

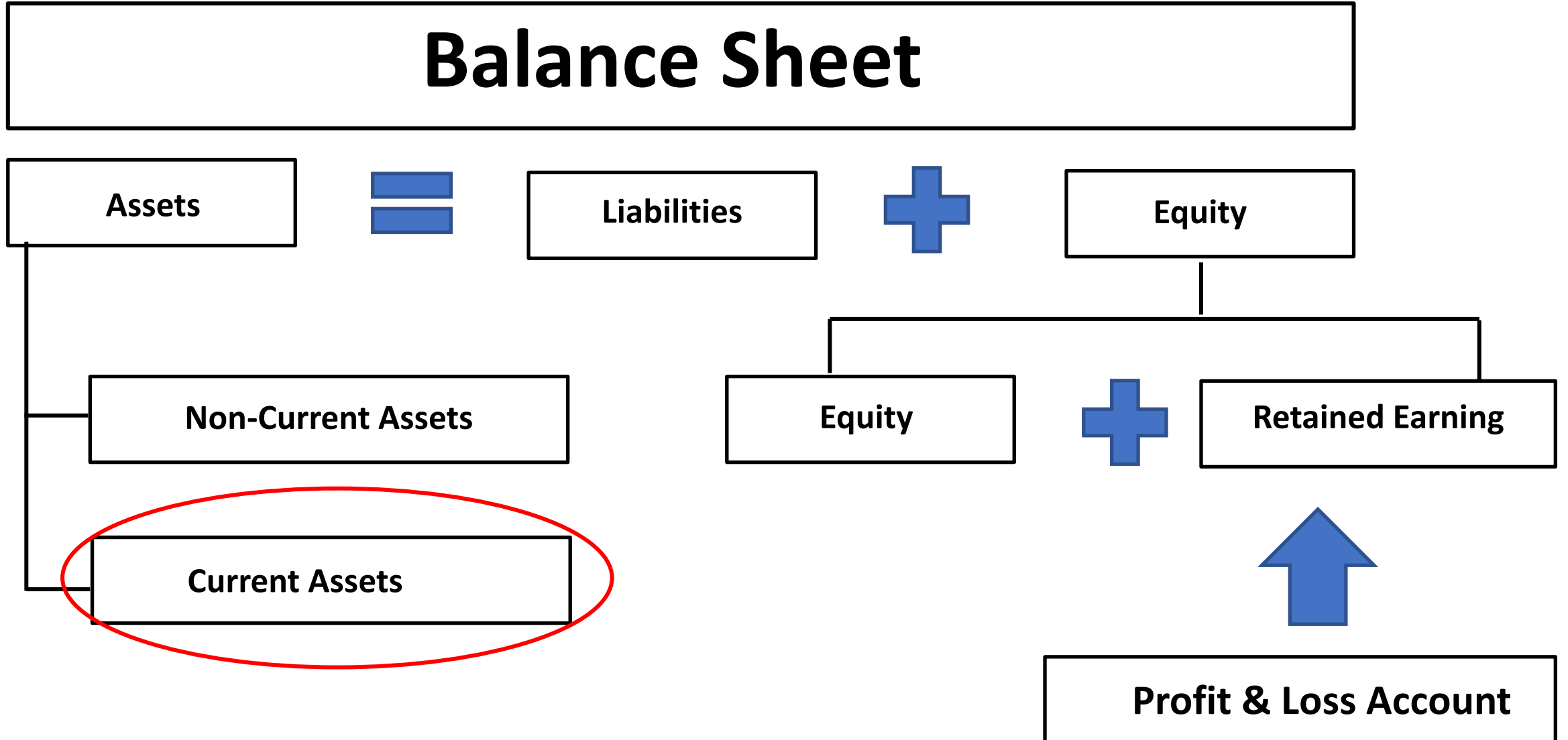
Lesson 8.1 : Accounting for Current Asset - Receivables

8.1.1 What Are Receivables

8.1.2 Type of Receivables

8.1.3 Adjustment for Other Receivables
&Prepayment

Recap Accounting Equation & Financial Statements



Current Assets



Cash

+



Cash
Equivalents

+



Inventory

+



Accounts
Receivables

+



Prepaid
Expenses

+

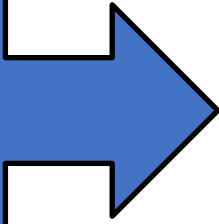


Marketable
Securities

What Are Receivables

- The term receivables refers to a person owing to the company.
- The term receivables could include both:
 - Account/Trade receivables
 - Other/Non-Trade receivables
- Both reported in Balance Sheet under Current Assets as:
 - Trade Receivables
 - Other Receivables

Your Customer /
Other business
partner owing to
your company



Receivables

Account / Trade Receivables

- are amounts that **customers owe** the company **for normal credit purchases**
- generally **collected within two months** of the sale, they are considered a **current asset**
- usually appear on balance sheets **below inventory**

Other Receivables

- other types of receivables
- For example, interest revenue from fixed deposit is accrued at the end of each accounting period and placed in an account named **interest receivable**
- **Wage advances**, formal loans to employees, or **loans to other companies** create other types of receivables
- **Deposits / prepayment / Deferred expenditure**

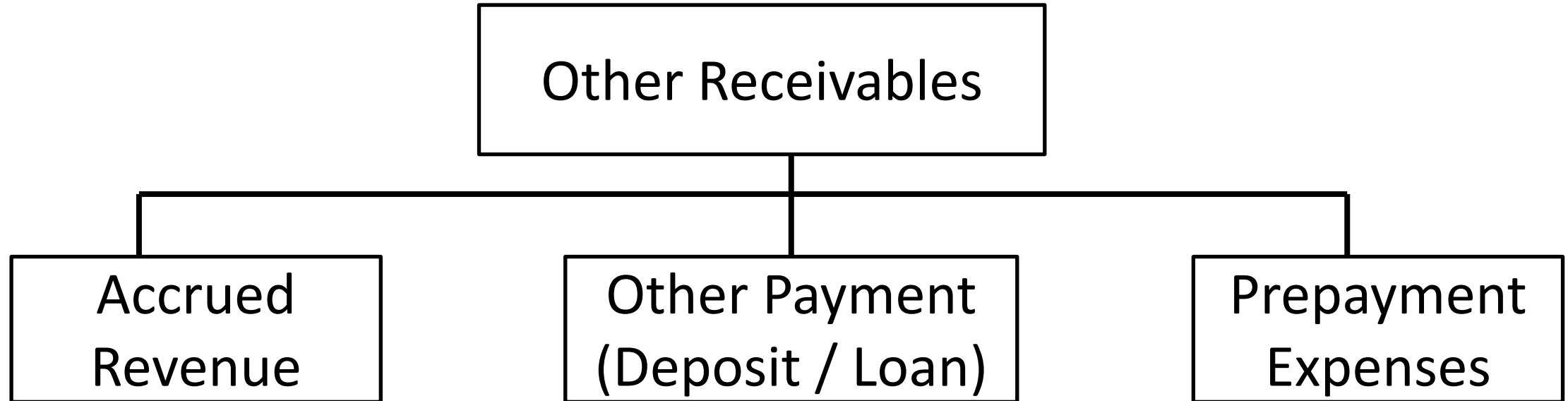
What Are Account / Trade Receivables

- are debts owed to a company by its customers for goods or services that have been delivered or used but not yet paid for.
- Companies that allow customers to purchase goods or services on credit will have receivables on their balance sheet.
- Receivables are recorded at the time of a sale when a good or service has been delivered but not yet been paid for.
- Receivables will decrease when payment from customers is received.

What Are Other / Non-Trade Receivables

- These receivables include various forms of nontrade receivables which do not generally result from the operations of the business.
- Other income that the company **earned but not yet received** may classified as Other Receivables for examples:
 1. Interest receivable
 2. Insurance claims receivable
 3. Rental receivable
 4. Loan / advances to Staff (Other payment)
- Prepayment shall classify as other receivables it is services that the company **paid in advance but use later**
- Any deposit payment that the company paid for security purpose and shall refund at later date shall classify as Other Receivables.

Types of Other / Non-Trade Receivables



- Other income or any receipts
- should be received in this accounting year but not receive
- Adjustment in account - Journal

- Payment already made
- For a specific purpose
- The amount that we paid can be recover back from the recipient
- Not an adjustment but a payment journal

- Payment already made
- For future date services / expenses
- Adjustment in account - Journal

Example 8.1 – Interest Receivables

On 18/03/2018, Wong Sdn Bhd deposit its surplus fund of RM1,500,000 from its current account to FD account.

FD rate at 3.5% per annum and the maturity date is 6 months and FD interest is add on to principal (capitalize)

Wong Sdn Bhd withdraw the FD on 17/3/2019 and its financial year end is on 31 Dec.

1. Compute Interest for FYE 2018 & 2019
2. Prepare Journal Entries for FYE 2018 & 2019
3. Prepare Ledger for FYE 2018 & 2019
4. Prepare Extract P&L and Balance Sheet for FYE 2018 & 2019

Example 8.2 (i) – Rental Income

Wong Sdn Bhd having a shoplot, on 15/06/2018 enter into a 2 years tenancy agreement with Janice.
Terms of the Tenancy Agreement as follows:

Rental commencement date	1/7/2018
Rental per month	RM18,000
2 months Rental Deposits	RM36,000
1 month Utility Deposit	RM18,000
1 months Rental in advance	RM18,000

Janice made all payment on 18/06/2018

How to record July 2018 Rental Income

How to record Aug 2018 Rental when Janice paid in Sep 2019

Required:

1. Prepare journal entries for the above transactions
2. Prepare all related ledger
3. Prepare extract P&L and Balance Sheet

Example 8.2 (ii) – Rental Expenses

Wong Sdn Bhd rent a shoplot, on 15/06/2018 enter into a 2 years tenancy agreement with Janice. Terms of the Tenancy Agreement as follows:

Rental commencement date	1/7/2018
Rental per month	RM18,000
2 months Rental Deposits	RM36,000
1 month Utility Deposit	RM18,000
1 months Rental in advance	RM18,000

Wong Sdn Bhd made all payment on 18/06/2018

How Wong Sdn Bhd record July 2018 Rental Expenses

How Wong Sdn Bhd record Aug 2018 Rental Expenses which paid in Sep 2018

Required:

1. Prepare journal entries for the above transactions
2. Prepare all related ledger
3. Prepare extract P&L and Balance Sheet

Example 8.3 – Other Payment

Mr Wong pays Dragon Restaurant RM3,000 on 1 March 2016 as booking fees for a wedding banquet to be held on 31st July 2016

Should **Dragon Restaurant** recognize the RM3,000 as revenue for the month of March 2016

Required:

1. Prepare journal entries
2. Prepare ledger
3. Prepare extract P&L and Balance Sheet

Example 8.4 – Prepayment

A company pays RM12,000 for an annual subscription to a business executive club on 1st January 2016 and recognize as prepayment at that time.

Required:

Show the necessary journal entries on 1st January 2016 and 31st January 2016

1/1/2016 Subscription – PL 12,000 (doesn't follow **matching concept** is not advisable to do like this)
1/1/2016 Bank 12,000

1/1/2016 DR Prepayment –BS 12,000
1/1/2016 CR Bank 12,000

31/1/2016 Dr Subscription - PI 1,000
31/1/2016 Cr Prepayment – BS 1,000

Example 8.5 – Prepayment

A business entity pays RM120,000 for software license and support services for 6 months in advance on 1st April 2016 to Software Development Sdn Bhd. This transaction was initially fully recorded as expenses in the month in which the payment was made.

Required:

1. Prepare Journal Entry for the transaction made initially
2. State whether the initial transaction is correct and why?
3. Prepare a rectification ledger to correct the mistake