

Lesson 6 : Accounting for Current Asset

6.1 Cash and Bank Balances

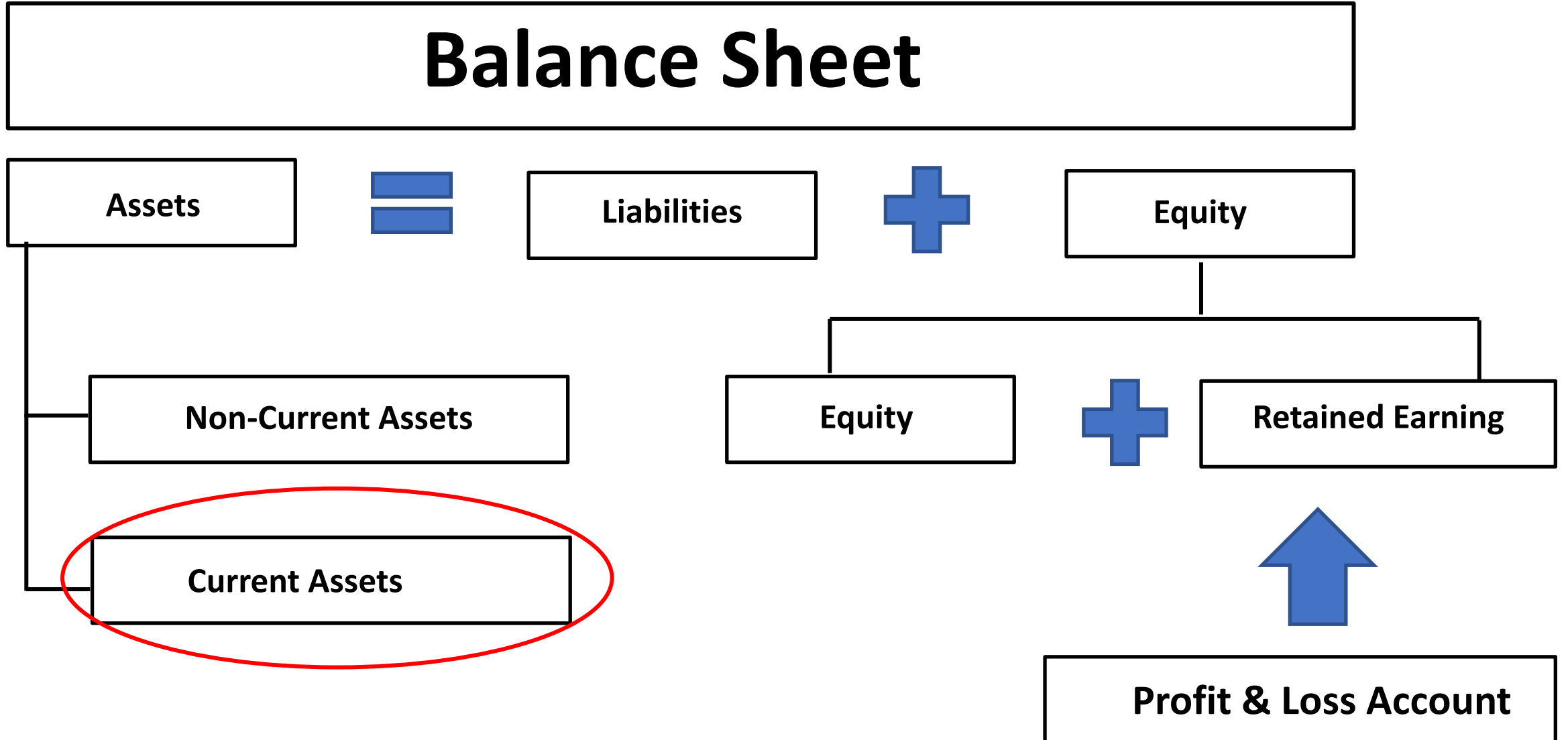
6.2 Fixed Deposits

6.3 Trade Receivables

6.4 Other Receivables

6.5 Inventory

Recap Accounting Equation & Financial Statements



Current Assets



Cash

+



Cash
Equivalents

+



Inventory

+



Accounts
Receivables

+



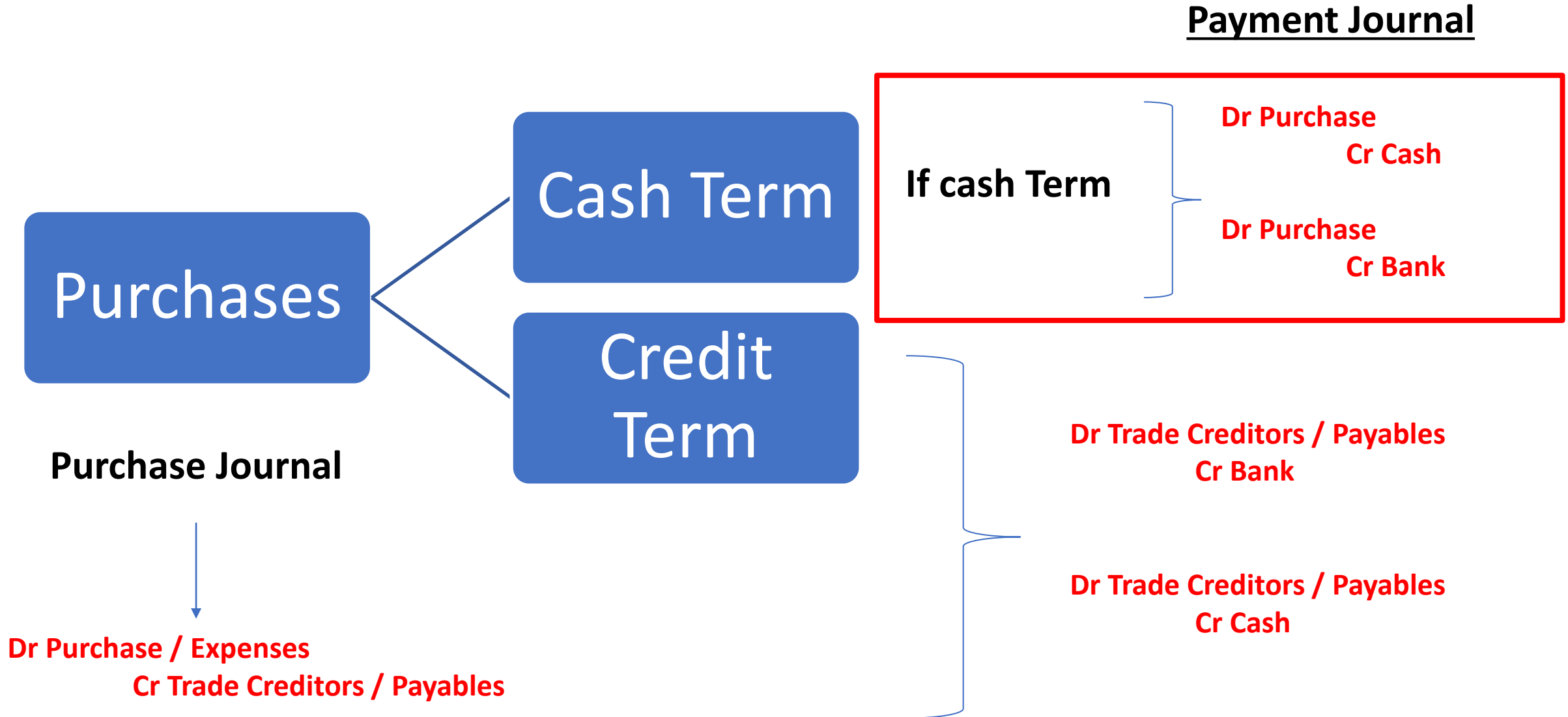
Prepaid
Expenses

+



Marketable
Securities

Purchase / Payment Relationship



Exercise

Question 1

On 5th February 2019, Sports international Sdn Bhd purchased the raw material worth \$5,000 from smart international Sdn Bhd on the account and promised to pay for the same in cheque on 25th February 2019.

Prepare the necessary journal entries and ledger to record the transactions.

Exercise

Question 2

During February 2019, the Mid-term international Sdn Bhd. did the transactions, as mentioned below. The company uses the periodic inventory system, and to account the discounts, the company uses the gross method.

Feb 02: Company purchased the inventory worth \$ 50,000 with terms 2/10, n/30, FOB shipping point. For this, the freight expenses came to \$ 500.

Feb 04: It was found that out of the purchases, damaged goods were received worth \$ 10,000, so it was returned to the supplier, and credit is received.

Feb 10: Paid the bank for the purchases made on Feb 02 to the creditors.

Prepare the necessary journal entries to record the transactions:

Exercise

Question 3

The Chicago Corporation engaged in the following transactions during the month of January.

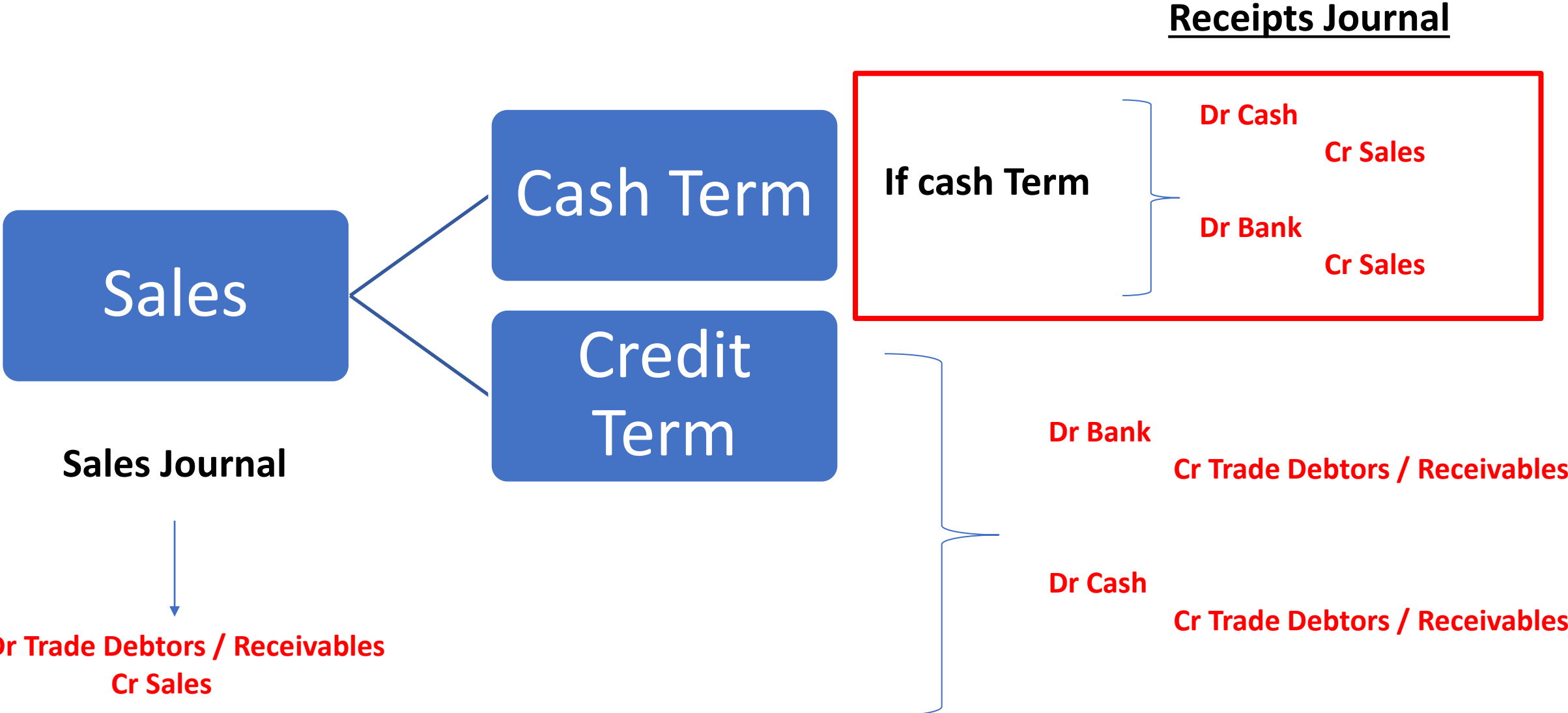
Jan 01: Purchased \$80,000 of inventory, terms 2/10, n/30, FOB shipping point. Paid freight costs of \$600.

Jan. 02: Returned damaged goods to supplier and received a credit of \$12,000.

Jan. 09: Paid Bank to supplier for inventory purchased on January 1.

Required: Prepare all necessary journal entries assuming the Chicago uses a periodic inventory system and gross method of accounting for purchases discounts.

Sales / Receipts Relationship



Receipts Journal

If cash Term

Dr Cash
Cr Sales

Dr Bank
Cr Sales

Dr Bank
Cr Trade Debtors / Receivables

Dr Cash
Cr Trade Debtors / Receivables

Exercise

Question 4

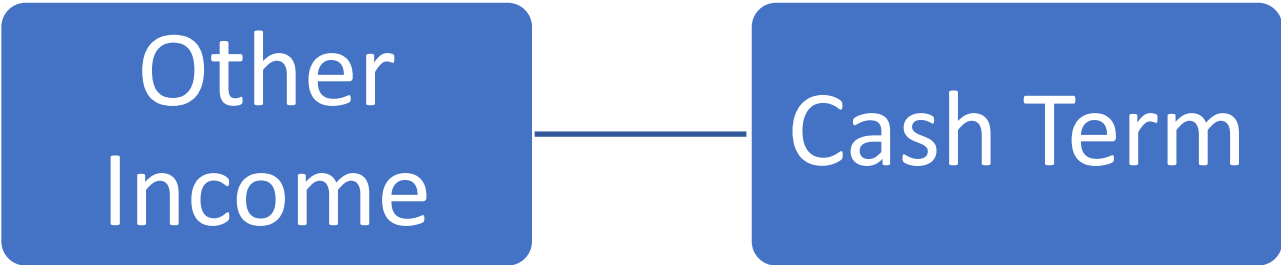
on 5th Jan Credit sales invoice of RM500 to ABC Sdn Bhd 2% cash discount was given to the customer

On 28th Jan ABC Sdn Bhd make a full payment.

Prepare Journal Entries and General Ledger for the above transaction.

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Other Income / Receipts Relationship



Receipts Journal

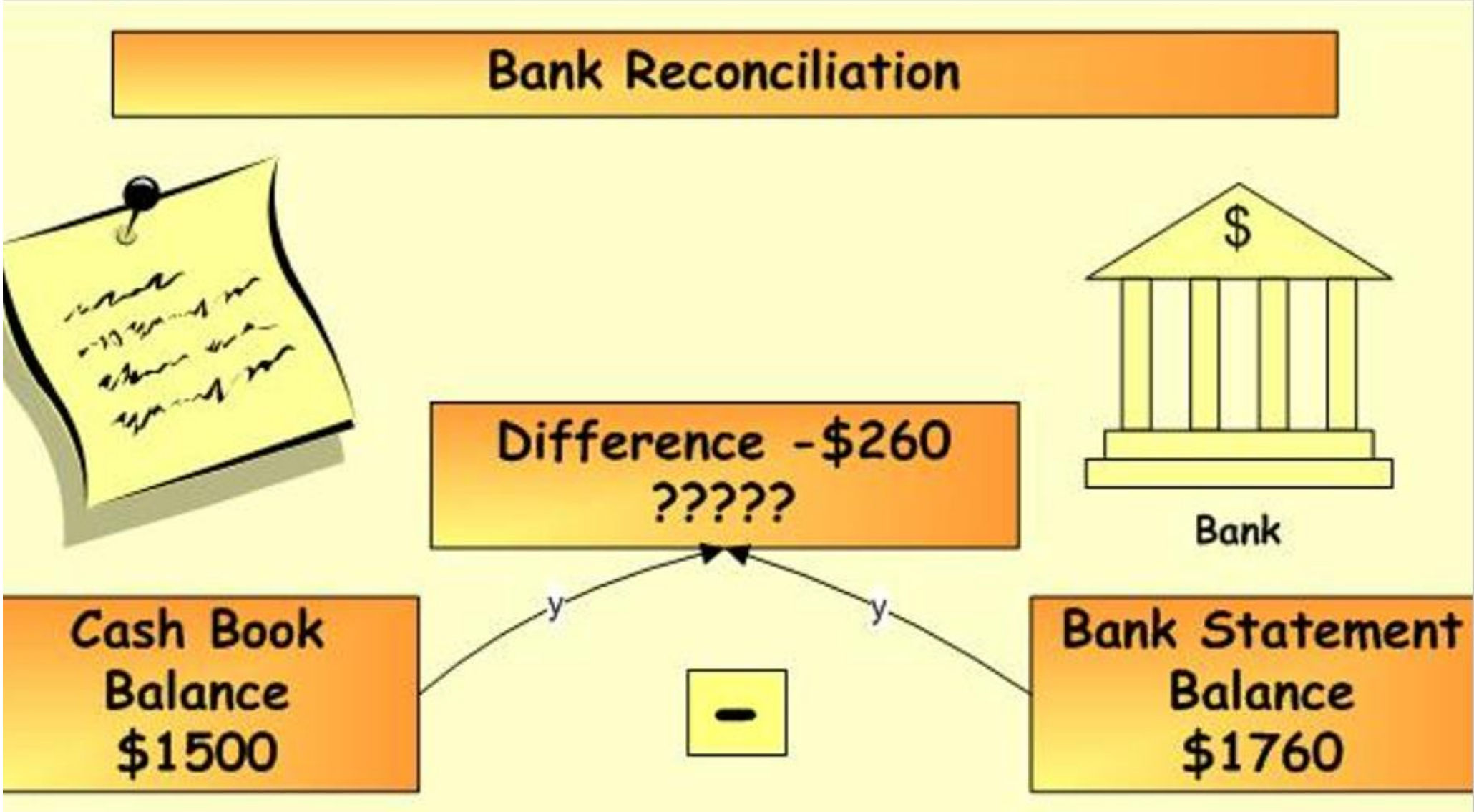
Dr Cash
Cr Rental Income

Dr Bank
Cr Rental Income

Objectivity of Cash Balances

- Cross check the ledger balances with actual cash in hand
- Perform cash count
- Difference to recheck
- Report cash loss and write off to Profit & Loss as expenses using Journal Entry as adjustment

Objectivity of Bank Balances



The reasons for the difference between the balance on the bank statement and ledger

- a) Unpresented checks
- b) Deposits in transit (Uncredited Deposit)
- c) Bank service charges
- d) Errors in the books
- e) Errors by the bank
- f) Electronic charges on the bank statement not yet recorded in the books
- g) Electronic deposits on the bank statement that are not yet recorded in the books

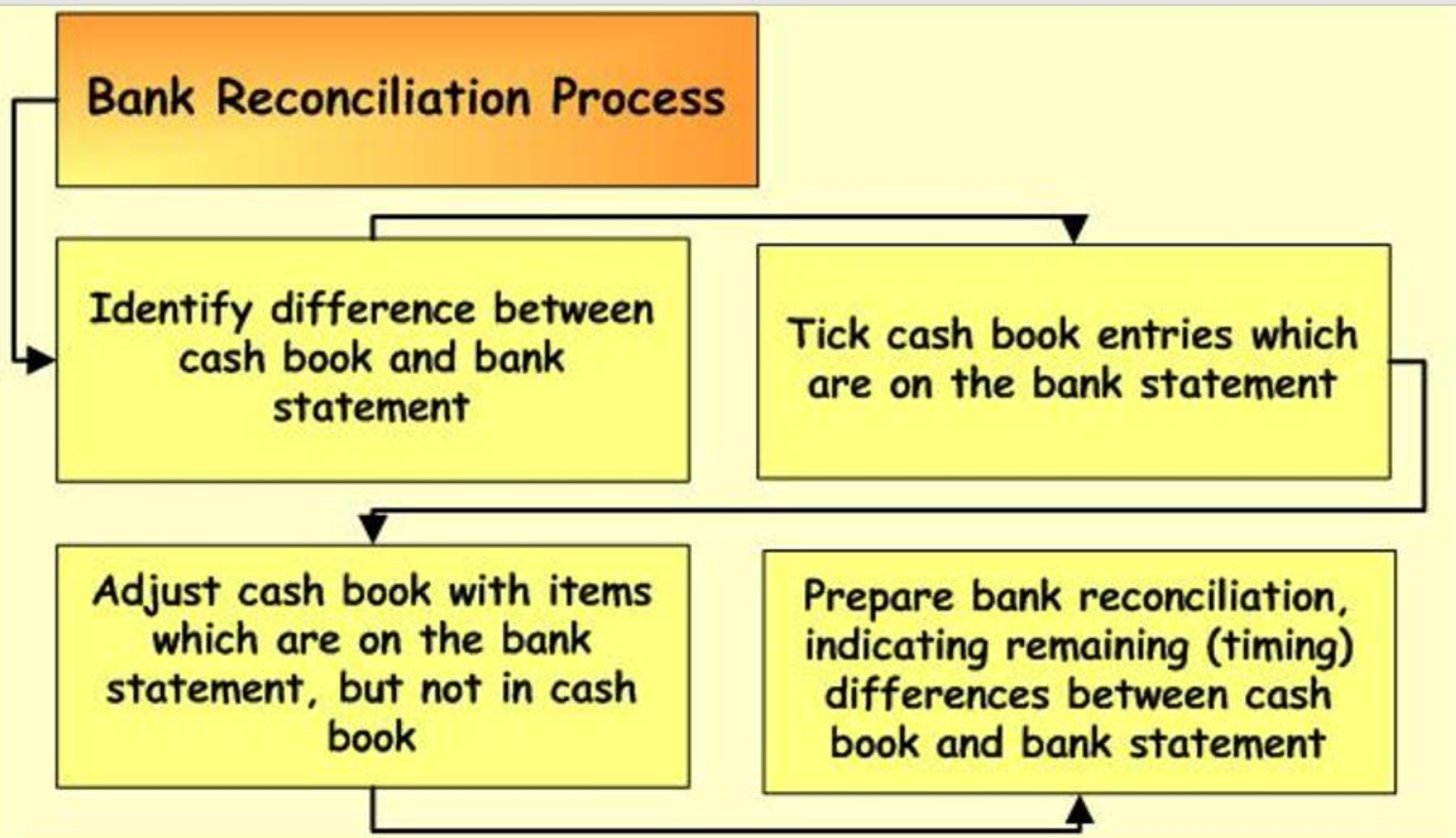
Bank Reconciliation Process

Identify difference between cash book and bank statement

Tick cash book entries which are on the bank statement

Adjust cash book with items which are on the bank statement, but not in cash book

Prepare bank reconciliation, indicating remaining (timing) differences between cash book and bank statement



Bank Reconciliation Format

ABC Sdn Bhd				
Bank Reconciliation As At 31 Dec 2019				
		RM	RM	
<u>Balance as per GL</u>			XX	
<u>Add: Unpresented Cheque</u>				
Payment to DEF Sdn Bhd		XX		
Payment of Salary		XX		
			XX	
(Payment Transaction not in bank statement, meaning bank balance more therefore "ADD)			XX	
<u>Less: Uncredited Deposits</u>				
Receipts from XYZ Sdn Bhd		XX		
(Receipts Transactions not in bank statement, meaning bank balance less therefore "LESS")			XX	
<u>Balance as per Bank Statement</u>			XX	

Add: Bank In Transactions in Bank Statement but not in GL.

However, these transactions should record into account before reconcile because already happened.

Less: Payment Transactions in Bank Statement but not in GL.

However, these transactions should record into account before reconcile because already happened.

Bank Reconciliation Format

ABC Sdn Bhd			
Bank Reconciliation As At 31 Dec 2019			
		RM	RM
<u>Balance as per Bank Statement</u>			XX
<u>Add: Uncredited Deposits</u>			
Receipts from XYZ Sdn Bhd		XX	
(Receipts Transaction in ledger, meaning ledger balance more therefore "ADD)			XX
			XX
<u>Less: Unpresented Cheque</u>			
Payment to DEF Sdn Bhd		XX	
Payment of Salary		XX	
			XX
(Payment Transactions in bank ledger, meaning ledger balance less therefore "LESS")			
<u>Balance as per GL</u>			XX

Add: Payment Transactions in Bank Statement but not in GL.

However, these transactions should record into account before reconcile because already happened.

Less: Bank In Transactions in Bank Statement but not in GL.

However, these transactions should record into account before reconcile because already happened.

Illustration 1

From the following information, prepare bank reconciliation statement to find out balance as per bank statement on 31st March, 2017.

Particulars	₹
i) Cheques deposited but not yet collected by the bank	500
ii) Cheque issued but not yet presented for payment	1,000
iii) Bank interest charged	100
iv) Rent paid by bank as per standing instruction	200
vi) Cash book balance	300

Illustration 2

From the following information, prepare bank reconciliation statement as on 31st December, 2017 to find out the balance as per ledger.

Particulars		₹
(i)	Balance as per bank statement	6,000
(ii)	Cheques deposited on 28th December, 2017 but not yet credited	2,000
(iii)	Cheques issued for 10,000 on 20th December, 2017 but not yet presented for payment	3,000
(iv)	Interest on debentures directly collected by the bank not recorded in cash book	4,000
(v)	Insurance premium on building directly paid by the bank	1,000
(vi)	Amount wrongly credited by bank	500

The following bank reconciliation statement has been prepared by a trainee accountant.

	\$
Overdraft per bank statement	3,860
Less: Unpresented cheques	<u>9,160</u>
	5,300
Add: Outstanding lodgments	<u>16,690</u>
Cash at bank	<u>21,990</u>

What should be the correct balance per the cash book?

- a) \$11,390 balance at bank
- b) \$3,670 balance at bank
- c) \$21,990 balance at bank as stated
- d) \$3,670 overdrawn

The correct answer is
\$3,670 balance at bank