Effects

<table>
<tr><td>Double entry</td><td>Effects of non-adjustment and adjustment</td></tr>
<tr><td>Dr other income (-l)
Cr Income received in advance</td><td>Effects of non-adjustment of income received in advance
<table>
<tr><td>Income Received In Advance</td><td>Effect on Other Income</td><td>Effect on Profit</td><td>Effect on Current Liability</td></tr>
<tr><td>Not adjusted</td><td>Overstates</td><td>Overstates</td><td>Understates</td></tr>
<tr><td>Correctly adjusted</td><td>Decreases</td><td>Decreases</td><td>Increases</td></tr>
</table></td></tr>
<tr><td>Dr Income receivable (+A)
Cr Other Income (+l)</td><td>Effects of non-adjustment of income receivable
<table>
<tr><td>Other Income receivable</td><td>Effect on Other Income</td><td>Effect on Profit</td><td>Effect on Current Asset</td></tr>
<tr><td>Not adjusted</td><td>Understates</td><td>Understates</td><td>Understates</td></tr>
<tr><td>Correctly adjusted</td><td>Increases</td><td>Increases</td><td>Increases</td></tr>
</table></td></tr>
<tr><td>Dr Other Expenses (+Ex)
Cr Expense Payable (+L)</td><td>Effect Of non-adjustment of expenses payable
<table>
<tr><td>Expense Payable</td><td>Effect on Expenses</td><td>Effect on Profit</td><td>Effect on Current Liability</td></tr>
<tr><td>Not adjusted</td><td>Understates</td><td>Overstates</td><td>Understates</td></tr>
<tr><td>Correctly adjusted</td><td>Increases</td><td>Decreases</td><td>Increases</td></tr>
</table></td></tr>
<tr><td>Dr Prepaid expenses (+A)
Cr Other expenses(-Ex)</td><td>Effect of non-adjustment of prepaid expenses
<table>
<tr><td>Prepaid expenses</td><td>Effect on expenses</td><td>Effect on Profit</td><td>Effect on Current Asset</td></tr>
<tr><td>Not adjustes</td><td>Overstates</td><td>Understates</td><td>Understates</td></tr>
<tr><td>Correctly adjusted</td><td>Decreases</td><td>Increases</td><td>Increases</td></tr>
</table></td></tr>
</table>

<table>
<tr>
<td>Dr Impairment loss on inventory (+Ex)
Cr Inventory (-A)</td>
<td>Effect of non-adjustment of impairment loss on inventory
<table>
<tr><td>Impairment loss on inventory</td><td>Effect on other expenses</td><td>Effect on profit</td><td>Effect on Current Asset</td></tr>
<tr><td>Not adjusted</td><td>Understates</td><td>Overstates</td><td>Overstates</td></tr>
<tr><td>Adjusted</td><td>Increases</td><td>Decreases</td><td>Decreases</td></tr>
</table>
</td>
</tr>
<tr>
<td><u>Increase in allowance</u>
Dr Impairment loss on trade receivables (+Ex)
Cr Allowance for impairment of trade receivables (+ CA)

<u>Decrease in allowance</u>
Dr Allowance for impairment of trade receivables (+CA)
Cr Impairment loss on trade receivables (-Ex)</td>
<td>Effect of non-adjustment of allowance
<table>
<tr><td>Did not adjust</td><td>Effect on other expenses</td><td>Effect on profit</td><td>Effect on current assets</td></tr>
<tr><td>Increase in allowance</td><td>Understates</td><td>Overstates</td><td>Overstates</td></tr>
<tr><td>Decrease in allowance</td><td>Overstates</td><td>Understates</td><td>Understates</td></tr>
</table>
Effects of adjustment of allowance
<table>
<tr><td>After adjustment</td><td>Effect on other expenses</td><td>Effect on profit</td><td>Effect on current assets</td></tr>
<tr><td>Increase in allowance</td><td>Increases</td><td>Decreases</td><td>Decreases</td></tr>
<tr><td>Decrease in allowance</td><td>Decreases</td><td>Increases</td><td>Increases</td></tr>
</table>
</td>
</tr>
<tr>
<td>Different methods of depreciation</td>
<td>Effects of using different methods of depreciation
<table>
<tr><td>Method of Depreciation</td><td>Effect on other expenses</td><td>Effect on Profit</td><td>Effect on Non-current Asset</td></tr>
<tr><td>Straight Line</td><td>Equal depreciation expense every year</td><td>Profit decreases by an equal amount every year</td><td>Net book value decreases by an equal amount every year</td></tr>
<tr><td>Reducing balance</td><td>Higher depreciation expense in earlier years and reduces over time</td><td>Profit decreases by a higher amount in earlier years</td><td>Net book value decreases by a higher amount in earlier years</td></tr>
</table>
</td>
</tr>
</table>

Theories

Accounting entity: The activities of a business are separate from the actions of the owner. All transactions are recorded from the business point of view.

Accounting period: The life of a business is divided into regular time intervals

Going concern: A business is divided into regular time intervals.

Accrual basis of accounting: Business activities that have occurred, regardless of whether cash is paid or received, should be recorded in the relevant accounting period

Consistency: Once an accounting method is chosen, this method should be used to all future accounting periods to enable meaningful comparison.

Historical cost: Transactions should be recorded at their original cost

Monetary: Only business transactions that can be measured in monetary terms are recorded

Revenue Recognition: Revenue is earned when goods have been delivered or services have been provided.

Matching: Expenses incurred must be matched against income earned in the same period to determine the profit for that period.

Prudence: The accounting treatment chosen should be the one that least overstates assets and profits and least understates liabilities and losses

Objectivity: Accounting information recorded must be supported by reliable and verifiable evidence so that financial statements will be free from opinion and biases

Rule:

1. State the double entry recording rule.
   - Each business transaction will affect at least two accounts.
   - At least one account will be debited, where the amount will be recorded on one debit column of that account
   - At least one account will be credited, where the amount will be recorded on the credit column of that account

Goods return:

2. State two reasons why customers might make returns.
   - Goods are defective/faulty/spoiled/expired.
   - Goods delivered are different from what were ordered e.g. wrong specifications.

Type of transaction

1.State the difference between a cash transaction and a credit transaction

Payment is made at the same time or immediately during a cash transaction while payment is delayed or postponed during a credit transaction,

2. Suggest a reason why a business buys services on credit instead of paying cash for them.

When the business buys services on credit, it is able to delay payment and use the cash to meet its immediate needs.

Accounting cycle

List the stages of the accounting cycle

- The accounting cycle comprises four stages
  - Source documents are used to identify and record transactions daily
  - The ending balance of ledger accounts are listed in a trial balance and =adjusted at least once in a financial year
  - After the financial statements are finalised, income, expenses, income summary, drawings and dividends accounts are closed at the end of the financial statements.

Accounting information system

What is an accounting information system?

- Accounting information system is a system that a business collect, store and process accounting data

State the order in which financial transaction are processed through the accounting system

- Source documents, journal, ledger, trial balance, financial statements

Source documents

6. What are source documents?

Source documents provide evidence / proof that transactions have occurred and details that can be recorded in a journal.

7. State one reason why business would issue a credit note to a customer.

Business issues crest note to reduce the amount owed by credit customers.

- Who were previously overcharged
- After goods were returned

Source documents and its purpose ;

Source document	Purpose of source document
Receipt	Acknowledges payment received from customers immediately after the business has sold goods or provided services.
Remittance advice	Informs credit supplier that payment by cheque has been made for a specific invoice
Invoice	Informs credit customers of the amount owed after the business sold goods for provided services on credit
Credit note	Reduces the amount owed by credit customers: • Who were previously overcharged • After goods were returned
Debit note	Increases the amount owed by credit customers who were previously undercharged
Payment voucher	Processes payment to credit suppliers: • Must be approved by authorised personnel • Must be supported by original supplier's invoice
Bank statement	Checks and tallies against the business records of its cash at bank account

Elements of financial statements

Non-current assets
1. Benefits last beyond one financial year
2. Not easily converted into cash

Current assets
1. Benefits are used within one financial year
2. Are easily converted into cash

Non-current liability:
1. Due to be paid beyond one financial year

Current liabilities
1. Due to be paid within one financial year

Income
- Amounts earned from the activities of a business

Income receivable

- Income earned but not received yet

Income received in advance

- The earned revenue which is to be earned in the future but is already received in the current accounting period

Revenue

- Amounts earned from the main activities of a business

Expenses

- Cost incurred to earn income in the same accounting period

Double entry recording

Debit (Dr) : assets + expense + drawings
Credit (Cr) : liabilities + capital + income

Ledger account

Date	Particles	Debit	Credit	Balance
20X3		\$(+)	\$(-)	\$
Nov 1	Balance b/d			375Dr
4	Advertising expense		1400	
7	Trade receivable -Fun Internet Cafe	3580		
12	Inventory		2420	
15	Trade payable -Hit Technology		2250	
23	Salary expense		1590	
26	Cash in hand	500		
31	Interest expense		30	3175Cr
Dec 1	Balance b/d			3175Cr

Trial Balance

1. Reversal of impairment loss on trade receivables is shown as a negative expense, with the use of brackets. e.g.(300)
2. Loss for the year/period is shown as a negative number, with the use of brackets. e.g.(1000)
3. If customers did not return goods <zero sales returns>, there is no need to calculate net sales revenue.Hence, sales revenue can be recorded in the outer column.

- Trading portion

Shows the gross profit or loss from the buying and selling of goods

- Profit and loss portion

- Reports the overall profit earned from operating the business
. - Profit or loss for the period is the final profit after including other income and deductions other expenses

Statement of Financial Statement

1. The additional sub headings <cost, accumulated depreciation and net book value> apply to non-current assets only.
2. Values for current assets, operating expenses, non current liabilities and current liabilities continue to follow the three $ columns <innermost, inner, outer>
3. If cash in the business bank account drops below zero, it needs to be re-classified as bank overdraft and reported as a current liability.

Statement of financial performance

- State the purpose of a statement of financial performance

- A statement of financial performance shows the income earned and expenses incurred for a period of time and informs stakeholders of the profitability of a business

- Explain the difference between the statements of a financial statement of financial performance of a trading and of a service business.

- There are two portions of a statement of financial performance for a trading business, trading portion and profit and loss portion. However, for a service business, there is no trading portion in its statement of financial performance.

Statement of financial position

- State the purpose of a statement of financial position

- The statement of financial position lists the assets, liabilities and equity of a business as at a specified date and provides information on how resources are obtained/ funded and used in a business at a point in time.

- State the difference between a current asset and a non-current asset.

- The benefits of current asset are used within one financial year while the benefits of non-current assets last beyond one financial year
- Non-current assets are not easily converted to cash while current assets are easily converted into cash.

- State the difference between a current liability and a non-current liability
- Current liability is due to be paid within one financial year while non-current liability is due to be paid beyond one financial year

Revenue and other income

Income

1. Explain the difference between revenue and other income

- Revenue refers to amounts earned through the main activities of the business while other income refers to amounts earned from business activities other than the main business activity.

Income received in advance	Effect on other income	Effect on profit	Effect on current liability
Not adjusted	Overstates	Overstates	Understates
Correctly adjusted	Decreases	Decreases	Increases
Income recievable			
Not adjusted	Understates	Understates	Understates
Correctly adjusted	Increases	Increases	Increases

What is overstated and understated?

In a double-entry accounting system, if the balance in the account Prepaid Insurance is overstated (too much is being reported) it is likely that the account Insurance Expense is understated (too little is being reported).

Cost of sales and other expenses

Expenses

1. Explain the difference between cost of sales and other expenses.

- Cost of sales refer to the total cost price of goods that have been sole while other expenses refer to cost incurred in the operation business

Expense payable	**Effect on expenses**	**Effect on profit**	**Effect on current liability**
Not adjusted	Understates	Overstates	Understates
Correctly adjusted	Increases	Decreases	Increases
Prepaid Expenses	**Effect on expenses**	**Effect on profit**	**Effect on current liability**
Not adjusted	Overstates	Understates	Understates
Correctly adjusted	Decreases	Increases	Increases

Inventory

Valuation

- State how ending inventory must be valued in the financial statements.
- Inventory is valued at the lower of cost and net realisable value.

First-In-First-Out

- Explain what it is meant by the FIFO method of inventory valuation.
- First-In-First-Out (FIFO) method assumed that goods which are purchased first are sold first. Hence, goods that are purchased first are sold first. Hence, goods that are purchased last are assumed to remain in the business as the ending inventory.

Impairment loss on Inventory

- Explain what is meant by net realisable value.
- Net realisable value refers to the selling price of the inventory less the / lesser than the additional cost to sell the inventory.

Cost of inventory purchased

- Purchase price + Other costs incurred to bring in goods
- Transport <e.g. Shipping, air freight>, custom duties/import tax, insurance on goods in transit, packing materials, wages for employees to repack goods.

Impairment loss on Inventory

- Cost - Net realisable value - Insurance claim receivable

Impairment Loss on Inventory	Effect on other expenses	Effect on Profit	Effect on Current Asset
Not adjusted	Understates	Overstates	Overstates
Adjusted	Increases	Decreases	Decreases

Trade receivables

When	Start of the year	During	End of the year		End of the year
Steps to calculate	0 or given allowance or % X start TR	**Write-off** Debts confirmed uncollectible	**Adjust** Change in estimated uncollectible debts (performance)	=	**END** % X end Trade receivables (position)
Double entry	0 **given/ calculated allowance**	Allowance (-) Trade receivables (-A)	Imp loss on TR (+Ex) Allowance (+) OR Allowance (-) Imp loss on TR (-Ex)		**Calculated Allowance** <Business thinks it may not be able to collect this amount from credit costumes next year> Unlike adjusted financial statement question, there is no additional information.The trade receivables amount given at the end of the year has already been written off.

Non-adjustment	Effect on other expenses	Effect on profit	Effect on current asset
Increase in allowance	Increases	Decreases	Decreases
Decrease in allowance	Decrease	Increases	Increases
Increase in allowance	Understated	Overstated	Overstated
Decrease in allowance	Overstated	Understated	Understated

Non-current assets

Depreciation

1. State two causes of depreciation

- Uage, Wear and tear, Obsolescence, Legal Limits

2. Explain why the business uses the reducing-balance method of depreciation, rather than the straight line method, for motor vehicles.

- The business used the reducing balancing method as the business expects to use the motor vehicles more in its earlier years and ledd as the non-current asset gets older and become less efficient.
- It does not expect to use the motor vehicles uniformly throughout its estimated useful life,hence, straight-line method is not used.

Method of depreciation	Effect on Other expenses	Effect on Profit	Effect on Non-current Asset
Straight line	Equal depreciation expense every year	Profit decreases by an equal amount every year	Net book value decreases by an equal amount every year.
Reducing balance	Higher depreciation expenses in earlier years and reduces over time	Profit decreases by a higher amount in earlier years	Net book value decreases by a higher amount in earlier years.

Scenario-based questions

How to respond to a scenario-based question (SBQ)	Express
Make a choice and state your **decision** clearly ● The decision can be indicated at the **start** or **end** of your answer	1 mark
Support your decision with 3 reasons: ● Extract the relevant **evidence** from the question 1. Choose evidence that **directly** supports your decision 2. Compare evidence, if possible <e.g. cheaper/faster> 3. Show working <e.g. Exactly how much cheaper/faster> ● **Explain** why the evidence supports your decision - Explain how the business will benefit (Business perspective) - Relate explanation to the key questions <see below>	2 marks per evidence + explanation
★ Maximum 1 mark for only decision without any evidence or explanation. ★ A decision only supported with evidence will only get the decision mark and maximum 2 mark or 3 mark for each unique evidence. ★ No additional explanation marks will be awarded where same evidence is explained in two different ways.	7 mark

Key questions

Which goods to buy	● How does buying this item affect our costs/expenses? ● How does selling this item affect out future sales/profit?
Credit worthiness of customers	● How confident are we of this customer's ability to pay? ● How would extending credit to this customer affect our cash flow and future sales?
Which supplier to buy from	● How reliable is this supplier <e.g. Quality of goods, delivery time>? ● How does the terms and conditions offered by this supplier affect our costs/expenses?
Types of information	1. Explain the difference between accounting and non-accounting information. ● Accounting information refers to information usually generated by a business' accounting information system, such as the information that can be extracted by the journal, ledger accounts and financial statements ● Non-accounting information refers to qualitative factors that may reflect current or future trends and fundamentals of a business but are not captured by the accounting equation. 2. Examples of accounting and non-accounting information that a business manager may need.

Example of decision	Accounting Information	Non-accounting Information
Which goods to buy	1. Cost on inventory 2. Storage cost 3. Gross profit margin 4. Rate of inventory turnover (times) 5. Days sales in inventory (days)	- Types of storage - Nature of product - Customer preference
Credit worthiness of customer	1. Trade receivables balance 2. Credit terms and cash discounts 3. Number of days trade receivables are overdue existing customer's history of repayment 4. Rate of trade receivable turnover (times) 5. Trade receivable collection period (days)	- Economic outlook - Specific industry outlook - Reputation of customer - Customer's history of repayment
Which supplier to buy from	1. Cost of inventory 2. Credit terms 3. Cash discounts 4. Cash of supplies 5. Cost of non-current assets 6. Delivery charges 7. Trade discount 8. Cost of services	- Local or overseas supplier - After-sales service - Return policy - Online vs brick and mortar supplier - Reputation of supplier - Warranty

Cost of inventory	• The business benefits from cost savings when the cost of inventory purchased is cheaper • The business can then redirect its spare cash to other business operations
Gross profit margin /gross profit per unit	• An item that can be earning greater gross profit will help the business become more profitable
Nature of product	• If this item is able to meet its customer's needs (e.g. health conscious, environmentally friendly, small and portable) demand for this item is likely to increase (attracting more customers), boosting its sales • If the item is new in the market and only sold by the business, it will enjoy a competitive advantage and face lesser competition, securing future sales • An item with a fancy packaging may attract more customers, boosting its sales
Types of storage	• An Item which require special storage (e.g. refrigeration) will incur additional expense • AN item which is smaller in size require lesser shelf space leading to cost savings (rent).
Customer's preference	• Having additional choice (e.g. flavour, colour) can cater to different customer preference, leading to higher sales volume. • Of this item is popular among customers of all ages / families with children, the business can be assured of high demand and future sales • If a business has been selling this item for some time, it would have garnered a ready customer base and be more confident for future sales
Trade receivables balance (outstanding/owing)	• Extending credit to a customer who owed lesser debts would have a smaller impact on the amount of cash the business has for its daily operations
Annual sales revenue made to this customer	• The business benefits by building customer loyalty with its major customers and securing future sales.
Credit term and cash discount	• If the customer's business is used to enjoying a longer credit period (e.g.40 days), he/she may not be able to pay within the expected credit period (e.g.30 days).This will affect the amount of cash the business has for its daily operations • While offering an incentive i the form of a cash discount would decrease the business' profit, it may encourage this customer to pay earlier, leading to a positive impact on its cashflow
Number of days trade receivables are overdue	• A customer who has overdue payments for a longer time, may be facing financial difficulties • The business has low confidence that this customer is able to repay the debt.

History of repayment (existing/new)	• The business is more confident that the credit customer can repay debts (within the extended credit period) if he/she has been more prompt in payment (paid earlier or late fewer times) • The business benefits by having cash earlier for its daily operations
Specific industry outlook (economic performance of the industry that the customer is in)	• When the industry is booming/growing (with increasing demand), the customer's business will be most likely follow suit and do well, which suggests ability to pay • The business benefits by building customer loyalty and securing future sales • When the industry outlook is weak (with low demand), the customer's business will be adversely affected and less likely to be able to repay its debts.
Economic outlook (economic performance of the country that the customer is in)	• When the country is developing its economy, the customer's business will be able to ride on the economic growth, which suggests the ability to pay, • When the country's economic growth fluctuating or has been on a downward trend, the customer's business will be adversely affected and less likely to be able to repay its debts
Overseas or local customer	• Depending on the communication and finance infrastructure, the business may face additional difficulties in following up on payments with customers who are operating in another country
Reputation of customers	• The business would want to work with and be associated with customers with good reputation • The business has low confidence that a customer with poor reviews or pending lawsuits is able to pay • A customer which has been operating longer could suggest stability (business model/customer base) and ability to pay (despite trying times/in a competitive industry) • A customer which has fewer years of operation, but shows great potential of growth/are growing rapidly may also suggest ability to pay • The business benefits by building customer loyalty and securing future sales

Which supplier to buy from

Cost of inventory /non-current asset/service Delivery charges Installation costs Trade discounts	➔ The business benefits from cost savings when the total cost <purchase price + other costs → trade discounts> is cheaper ➔ The business can then redirect its spare cash to other business operations
Credit terms and cash discounts	➔ A longer repayment period/instalment plan helps the business to free up cash for the business to meet daly operational needs
Local or overseas supplier	➔ The risk of goods getting lost in transit is lower with a local supplier ➔ It may take longer to receive goods from another country as it takes time to ship and clear customs.
Online vs brick-and-mortar suppliers	➔ Suppliers with physical shops provide business with ha opportunity to see and touch the goods and determine its product quality for themselves
After-sales service	➔ If the supplier offers free maintenance/servicing for the first year, the Non-current asset will be in better working condition and less prone to breakdowns (prolong useful life), leading to cost savings(repairs) ➔ If the supplier provides free sample, the business is more confident of its product quality
Return policy	➔ If a supplier offers free returns and exchanges as well as longer period to make returns, the business is more confident of its product quality and also saves on transport cost required to return goods
Warranty	➔ A longer warranty period safeguards the business against possible cost of repair or breakdowns
Reputation of suppliers	➔ When the supplier received positive customers' reviews (prompt in answering queries and delivery, allowing site visits), provide quality goods and services, and follow-up adequately ➔ A supplier which has been operating longer could suggest stability and ability to honour its warranty/return policy