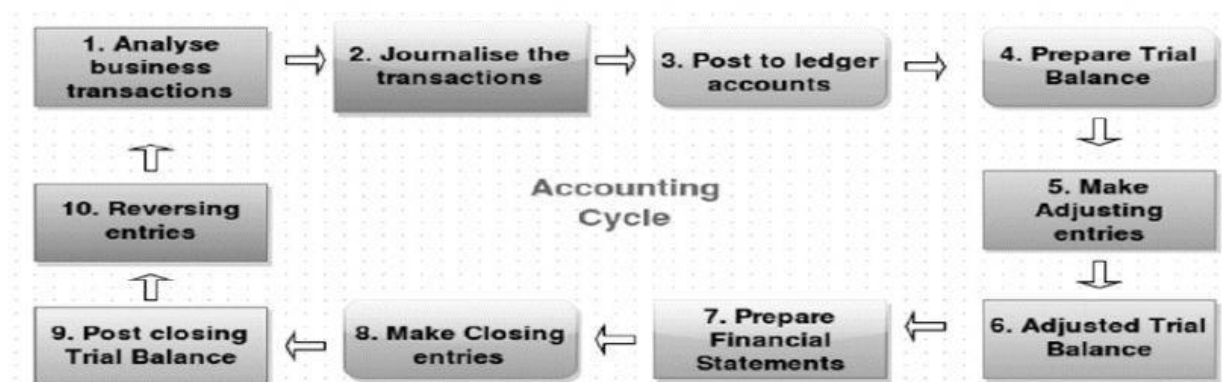


CHAPTER 3: THE ACCOUNTING CYCLE

Learning Outcomes

- 3.1 Steps in The Accounting Cycle
- 3.2 Types of source Documents
- 3.3 Journalising Process
- 3.4 Prepared a subsidiary ledger
- 3.5 Preparation of Trial Balance
- 3.6 Preparing Financial Statement for Merchandising and Service Entities

3.1 Steps in the Accounting Cycle



1. Identify business events and analyze the transactions. The first step includes the preparation of business documents, or source documents. A business document serves as basis for recording a transaction.
2. Record the transaction in journal entries. Business transactions are recorded using the double-entry bookkeeping system. They are recorded in journal entries containing at least two accounts (one debited and one credited).
To simplify the recording process, special journals are often used for transactions that recur frequently such as sales, purchases, cash receipts, and cash payment (cash disbursements). A general journal is used to record those that cannot be entered in the special books.
Transactions are recorded in chronological order and as they occur.
Journals are also known as Books of Original Entry.
3. Post journal entries to applicable T-accounts or ledger accounts.
4. Prepare an unadjusted trial balance from the general ledger.
5. Analyze the trial balance and make end of period adjusting entries.
6. Post adjusting journal entries and prepare the adjusted trial balance.
7. Use the adjusted trial balance to prepare financial statements (Statement of Profit or Loss & Statement of Financial Position).
8. Close all temporary statement of profit or loss accounts with closing entries.
9. Prepare the post closing trial balance for the next accounting period.

3.2 Types of source Documents

- ☐ Source documents identify and describe transactions.
- ☐ A source document is a proof (evidence) for each business transaction that has occurred.
- ☐ Source documents provide objective and reliable evidence for useful information.

Invoice

- Issued by the seller to the buyer in the event of a credit transaction.
- Original invoice – credit purchase
- A copy of the invoice – credit sales

Delivery Note

- Issued by the seller to the buyer and delivered together with the goods.
- Enable buyers to check the items received.

Debit Note

- Issued by the seller to the buyer to inform that his account has been debited in the seller's books of accounts (increase debt).

Credit Note

- Issued by the seller to the buyer to inform the buyer that his account has been credited in the seller's books of accounts (reduce debt).

Purchase Order

- Issued by the buyer to the seller that contains information about the goods to be purchased.

Receipt

- Issued by the seller when receive payments from the buyer.
- Provide evidences for receipts and payments of items that have been made.

Payment Voucher

- Internal documents issued by a business to record any kind of payments.

Cheque stub

- A part of a check that is kept for record keeping purposes.
- For example, the stub is the part of a payroll check that includes information about the current paycheck as well as payments to date.

Bank Slip

- A form issued by the bank for any transaction of deposits or withdrawals of money from customers.

Bank Statement

- Issued by the bank to the account holder at the end of the month.

3.3 Journalising Process

Special Journal

- Special journals are for recurring similar type transactions
- The formats or designs for special journals usually depends on each business
- It means, the number of columns, column headings, and so on depends on what is best suited for each business
- The most likely special journals are for sales, cash receipts, purchases, and cash disbursements
- However, a business could add more special journals for other recurring transactions
- Our topic of discussions will assume the use of four special journals along with the general journal

The four categories of special journals:

Sales Journal	to record all sales of merchandise on credit
Purchases Journal	to record all purchases of merchandise on credit.
Cash receipts journal	to record all receipts by cash and cheques.
Cash payments journal	to record all payments made by cash or cheques.

General Journal

- A general journal can be used to record any transactions
- However, the use of only a general journal for all transactions is more costly and is not an efficient tool for control purposes
- For an effective internal control procedure and to reduce costs, transactions are organized into similar type groups called special journals
- Thus, a business can use special journals along with the general journal

The General Journal is used to record transactions that can not be recorded in special journals, namely: -

- ✓ Sales returns and allowances
- ✓ Purchase returns and allowances
- ✓ Drawings of goods
- ✓ Purchase of assets on account
- ✓ Sales of fixed assets on account
- ✓ Non-cash capital contribution
- ✓ Adjusting entries
- ✓ Closing entries
- ✓ Correcting entries

3.4 Prepare a Subsidiary Ledger

SUBSIDIARY LEDGERS - is a group of accounts with a common characteristic

1. SUBSIDIARY LEDGER OF ACCOUNTS RECEIVABLE	2. SUBSIDIARY LEDGER OF ACCOUNTS PAYABLE
➤ record all transactions related to DEBTORS with their balances	➤ record all transactions related to CREDITORS with their balances

3.5 Preparation of Trial Balance

- A Trial Balance is a list of accounts and their balances at a given time.
- The accounts are listed in the order in which they appear in the general ledger; debit balances are listed in the left column and credit balances in the right column.
- The sum of the debit account balances in the trial balance should equal the sum of the credit account balances.
- The Trial Balance is prepared to confirm/verify the balance of total debits and the total credits at the end of an accounting period.
- In conclusion, the Trial Balance is a summary of account balances in the ledger.

PRACTICE EXERCISES

Parit 18 Enterprise Business Transactions

	Transactions
2016 Mar 1	Started a wholesale business in traditional biscuit with RM100,000 as initial capital into the bank.
2	Bought a vehicle worth RM50,000 on credit by issuing Notes Payable, 5%, for a period of 5 years from Toyota Capital.
3	Bought biscuits RM30,000 from suppliers, Hani Enterprise and payments are made by cheque No. 515.
4	Sold on credit 100 boxes of cookies worth RM16,800 to Jasni Enterprise, invoice no. kz001. Terms 2/15, n / 30.
6	Sold on credit 50 boxes of biscuits worth RM10,200 to Dani Enterprise, invoice no. kz002. Terms 2/15, n / 30
11	Bought biscuits on credit worth RM 52,600 from Doremi Enterprise, terms 2/15, n / 30.
12	Jasni Enterprise returned defective goods worth RM800.
14	Received payments from Jasni Enterprise for the sale on 4 March.
16	Received a credit memo from Doremi Enterprise for the returned of RM200 defective biscuits.
21	Issued a cheque No. 516 to Doremi Enterprise, for the payment of invoice dated on March 11, after goods returned and discounted.
22	Bought biscuits on credit worth RM41,625 from Wali Enterprise, terms 2/15, n / 30.
31	Issued Cheque no. 517, RM15,900 for the payments of employees' salary.
31	Made cash sales of RM 134 680.

Instructions:

- a. Record the business transactions of Parit 18 Enterprise into the appropriate journals.
- b. Post to the appropriate ledgers.
- c. Prepare the trial balance on 31 March 2016.

SOLUTION:

- a. Record the business transactions of Parit 18 Enterprise into the appropriate journals.

SALES JOURNAL

Date	Accounts Debited	Terms	Accounts Receivable – Dr Sales– Cr
31	Total		RM27,000

PURCHASES JOURNAL

Date	Accounts Credited	Terms	Purchases – Dr Accounts Payable – Cr
31	Total		RM 94,225

CASH RECEIPTS JOURNAL

Date	Accounts Credited	Cash Dr RM	Bank Dr RM	Sales Discounts Dr RM
31	Total	150,360	100,000	320

CASH PAYMENTS JOURNAL

Date	Accounts Debited	Cash Cr RM	Bank Cr RM	Purchase discounts Cr RM
31	Total		97,252	1,048

GENERAL JOURNAL

Date	Account Titles and Explanations	Debit RM	Credit RM

b. Post to the appropriate ledgers.

1. Subsidiary Ledger of Accounts Receivable

- Refer to the Sales Journal, the General Journal and the Cash Receipts Journal.
- Identify all transactions related to Jasni Enterprise and Dani Enterprise.

ACCOUNTS RECEIVABLE SUBSIDIARY LEDGER

Columnar Form

Jasni Enterprise					
Date	Particulars	Ref	Debit	Credit	Balance(Dr)

Dani Enterprise					

@

'T' Account Form

Jasni Enterprise			
Dani Enterprise			

2. Subsidiary Ledger of Accounts Payable

- Refer to the Purchase Journal, the General Journal and the Cash Payments Journal.
- Identify transactions related to Doremi Enterprise and Wali Enterprise.

ACCOUNTS PAYABLE SUBSIDIARY LEDGER

Columnar Form

Doremi Enterprise					
Date	Particulars	Ref	Debit	Credit	Balance(Cr)
Wali Enterprise					
Date	Particulars	Ref	Debit	Credit	Balance(Cr)

@

'T' Account Form

Doremi Enterprise	

3. Posting Journal Entries to General Ledger

General ledger Definition:

A whole group of accounts controlled by a business. It consists of accounts of all assets, liabilities and owner's equity.

Posting is the process of transferring entries from journals into the appropriate ledgers.

Based on the question Parit 18 Enterprise, show the accounts to be prepared in the general ledger

Sales Journal	Sales, Accounts Receivable
Purchases Journal	Purchases, Accounts Payable
Cash Receipts Journal	Cash, Bank, Sales Discounts,Capital, Sales, Account Receivable.
Cash Payments Journal	Cash, Bank, Purchase Discounts, Purchases , Accounts Payable, Salary Expenses
General Journal	Vehicle, Notes Payable, Sales Returns and Allowances Purchase Returns and Allowances.

GENERAL LEDGER

Columnar Form

Cash					
Date	Particulars	Ref	Debit	Credit	Balance (Dr)

Bank					
Date	Particulars	Ref	Debit	Credit	Balance (Dr)
Accounts Payable					
Date	Particulars	Ref	Debit	Credit	Balance (Cr)
Purchases					
Date	Particulars	Ref	Debit	Credit	Balance (Dr)
Sales Account					
Date	Particulars	Ref	Debit	Credit	Balance(Cr)

Accounts Receivable					
Date	Particulars	Ref	Debit	Credit	Balance (Dr)
Sales Discount					
Date	Particulars	Ref	Debit	Credit	Balance (Dr)