

# Lesson 7 - Accounting for Current Assets – Fixed Deposits

## Table of Contents

7.1	What is Current Asset .....	2
7.2	Type of Current Asset .....	2
7.3	Fixed Deposit.....	3
7.4	Fixed Deposit Recording .....	3
7.5	Fixed Deposit Interest .....	4
7.6	Application of Accrual Concept on Fixed Deposit Interest .....	4
7.7	Fixed Deposit Interest Income Recording.....	5
7.7.1	Fixed Deposit Interest Income received upon maturity and bank into current account ...	6
7.7.2	Fixed Deposit Interest Income received upon maturity and capitalized into FD account..	6
7.7.3	Fixed Deposit Interest Income receivable before maturity date.....	6
7.7.4	Fixed Deposit Interest Income receivable reversal upon maturity date .....	6

## 7.1 What is Current Asset

- Current assets are all the assets of a company that are expected to be sold or used because of standard business operations over the next year.
- They have short period of life span usually less than one year.
- The value change frequently and are readily to convert into cash.
- Current assets are important to businesses because they can be used to fund day-to-day business operations and to pay for the ongoing operating expenses.

## 7.2 Type of Current Asset

There are five main kinds of current assets:

- a) Cash and Bank Balances
- b) Fixed Deposits
- c) Trade receivable.
- d) Other Receivable
- e) Inventories.

## 7.3 Fixed Deposit

Fixed Deposits are one of the most popular ways to save money.

In a Fixed Deposit, you put a lump sum in your bank for a fixed tenure at an agreed rate of interest.

At the end of the tenure, you receive the amount you have invested plus compound interest. FDs are also called term deposits.

## 7.4 Fixed Deposit Recording

A business may use its extra cash to put into Fixed Deposit to earn interest income

When a business transfers its money from the company bank account to fixed deposit. Transaction may recorded as follow.

<b>Dr</b>	<b>Fixed Deposit</b>
	<b>Cr</b>
	<b>Bank</b>

Fixed Deposit will normally be classified under current assets as:

- It can convert into liquid cash immediately
- Common practice, fixed deposit will have 1 year tenure

## 7.5 Fixed Deposit Interest

Fixed Deposit interest is interest income earned on Fixed Deposit put into bank.

It is a form of Other Income to the company because Fixed Deposit placement is not a principal business activity to the company.

Fixed Deposit Interest will be paid by bank on Fixed Deposit Maturity.

For example, placement of Fixed Deposit of RM1,000,000 on 12/03/2018 for one year at interest rate of 3.5% per annum.

This FD will expire on 11/03/2019. On 11/03/2019, bank will pay the interest earned of RMRM35,000 to the company ( $RM1,000,000 \times 3.5\%$ )

The FD Interest may either choose to:

- Credited into current account
- Capitalized (add on) into FD account

## 7.6 Application of Accrual Concept on Fixed Deposit Interest

Accrual Concept shall apply when Financial Year End come before Fixed Deposit Expiry Date.

For example:

placement of Fixed Deposit of RM1,000,000 on 12/03/2018 for one year at interest rate of 3.5% per annum.

Financial Year End of the company is on every 31<sup>st</sup> Dec.

In this case, Fixed Deposit period cover from 12/03/2018 – 11/03/2019

Financial Year End on 31<sup>st</sup> Dec 2018 and come before 11/03/2019

Interest earned from 12/03/2018 – 31/12/2018 shall be calculated as FD Interest Receivable.  $(RM1,000,000 \times 3.5\% \times 295 \text{ days} / 365 \text{ days}) = RM28,287.67$

Because, in this period the company already earned some interest is just this amount remain outstanding as bank will only pay upon expiry date which is on 11/03/2019.

This FD interest Receivables shall be classified under Current Asset in Balance Sheet.

## 7.7 Fixed Deposit Interest Income Recording

Double Entries shall differentiate among

- Fixed Deposit Interest Income received upon maturity and bank into current account
- Fixed Deposit Interest Income received upon maturity and capitalized into FD account
- Fixed Deposit Interest Income receivable before maturity date
- Fixed Deposit Interest Income receivable reversal upon maturity date

7.7.1 Fixed Deposit Interest Income received upon maturity and bank into current account

Dr Bank - BS  
Cr Fixed Deposit Interest Income – P&L

7.7.2 Fixed Deposit Interest Income received upon maturity and capitalized into FD account

Dr Fixed Deposit - BS  
Cr Fixed Deposit Interest Income – P&L

7.7.3 Fixed Deposit Interest Income receivable before maturity date

Dr Fixed Deposit Interest Receivable - BS  
Cr Fixed Deposit Interest Income – P&L

7.7.4 Fixed Deposit Interest Income receivable reversal upon maturity date

Dr Fixed Deposit Interest Income – P&L  
Cr Fixed Deposit Interest Receivable – BS