

Lesson 7 : Accounting for Current Asset

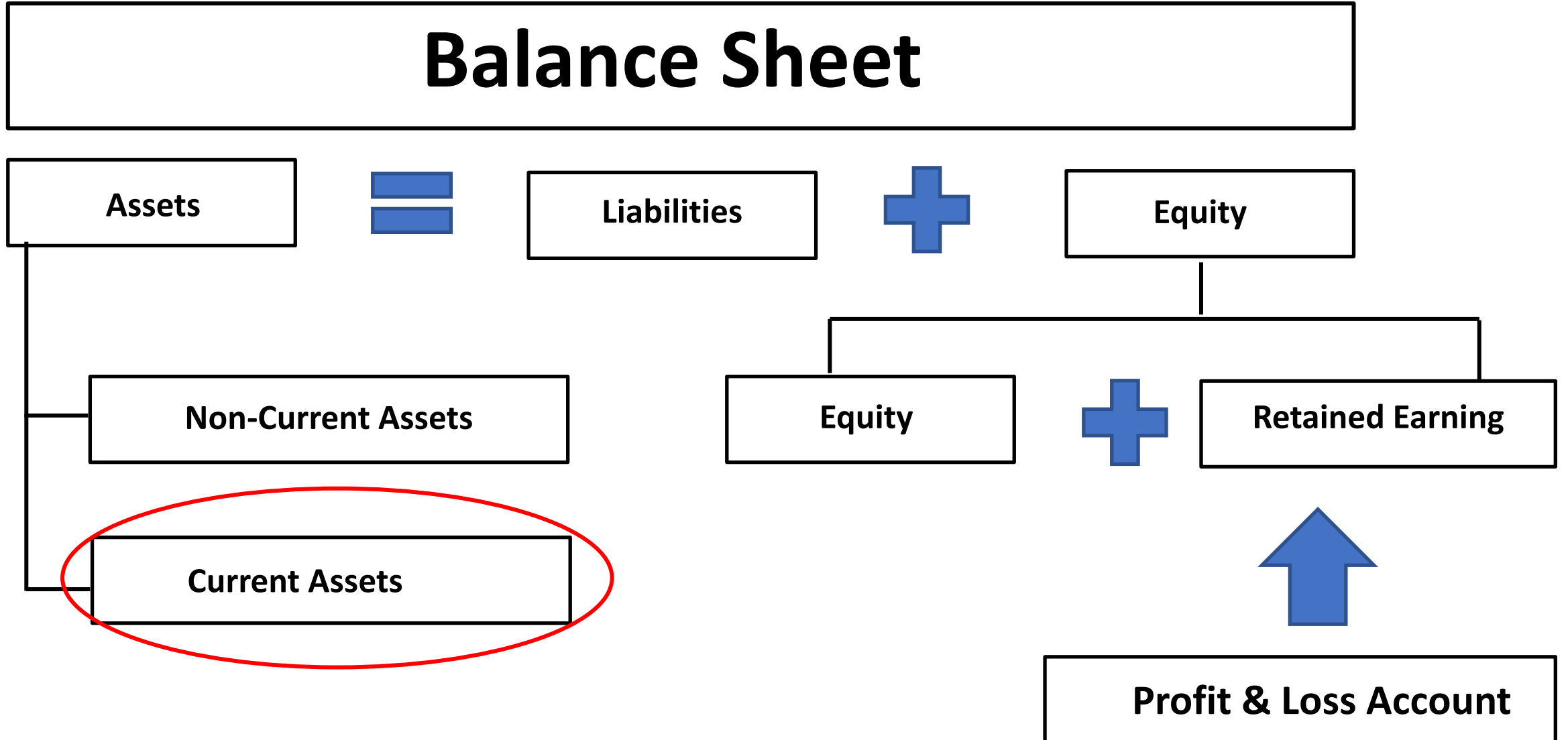
7.1 Cash and Bank Balances

7.2 Fixed Deposits

7.3 Receivables

7.4 Inventory

Recap Accounting Equation & Financial Statements



Current Assets



Cash

+



Cash
Equivalents

+



Inventory

+



Accounts
Receivables

+



Prepaid
Expenses

+



Marketable
Securities

Fixed Deposit

A hand in a light blue shirt is shown placing a gold coin onto a stack of other gold coins. The stacks of coins are arranged in a descending order from left to right, with the tallest stack on the far left and the shortest on the far right. The background is a blurred office setting.

- The fixed deposit account is **an asset** and will be shown on the **balance sheet** as either **current or non-current**, depending on whether the term of the deposit is **less than or more than one year** from the balance sheet date.
- When a business has **surplus cash**, it might choose to place it on deposit for a period of time in order to **earn interest**
- Fixed Deposit can be used as a **form of collateral** to obtain a credit facility from bank

Fixed Deposit Journal Entry

For example:

A business owner has surplus bank balance of 4,000 and places this on deposit with a bank, then the bookkeeping journal entry would be as follows:

The accounting records will show the following bookkeeping entries for the fixed deposit.

Fixed deposit journal entry	Debit	Credit
Fixed deposit account	4,000	
Bank		<u>4,000</u>
Total	<u>4,000</u>	<u>4,000</u>

Interest

- Interest incomes that record in **income statement** referred to non-operating income or **other income** that entities **earned** during the **periods of time from their investment**.
- Interest on fixed deposit will be **received at the time of maturity**. The interest will either:
 - added to the fixed deposit account (Interest Capitalized)
 - bank into company current account
- Interest earned but **not received** “**Interest Receivable**”(Current Assets / Receivable)

Interest Receivables vs Interest Received

Financial Year End 31/12/2021

FD Period	Interest Receivables	Interest Received
Period FD with bank 1 mth, 3 mth, 6 mth & 1 year	Calculate interest at Financial Year End	Actual Interest paid by bank
14/3/2021 – 13/3/2022	14/3/2021 – 31/12/2021	14/03/2021 – 13/3/2022
RM500,000 @ 3%p.a	14/3/2021 – 31/12/2022 = 293 days $RM500,000 \times 3\% \times 293/365$ =RM12,041	14/3/2021 – 31/12/2022 = 365 days $RM500,000 \times 3\%$ = RM15,000
Double Entries (if the money direct bank into bank)	Dr Interest Receivables - BS Cr Interest Income - PL	Dr Bank -BS Cr Interest Income Dr Interest Income PL Cr Interest Receivables BS

Interest Receivables vs Interest Received

Financial Year End 31/12/2021

FD Period	Interest Receivables	Interest Received
Double Entries (if the money capitalized into FD Account)	Dr Interest Receivables Cr Interest Income	Dr Fixed Deposit Cr Interest Income Dr Interest Income Cr Interest Receivables

Interest Receivables							
31/12/2021	Interest 14/3/21 - 31	2	12,041.10	31/12/2021	Balance c/f		12,041.10
01/01/2022	Balance b/f		12,041.10	13/03/2022	Interest Received	4	12,041.10

Interest Income							
Date	Details	Reference	RM	Date	Details	Reference	RM
31/12/2021	P&L		12,041.10	31/12/2021	Interest Receivables	2	12,041.10
13/03/2022	Interest Receivable I	4	12,041.10	13/03/2022	Interest Received	3	15,000.00
31/12/2021	P&L		2,958.90				
			15,000.00				15,000.00

Interest

Example:

Company having FYE 31 Dec, place FD RM100,000 on 12/03/2014 for 2 years with interest rate of 3.15% p.a. Interest bank in to account on 11/03/2016 upon maturity.

1. Compute Interest Earned for FY 2014,2015 and 2016
2. Prepare T-Ledger for Financial Year End 2014,2015 and 2016
3. What if FD continue to renew and interest capitalized

Excel Sample

ABC Sdn Bhd													
Subject : Fixed Deposit													
FY 31/12/2014													
FD Cert No	Amount	From	Maturity Date	Rate	No of Days	Principal + Interest				Interest Receivables			
						Balance b/f	Addition	Withdrawal	Balance c/f	Balance b/f	Receivable	Received	Balance c/f
FD123456	100,000.00	12/03/2014	11/03/2016	3.15%	295		100,000.00		100,000.00	-	2,545.89		2,545.89

Balance Sheet As At 31/12/2016

Non Current Asset

Current Assets

Other Receivables

Interest Receivables

Fixed Deposit