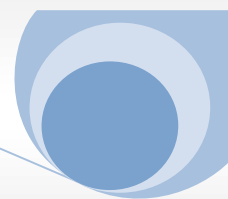
## Bank overdraft

### BANK OVERDRAFT

- When money at the bank was withdrawn more than what it has in the current account, this advance is called overdraft.
- Overdraft show credit balance at Cash Book and debit balance at Bank Statement. Usually, the amount of overdraft is shown in negative.

### Bank Reconciliation Statement as at.....

Balance as at adjusted Cash Book	xxx
Add: Outstanding Deposit	<u>xxx</u>
	xxx
Less: Unpresented cheque	<u>xxx</u>
Balance as at Bank Statement	<u>xxx</u>



## Self Assessment

### Tutorial 1 Elearning

#### KEY TERM

**Cash book**

**Balances**

**Unpresented cheques**

**Bank statement**

**Bank reconciliation statement**

**Outstanding lodgements**

#### SUMMARY

- The purpose of the bank reconciliation statement is to show whether or not errors have been made either in the bank columns of the cash book or on the bank statement.
- The bank reconciliation statement prepared after updating the cash book with items omitted from it that are shown on the bank statement.
- In the case of bank overdrafts, the reconciliation statement adjustments are the same as those shown when there is a positive bank balance, but the opening and closing but the opening and closing balances are negative



#### REFERENCEES

Frank Wood & Alan Sangster. (2021). Business Accounting. (15th Edition), New Jersey: Prentice Hall