POA Sec 3 (7086) Study Notes

PART 1: Formats and Foundations

Name: ( )	Class/TG:	Date:

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1. How to Use These Notes

1.1. POA Syllabus and 3 Key Understandings

The POA Syllabus is divided into **3 Key Understandings** that you should know by the time you take your exam.

Key Understanding 1: Accounting and non-accounting information is used to support and facilitate decision-making.

Key Understanding 2: Accounting is a language used to represent business activities.

Key Understanding 3: Accounting is an information system to measure business activities.

1.2. Instructions for Using the Notes

Look out for these boxes as you read the notes!

Let's Learn

Scan the QR codes or follow the links in these boxes to access interactive online activities to help you to learn the topic better. These topics are meant to support your understanding of these notes, so you should read the notes and try the online activities together.

Do you understand?

At key points, there will be exercises for you to check your understanding in boxes like this. The answers will be provided at the end of each exercise with the label: "☺ **Check your answer!** ☺".

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These notes are meant to be used together with the ***Self-Revision Checklist***. This box will show you which learning outcome from the ***Self-Revision Checklist*** you have just revised.

- ☐ Learning Outcome 2.1.1 - explain the differences between trading and service businesses.

The highlight colour tells you which Key Understanding this objective is from (E.g. Green highlights mean that this is from KU2).

The number here corresponds to a learning outcome in the Self-Revision Checklist. In this case, this means Key Understanding 2, Content 2.1, and Learning Outcome 2.1.1.

Tick (✓) the relevant checkbox in the ***Checklist*** If you understand what you have just revised.
Circle (O) the relevant checkbox in the ***Checklist*** if you do not understand what you have just learnt. Do consult your teacher for all the items in the ***checklist*** that you have circled! 😊

1.3. Practice, Practice, Practice!

Reading the notes is **not enough**. Do practice with the exercises and revision papers that your teacher has given to you so that you can really check your understanding.

As you practice, you may encounter questions that you don't know how to answer. Use these notes, and the ***Self-Revision Checklist*** to find out which learning outcomes you do not yet understand. You can the revise the topic in more detail using your ***POA Textbook*** or consult your teacher.

When consulting your teacher, do let them know the specific Learning Outcome (and number) that you do not understand. Your teacher will be much better able to help you when they know this.

2. Introduction to Business

2.1. Types of Businesses

The main purpose of a business is to make profits by providing goods or services to customers. The two main types of businesses are **Trading Businesses** and **Service Businesses**.

Type of Business	Description
Trading Business	Business which buys goods from suppliers in order to resell goods to customers.
Service Business	Business which provides services to customers.

Do you understand?

In the table below, identify if the following businesses are **trading** or **service** businesses.

Name of Business	Trading or Service Business?
Popular Bookstore	*Trading*
Great Eastern Insurance	*Service*
Royal Massage	
NTUC FairPrice Supermarket	

Popular buys books and stationery from suppliers to resell to customers. This makes them a **trading business**.

Great Eastern Insurance does not sell physical goods but sells intangible services. This makes them a **service business**.

☺ **Check your answer!** ☺ *Royal Massage – Service; NTUC FairPrice Supermarket – Trading*

★Achievement Unlocked!★

- Learning Outcome 2.1.1 - explain the differences between trading and service businesses.

2.2. Forms of Business Ownership

When a business is set up, owners of the business decide how to organise the business and whether they should run the business on their own or with other owners. There are three main forms of business ownership covered in POA: **Sole Proprietorships (SP)**, **Limited Liability Partnerships (LLP)** and **Private Limited Companies (PLC)**. We will only need to know about Sole Proprietorships for N'Levels.

Feature	Sole Proprietorship (SP)
Ownership	Owned by one person who contributes capital to the business.
Sources of Funds	Obtains more funds from contributions of capital from the owner.
Extent of Liability	Unlimited Liability: When the SP incurs debts and losses, the owner must pay for them using their personal funds.
Level of Control	The owner has absolute control over the business. The owner may hire professionals to help them run the business.
Lifespan	The SP lasts as long as the owner is alive and wants to continue running the business.
Transfer of Ownership	The owner can transfer ownership to a different owner by notifying the Corporate Regulatory Authority.
Administrative Procedures	The SP has minimal administrative duties.

Let's Learn

Head here for a quiz on the forms of business ownership!

https://go.gov.sg/studypoa001

https://go.gov.sg/studypoa001

★Achievement Unlocked!★

- ☐ Learning Outcome 2.2.1 - explain the features of a sole proprietorship, limited liability partnership and private limited company.

2.3. Stakeholders: Who does the business interact with?

2.3.1. What is a stakeholder?

A stakeholder is a group of people who will use the information of a business to make decisions.

2.3.2. Types of Stakeholders

Who is the stakeholder?	How does this stakeholder interact with the business?	What are some decisions that this stakeholder needs to make?
Owners & Shareholders	Contribute capital to the business and receive drawings / dividends from the profits of the business.	Whether to continue to invest in the business or sell the business depending on risks and returns.
Managers	Work for the business and come up with plans to run the business efficiently.	Decide ways to improve the performance of the business.
Employees	Work for the business and perform executive duties.	Whether to continue working for the business.
Lenders (e.g. banks)	Provide money to the business with the expectation that it will be fully repaid with interest.	Whether to lend money (grant loans) to the business, depending on business's ability to repay the principal and interest of the loan.
Suppliers	Provide goods and/or services to the business.	Whether to sell to the business on cash or credit.
Customers	Buy goods and services from the business.	Whether to buy from the business depending on the ability of the business to provide the goods/services and after-sales service.
Government	Makes the business pay tax	Decide if the business is following tax regulations, and how much tax to collect.
Competitors	Sell similar goods / services as the business.	Whether their goods and services are comparable to the business and how to improve their own performance.

★Achievement Unlocked!★

- ☐ Learning Outcome 1.2.1 - State the stakeholders who are interested in the affairs of the business and make use of the accounting information for decision-making.
- ☐ Learning Outcome 1.2.4 - Explain why stakeholders of a business are interested in accounting information.
- ☐ Learning Outcome 1.2.5 - Explain why owners and managers of a business are interested in non-accounting information.

3. Introduction to Accounting

3.1. Role of Accounting

Accounting is an information system that provides accounting information for stakeholders to make **informed decisions** about the management of resources and performance of the business.

★Achievement Unlocked!★

- ☐ Learning Outcome 1.1.1 - State the role of accounting.

3.2. Role of the Accountant

The accountant's role is to prepare and provide accounting information for decision-making by:

a) Being a **steward** of the business. (i.e. managing the resources of the business on behalf of the owners)

b) Setting up and maintaining the **Accounting Information System.**

c) **Thinking critically, solving problems, adapting,** and meeting the need for sophisticated accounting and business information.

d) Provide **timely, relevant, and credible information** based on **accounting theories** that can be easily understood by owners and other stakeholders.

★Achievement Unlocked!★

☐ Learning Outcome 1.1.2 - State the role of accountants.

3.3. Professional Ethics in Accounting

The accountant must have **integrity** and **objectivity** when handling accounting information. This will **prevent them from misleading** owners and stakeholders into making poor decisions.

Principle	Description
Integrity	The accountant is straightforward and honest in their professional relationships.
Objectivity	The accountant does not allow bias, conflicts of interest or undue influence from others affect their professional judgment.

Do you understand?

The scenarios below describe situations where accountants may be behaving unethically. Identify the main principle of ethics that the accountant has violated.

S/N	Scenario	Principle Violated
a.	The business profit for the year was $5 000. The accountant recorded the profit as $6 000 to make the business look better to investors.	*Integrity*
b.	The accountant accepted a personal gift of a gold watch from a customer in exchange for a larger discount.	*Objectivity*
c.	The accountant's wife owns a company selling goods. The accountant encouraged the business to buy goods from his wife's company.	
d.	The accountant created fake receipts when there were no sales to increase the business' revenue.	
e.	The accountant agreed to report lower expenses in exchange for a larger bonus.	
f.	The accountant reported a lower profit to the government to reduce the amount of tax that the business needs to pay.	

The accountant is not being straightforward and honest by reporting the numbers incorrectly.

The accountant has let the personal gift influence their professional judgment.

☺ Check your answer! ☺

S/N	Principle Violated	Explanation
c.	Objectivity	The accountant has let his personal relationship with his wife influence a business decision.
d.	Integrity	Creating fake receipts is a dishonest and illegal act.
e.	Objectivity	The accountant's judgment has been influenced by the promise of personal gain (larger bonus).
f.	Integrity	The accountant is not being straightforward in their report to the government. This is done to benefit the business. There is no personal benefit to the accountant.

3.4. Accounting Theories

Accountants rely on accounting theories when preparing accounting information to provide a **true and fair view** of business activities, and to allow stakeholders to make **reliable and informed decisions**.

Name of Theory	Description	Used In
Accounting Entity Theory	The activities of a business are separate from the actions of the owner. All transactions are recorded from the point of view of the business.	Equity, Financial Statements
Accounting Period Theory	The life of a business is divided into fixed and regular time intervals.	Trial Balance, Financial Statements
Accrual Basis of Accounting	Business activities that have occurred, regardless of whether cash has been paid or received, should be recorded in the relevant accounting period.	Income & Expenses
Consistency Theory	Once an accounting method has been chosen, this method should be applied to all future accounting periods to enable meaningful comparison.	Non-Current Assets (Depreciation)
Going Concern Theory	A business is assumed to have an indefinite economic life unless there is credible evidence that it may close down.	Trial Balance, Financial Statements
Historical Cost Theory	Transactions should be recorded at their original cost.	Accounting Information System
Matching Theory	Expenses incurred must be matched against income earned in the same period to determine the profit for that period.	Expenses
Materiality Theory	Information should be recorded according to accounting rules if it is likely to make a difference to the decision-making process.	Non-Current Assets (Capital Expenditure vs Revenue Expenditure)
Monetary Theory	Only business transactions that can be measured in monetary terms (dollars and cents) are recorded.	Accounting Information System
Objectivity Theory	Accounting information recorded should be supported by reliable and verifiable evidence so that financial statements will be free from opinions and biases.	Source Documents
Prudence Theory	The accounting treatment chosen should be the one that least overstates assets and profits, and least understates liabilities and losses.	Inventory, Trade Receivables, Non-Current Assets
Revenue Recognition Theory	Revenue is earned when goods have been delivered or services have been provided.	Income

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Head here for a quiz on the accounting theories!

https://go.gov.sg/studypoa002

https://go.gov.sg/studypoa002

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- ☐ Learning Outcome 3.1.1 - Define each accounting theory.
- ☐ Learning Outcome 3.1.2 - Identify the accounting theory applied in a given scenario.
- ☐ Learning Outcome 3.1.3 - Explain how each accounting theory affects the preparation and presentation of financial statements.

4. Accounting Elements and Double Entry

4.1. The 5 Accounting Elements

There are 5 accounting elements:

<table>
<tr><th>Element</th><th>Definition</th><th>Examples</th></tr>
<tr><td>Assets</td><td>A resource owned or controlled by the business that is expected to provide future benefits.
<table>
<tr><th>Current Assets</th><th>Non-Current Assets</th></tr>
<tr><td>Resources owned or controlled by a business which provide future benefits <u>lasting one year or less</u>.</td><td>Resources owned or controlled by a business which provide future benefits <u>lasting more than one year</u>.</td></tr>
</table></td><td><u>Current Assets:</u> Cash at bank, Inventory, Trade receivables

<u>Non-Current Assets:</u> Motor vehicles, Office equipment</td></tr>
<tr><td>Liabilities</td><td>An obligation owed by a business to others that are expected to be settled in future.
<table>
<tr><th>Current Liabilities</th><th>Non-Current Liabilities</th></tr>
<tr><td>Amounts owed to others which are due to be repaid <u>within one year or less</u>.</td><td>Amounts owed to others which are expected to be repaid <u>after one year</u>.</td></tr>
</table></td><td><u>Current Liabilities:</u> Trade payables, Expenses payable, Income received in advance.

<u>Non-Current Liabilities</u>: Bank loan, Mortgage</td></tr>
<tr><td>Equity</td><td>The claim of the owners on the net assets of the business.
<table>
<tr><th>Capital</th><th>Drawings</th><th>Profit / Loss</th></tr>
<tr><td>Resources contributed by the owner for business use.</td><td>Assets taken from the business for the owner’s personal use.</td><td>The difference between income earned and expenses incurred within one accounting period.</td></tr>
</table></td><td>Capital, Drawings</td></tr>
<tr><td>Income</td><td>Amounts earned through the activities of a business including the revenue and other income.
<table>
<tr><th>Revenue</th><th>Other income</th></tr>
<tr><td>Amounts earned from the main activity of the business.</td><td>Amounts earned from other business activities excluding the main activity.</td></tr>
</table></td><td><u>Revenue:</u> Sales revenue, Service fee revenue.

<u>Other Income:</u> Rent income, discount received.</td></tr>
<tr><td>Expenses</td><td>Costs incurred in the operation of a business to earn income in the same accounting period.</td><td>Cost of sales, Rent expense, Salaries, Interest expense, Depreciation, Discount allowed.</td></tr>
</table>

Let’s Learn

Head here for a quiz on defining and classifying different elements and accounts!

https://go.gov.sg/studypoa003

★Achievement Unlocked!★

- ☐ Learning Outcome 2.3.1 – Define asset, liability, equity, income and expenses.
- ☐ Learning Outcome 2.3.2 – Give examples of assets, liabilities, equity, income and expenses for a specific business.
- ☐ Learning Outcome 2.3.3 – Classify items as assets, liabilities, equity, income and expenses for a specific business.
- ☐ Learning Outcome 2.5.1.1 – Define and distinguish between non-current and current assets.
- ☐ Learning Outcome 2.5.1.2 – Define and distinguish between non-current and current liabilities

4.2. The Accounting Equation

The elements of accounting are related to each other according to the accounting equation:

Assets = Liabilities + Equity

Expanding on the accounting equation, we get:

Assets = Liabilities + Capital – Drawings + (Income – Expenses)

Where, Equity = Capital – Drawings + Profit
And, Profit = Income – Expenses

Do you understand?

Complete the table below by finding the missing values using the accounting equation.

Assets	Liabilities	Equity
$6 000	$2 000	**$4000**
$10 000	$7 000	? (i)
? (ii)	$2 000	$500
$5 000	? (iii)	$4 200

☺ **Check your answer!** ☺ (i) $3 000, (ii) $2 500, (iii) $800

Assets = Liabilities + Equity
Therefore, if assets are $6000, and liabilities are $2000, Equity must be $4000 to **balance** the accounting equation:
$6000 = $2000 + $4000

★Achievement Unlocked!★

- ☐ Learning Outcome 2.4.1 – State the basic accounting equation and its expansion.
- ☐ Learning Outcome 2.4.2 – Calculate the values of assets, liabilities and equity using the accounting equation.

4.3. The Concept of Double Entry

4.3.1. The Double Entry Recording Rules

A) All transactions must have at least one debit entry to one account, and one credit entry to another account.
B) The total debit value must equal to the total credit value for each transaction.

4.3.2. Debit and Credit

Rearranging the expanded accounting equation such that all elements are positive gives us:

Assets = Liabilities + Capital – Drawings + (Income – Expenses)

➔ Assets + Expenses + Drawings = Liabilities + Income + Capital

♪ "Debits on the left, Credits on the right…" ♪

Debit (Left) side		Credit (Right) side
Assets + Expenses + Drawings	=	Liabilities + Income + Capital
+ Expenses + Drawings - Liabilities	=	+ Income + Capital - Assets
Dr+ Cr- Assets, Expenses and Drawings are positive when debited, and become negative when they are on the credit side.		Dr- Cr+ Liabilities, Income and Capital are positive when credited, and become negative when they are on the debit side.

Let's Learn

Listen to this song to better understand the accounting equation and double entry!
"Debit Credit Theory" by Colin Dodds

https://go.gov.sg/studypoa004

Do you understand?

For each of the accounts below, identify the Accounting Element, and the Nature of the account (i.e. Is it positive when Debited or Credited). The first example has been done for you.

Account Name	Element	Nature (DR or CR)
Motor Vehicles	Non-Current Asset	DR
Bank Loan		
Cash at Bank		
Trade Receivables		
Trade Payables		
Discount Received		
Stationery		
Sales Revenue		
Cost of Sales		
Sales Returns		
Salaries		
Prepaid Salaries Expense		
Allowance for impairment of trade receivables		
Impairment loss on inventory		

A + E + D = L + I + C
Motor vehicles is an asset which is positive on the left-hand side of the equation. Hence it is Debit (DR) natured.

Check your answer!

Account Name	Element	Nature (DR or CR)
Motor Vehicles	Non-Current Asset	DR
Bank Loan	Non-Current Liability	CR
Cash at Bank	Current Asset	DR
Trade Receivables	Current Asset	DR
Trade Payables	Current Liability	CR
Discount Received	Income	CR
Stationery	Expense	DR
Sales Revenue	Income	CR
Cost of Sales	Expense	DR
Sales Returns	Expense	DR
Salaries	Expense	DR
Prepaid Salaries Expense	Current Asset	DR
Allowance for impairment of trade receivables	Negative (Contra) Current Asset	CR
Impairment loss on inventory	Expense	DR

Achievement Unlocked!

☐ Learning Outcome 2.3.3 – Classify items as assets, liabilities, equity, income and expenses for a specific business.

5. The Accounting Information System

5.1. Overview of the Accounting Information System

A computerised accounting information system usually consists of the following:

Stage	Description
Transaction	A transaction is a business activity.
Source Document	After a transaction occurs, a source document is created to provide proof that the transaction has occurred.
Journal	Using information from source documents, Journal entries are recorded in the journals. A journal is a daily record of transactions that occur in a business organised by date.
Ledger	Journal entries are posted to individual ledger accounts. A ledger is a consolidation of all transactions related to a specific asset, liability, equity, income or expense. (E.g. Cash at bank ledger account records all transactions involving cash at bank.)
Trial Balance	The trial balance provides a summary of the ending balances of each individual ledger account at a specific date.
Statement of Financial Performance	A statement of financial performance provides a report on the income, expenses and profit or loss of a business over a specific time period.
Statement of Financial Position	A statement of financial position is a report on the assets, liabilities, equities of a business at a specific date.

★Achievement Unlocked!★

☐ Learning Outcome 3.2.1 – State the order in which each type of transaction is processed through the accounting information system.

5.2. Understanding Business Transactions

Business transactions are activities which happen in a business that need to be recorded in the accounting information system. Not all activities need to be recorded by the business. A transaction is recorded when it:

A) Affects the business

Based on the accounting entity theory, only transactions which affect the business should be recorded.

B) Has a monetary value

Based on the monetary theory, only transactions that have a monetary value (i.e. can be expressed in dollars and cents) should be recorded.

Do you understand?

Identify whether the transactions below should be recorded in the accounts of a business. Indicate YES or NO in the spaces provided.

S/N	Transaction	Should we Record? (YES / NO)
1	The owner contributed a personal cheque of $600 to the business bank account.	YES
2	The owner withdrew goods worth $50 for personal use.	
3	The owner used a personal cheque of $5 000 to pay for a personal gaming computer.	
4	The owner met a friend who is very interested in investing in the business. They have not agreed to a deal yet.	

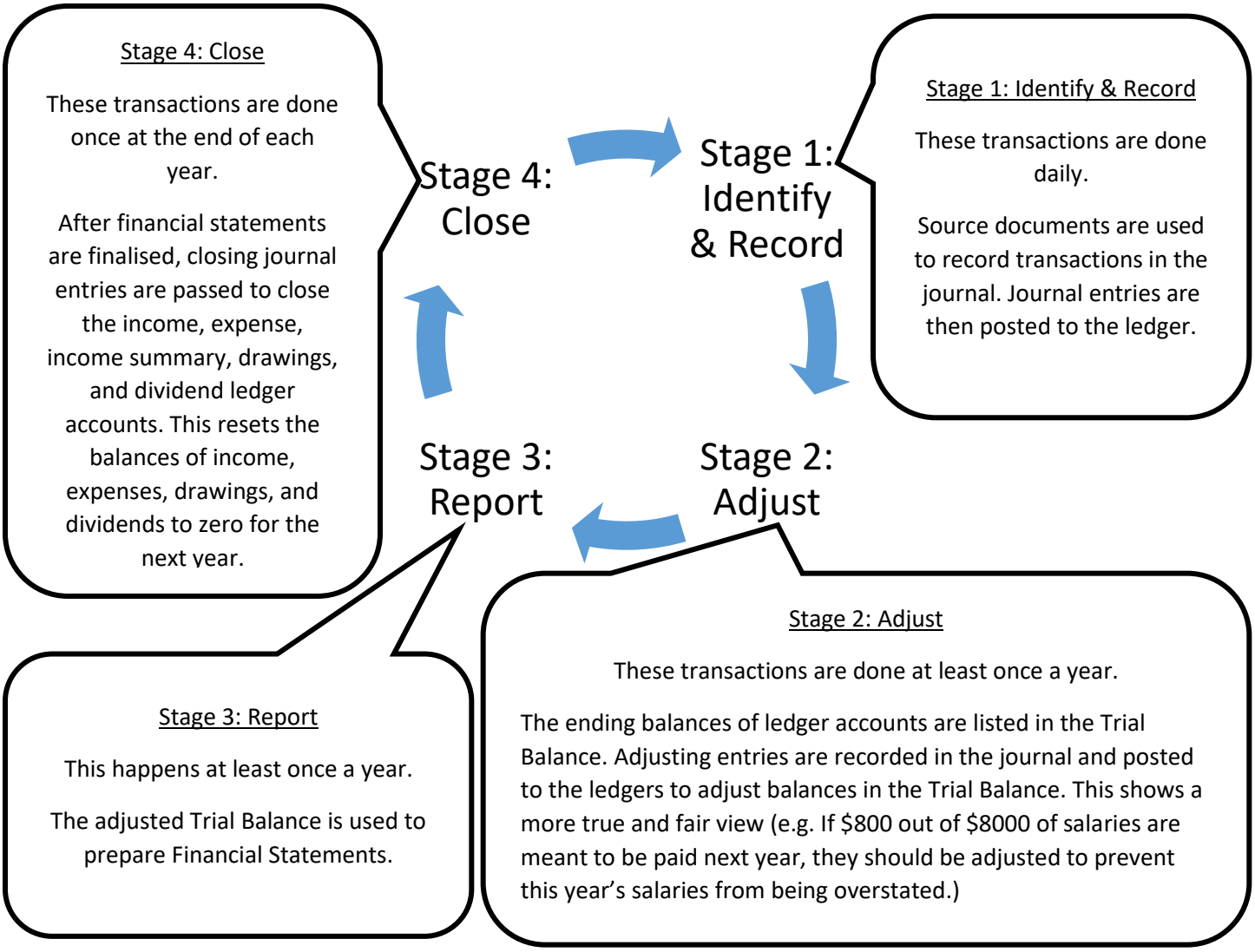
The owner's contribution affects the business as money comes into the business. There is a clear monetary value ($600). Hence this is a business transaction that should be recorded.

☺ **Check your answer!** ☺

S/N	Should we Record?	Explanation
2	YES	This is a transaction with a monetary value that affects the business (goods decreases and drawings increases)
3	NO	Although this transaction has a monetary value, it does not affect the business. This is the owner's personal spending which doesn't involve the business since business and owner are separate persons.
4	NO	Although this transaction affects the business, there is no clear monetary value.

5.2.1. The Accounting Cycle

The accounting cycle is the processing of accounting transactions through the accounting information system. The 4 stages of the accounting cycle are:



★Achievement Unlocked!★

☐ Learning Outcome 3.2.2 – Explain how each type of transaction is processed through the accounting information system.

5.2.2. Understanding a Transaction Using Double Entry

Based on the rules of double entry, each transaction will affect at least one debit and one credit account, and the value of the total debits and credits must be equal.

e.g. **The business bought goods on credit from a credit supplier, Henry.**

Step 1: Identify at least two accounts affected by the transaction. e.g. The business bought goods for $400 on credit from a credit supplier, Henry. *Inventory* *Trade Payables – Henry*
Step 2: Identify the element of each account affected. e.g. The business bought goods for $400 on credit from a credit supplier, Henry. *Inventory* *Trade Payables – Henry* *(Current Asset)* *(Current Liability)*

Do you understand?

For each of the transactions below, identify the accounts affected and the element of each account identified.

Inventory is goods (a resource) owned by the business. It provides future benefits when sold, usually within one

A business cheque is an instruction to the bank to pay money from the business bank account to another person's bank account. Cash in the bank is a resource owned by the business and provides future benefits when used.

(i)	Purchased inventory for $700 using a business cheque. *Inventory (Current Asset)* *Cash at Bank (Current Asset)*
(ii)	The owner contributed $500 of personal funds to the business bank account.
(iii)	Took a bank loan of $5 000 from ABC Bank.
(iv)	Paid for rent expense of $3 000 using a business cheque.
(v)	Sold goods for $2 000 on credit to Mandy. The goods cost $900.

Check your answer!

(ii)	The owner contributed $500 of personal funds to the business bank account. *Capital (Equity-Capital)* *Cash at Bank (CA)*
(iii)	Took a bank loan of $5 000 from ABC Bank. *Bank Loan – ABC Bank (NCL)* *Cash at Bank (CA)*
(iv)	Paid for rent expense of $3 000 using a business cheque. *Rent expense (Expemse)* *Cash at Bank (CA)*
(v)	Sold goods for $2 000 on credit to Mandy. The goods cost $900. *Sales Revenue (Income)* *Trade Receivables – Mandy (CA)* *Inventory (CA)* *Cost of Sales (Expense)*

5.2.3. Describing Effects of Transactions (Increase/Decrease vs Understated/Overstated)

Effect of…	Descriptor
Recording a transaction e.g. what is the effect of recording a payment of utilities by cheque?	Increase (+) / Decrease (-)
Not recording a transaction e.g. what is the effect if a payment of utilities by cheque is not recorded?	Understated / Overstated (Too low, need to +) (too high, need to -)

5.2.4. Analysing the Effect of Recording Transactions on the Accounting Equation

First, understand the transaction using Steps 1 & 2 above.

e.g. The business bought goods on credit from a credit supplier, Henry.

Step 3: Identify if the accounts will increase (+) or decrease (-).

Inventory +400 (Current Asset) *Trade Payables – Henry +400* (Current Liability)

Step 4: Analyse their effects on the elements of accounting.

Assets	Liabilities	Equity	Income	Expenses
Increase by $400	*Increase by $400*	*No effect*	*No effect*	*No effect*

Do you understand?

For each of the transactions below, indicate if the Assets, Liabilities, Equity, Income and Expenses will **Increase**, **Decrease** or have **No Effect**. Include the amount of the increase or decrease.

(i)	Purchased inventory for $700 using a business cheque. *Inventory (CA) +700* *Cash at Bank (CA) -700*
(ii)	The owner contributed $500 of personal funds to the business bank account.
(iii)	Took a bank loan of $5 000 from ABC Bank.
(iv)	Paid for rent expense of $3 000 using a business cheque.
(v)	Sold goods for $2 000 on credit to Mandy. The goods cost $900.

There is no effect because assets increase by 700 from buying more inventory, but also decrease by $700 due to the cash payment.

	Assets	Liabilities	Equity	Income	Expenses
(i)	No effect (+700 – 700)	No effect	No effect	No effect	No effect
(ii)					
(iii)					
(iv)					
(v)					

☺ Check your answer! ☺

	Assets	Liabilities	Equity	Income	Expenses
(ii)	Increase by $500	No effect	Increase by $500	No effect	No effect
(iii)	Increase by $5000	Increase by $5000	No effect	No effect	No effect
(iv)	Decrease by $3000	No effect	No effect	No effect	Increase by $3000
(v)	Increase by $1100 (+2000 -900)	No effect	No effect	Increase by $2000	Increase by $900

★Achievement Unlocked!★

- Learning Outcome 2.4.4 – Analyse the effects of business transactions on the accounting equation.

5.2.5. Analysing the Effects of Transactions on Elements of the Financial Statements

Name of Element	Definition	Calculation
Owner's / Shareholders' Equity	Equity is the owner's claim on the net assets of the business. Owner's equity is used for sole proprietors, while Shareholders' equity is used for private limited companies.	Equity = Total Assets – Total Liabilities
Net Assets	Net assets refers to the value of the business' total assets minus its total liabilities. This is also known as Equity.	Net Assets = Total Assets – Total Liabilities
Working Capital	Working capital is the capital that the business uses t	Working Capital = Current Assets – Current Liabilities
Non-Current Assets (NCA)	NCA refers to assets which provide future benefits lasting more than 1 year.	NCA = Total Assets – Current Assets
Current Assets (CA)	CA refers to assets which provide future benefits lasting 1 year or less.	CA = Total Assets – NCA
Non-Current Liabilities (NCL)	NCL refers to liabilities which are due to be repaid after 1 year.	NCL = Total Liabilities – CL
Current Liabilities (CL)	CL refers to liabilities which are due to be repaid within 1 year or less.	CL = Total Liabilities - NCL
Net Sales Revenue (NSR)	NSR refers to the total revenue of the business after sales returns.	
Gross Profit / Gross Loss	Gross Profit refers to the profits earned from the main activities of the business after deducting costs related to manufacturing or selling its goods or services for a time period.	Gross Profit = Sales Revenue – Sales Returns – Cost of Sales
Profit / Loss (Total Profit (Loss) / Net Profit (Loss))	Profit refers to the total amount earned by the business after adding other income and deducting all other expenses for a time period.	Profit = Total Income – Total Expenses Profit = Gross Profit + Other Income – Other Expenses

Let's Learn

Let's analyse the effects of transactions on the accounting equation and elements of the financial statements together!

https://go.gov.sg/studypoa005

★Achievement Unlocked!★

- ☐ Learning Outcome 2.5.1.3 – Define net assets, equity and working capital.
- ☐ Learning Outcome 2.5.1.4 – Calculate net assets, equity and working capital.
- ☐ Learning Outcome 2.5.1.5 – Analyse the effects of business transactions and accounting adjustments on the owner's or shareholders' equity, non-current assets, current assets, noncurrent liabilities, current liabilities, net assets and working capital.
- ☐ Learning Outcome 2.5.2.1 – Define and distinguish gross profit/loss and profit/loss for the financial period.
- ☐ Learning Outcome 2.5.2.3 – Calculate net sales revenue, service fee revenue, gross profit/loss and profit/loss for the period

5.3. Source Documents

5.3.1. The Purpose of Source Documents

Source documents are used to provide **reliable and verifiable evidence** that a transaction has occurred. This is in line with the objectivity theory. Without source documents, the business would not be able to prove that its accounts are recorded accurately as there will be no proof that the transactions happened.

★Achievement Unlocked!★

- Learning Outcome 3.2.3 – State the purposes of source documents.

5.3.2. Types of Source Documents

Source Document	Purpose of Source Document	Relevant Transactions
Receipt	Acknowledges payment made from customers / to suppliers immediately after goods are sold / purchased. Issued to customers for cash sales & received from suppliers for cash purchases	Cash purchases Cash sales
Invoice	Informs credit customers of the amount owed after a business has sold goods or provided services on credit. Informs the business about amounts owing to credit suppliers for goods or services purchased on credit. Issued to customers for credit sales & received from suppliers for credit purchases	Credit purchases Credit sales
Credit Note	Reduces the amount owed by credit customers who returned goods (sales returns) or were overcharged. Reduces the amount the business owes to credit suppliers for goods returned or overcharging. Issued to customers for sales returns or overcharging of credit customers. Received from suppliers for purchases returns or credit suppliers overcharging the business.	Returns of assets sold on credit (credit sales returns) Returns of assets purchased on credit (credit purchases returns)
Debit Note	Increases the amount owed by credit customers who were previously undercharged. Increases the amount that the business owes to credit suppliers who previously undercharged the business. Issued to customers for undercharging of credit customers. Received for credit suppliers undercharging the business.	Undercharged by credit supplier Undercharged a credit customer
Bank Statement	Checks and tallies the bank's records against the business cash at bank account. Records cash receipts and payments that go directly through the bank (e.g. electronic transfers, cheques, etc.)	All cash at bank related transactions
Payment Voucher	For the business to process payments made to credit suppliers	Payments of cheques to suppliers
Remittance Advice	Informs a credit customer that their cheque payment has been received.	Cheques received from customers

Let's Learn

Head here for a quiz on the purposes and types of source documents!

https://go.gov.sg/studypoa006

Do you understand?

Identify the source document that will be issued or received for the transactions below:

S/N	Transaction	Source Document
1	Made a sale of $5 000 to a Mary on credit. The goods cost $100	*Invoice*
2	Made a cash sale of $300 to a customer.	
3	Credit customer, Mary, returned $500 of goods.	
4	A credit supplier, Joseph, undercharged the business by $450.	
5	Bought a motor vehicle for $8 000 on credit from BLH Motors.	
6	A cheque of $600 from Mary was dishonoured by the bank.	
7	A credit customer, John, paid a cheque of $200.	
8	Paid a cheque of $70 to credit supplier, Elizabeth.	

Selling goods to Mary on credit is a credit transaction. The business will send an invoice to Mary to remind her that she owes money to the business.

☺ **Check your answer!** ☺ (2) Receipt, (3) Credit Note, (4) Debit Note, (5) Invoice, (6) Bank Statement, (7) Bank Statement or Remittance Advice, (8) Bank Statement or Payment Voucher

★Achievement Unlocked!★

- ☐ Learning Outcome 3.2.4 – State the purpose of each type of source document.
- ☐ Learning Outcome 3.2.5 – State the source documents used in the transaction.

5.4. Journal Entries

5.4.1. The Format of a Journal

A Journal is a daily record of business transactions. The format of the journal is as follows:

The Date column shows the actual dates when transactions happened.

The Particulars column shows the accounts affected by the transaction.

The Debit and Credit columns show the amounts debited and credited for the transaction.

Accounts that are debited are recorded first, and flushed to the left-hand side of the journal

Accounts that are credited are recorded after the debits, and flushed to the right-hand side of the journal

A narration is a summary of the transaction in sentence form (This is not always needed)

Total debits must always equal total credits for each transaction

Journal			
Date	**Particulars**	**DR $**	**CR $**
2017			
Mar 28	Trade receivable - Sammy	600	
	Sales revenue		600
	Cost of sales	50	
	Inventory		50
	Sale of goods on credit to Sammy for $600. The goods cost $50		
Jun 7	Cash at bank	4 000	
	Capital		4 000
Oct 17	Stationery	30	
	Cash in hand		30

5.4.2. Writing Narrations

A narration is a short explanation of each journal entry. To write a narration, paraphrase the question and include a description of the transaction. Amounts are not strictly required in narrations.

5.4.3. Preparing Journal Entries

To prepare a journal entry, follow the steps below:

Step 1	**Identify the accounts affected by a transaction** Phyllis contributed a personal cheque of $4 000 to the business. *Capital* *Cash at bank*
Step 2	**Identify the element of each account affected.** Phyllis contributed a personal cheque of $4 000 to the business. *Capital* ***(Equity-Capital)*** *Cash at bank* ***(CA)***
Step 3	**Identify if the accounts will increase (+) or decrease (-).** Phyllis contributed a personal cheque of $4 000 to the business. *Capital (Equity-Capital)* ***+$4000*** *Cash at bank (CA)* ***+$4000***
Step 4	**Identify if the accounts will be debited or credited.** Remember: AED = LIC Phyllis contributed a personal cheque of $4 000 to the business. *Capital (Equity-Capital) +$4000 Cash at bank (CA) +$4000* ***CR*** ***DR***
Step 5	**Record the Journal Entries and write narrations (if necessary).** Paraphrase the original transaction.

Journal

Date	Particulars	DR $	CR $
2017			
Jun 7	*Cash at bank*	*4 000*	
	Capital		*4 000*
	Owner contributed $4000 by cheque		

Steps 1, 2 & 3 are the same as Steps 1, 2 & 3 of understanding a transaction and analysing the effects of a transaction.

Capital has a credit nature (right hand side of the accounting equation). Hence it is CREDITED when it increases.

Cash at Bank has a debit nature (left hand side of the accounting equation). Hence it is DEBITED when it increases.

Let's Learn

Let's try preparing some basic journal entries and narrations together!

https://go.gov.sg/studypoa007

Do you understand?

Prepare the journal entries for the following transactions. Narrations **are** required.

Date	Transaction
17 October 2017	Bought stationery with $30 of business cash.
11 November 2017	Purchased $3 000 of goods on credit from Tom.

Journal			
Date	**Particulars**	**Dr ($)**	**Cr ($)**
2017			

Check your answer!

Journal			
Date	**Particulars**	**Dr ($)**	**Cr ($)**
2017			
Oct 17	Stationery	30	
	Cash in hand		30
	Purchase of stationery for $30 using cash		
Nov 11	Inventory	3 000	
	Trade payables - Tom		3 000
	Purchase of inventory for $3000 on credit from Tom		

Achievement Unlocked!

- ☐ Learning Outcome 3.3.1 – State the ledger accounts to be debited or credited.
- ☐ Learning Outcome 3.3.2 – Prepare the journal entries.

5.5. Ledger Entries

5.5.1. The format of a Ledger

A Ledger records the effects of transactions on a specific account. The format of a Ledger is as follows:

The Date column shows the actual dates when transactions happened.

The Particulars column records the name of the other account that caused a change in the ledger.

The Title of the Ledger is the name of the specific account that we are recording changes to.

The Debit and Credit columns records changes to the account in the title.

The Balance column records the remaining amount in this account.

This is the name of the account that is credited in the transaction:
DR CAB
CR Capital

This is the name of the account that is debited in the transaction:
DR Rent Exp
CR CAB

Cash at Bank *(Current Asset)*				
Date	**Particulars**	**DR $ +**	**CR $ -**	**Balance $**
2017				
Jun 1	Balance b/d			400 DR
Jun 7	Capital	4 000		4 400 DR
Jun 15	Rent expense		2 000	2 400 DR
Jul 1	Balance b/d			2 400 DR

At the end of the accounting period, the balance is brought down to the next period.

The sign of DR or CR is determined by AED=LIC. Cash at Bank is an Asset, which is on the left-hand side of the equation (AED), hence DR+, CR-

5.5.2. Preparing a Ledger

To prepare a ledger account, follow the steps below:

Step 1	**Identify the accounts affected by a transaction** Phyllis contributed a personal cheque of $4 000 to the business. ***Capital*** ***Cash at bank***
Step 2	**Identify the element of each account affected.** Phyllis contributed a personal cheque of $4 000 to the business. *Capital* ***(Equity-Capital)*** *Cash at bank* ***(CA)***
Step 3	**Identify if the accounts will increase (+) or decrease (-).** Phyllis contributed a personal cheque of $4 000 to the business. *Capital (Equity-Capital)* ***+$4000*** *Cash at bank (CA)* ***+$4000***
Step 4	**Identify if the accounts will be debited or credited.** Remember: AED = LIC Phyllis contributed a personal cheque of $4 000 to the business. *Capital (Equity-Capital) +$4000 Cash at bank (CA) +$4000* ***CR*** ***DR***
Step 5	**Record the entries in the ledger.**

Cash at Bank *(Current Asset)*

Date	Particulars	DR $ +	CR $ -	Balance $
2017				
Jun 1	Balance b/d			400 DR
Jun 7	Capital	4 000		4 400 DR
Jun 15	Rent expense		2 000	2 400 DR
Jul 1	Balance b/d			2 400 DR

Steps 1, 2 & 3 are the same as Steps 1, 2 & 3 of understanding a transaction and analysing the effects of a transaction.

Step 4 is the same as Step 4 of preparing journal entries.

Cash at bank (the title account) has been debited by $4000. Hence the amount appears in the debit column.

Capital is the other account which is affected by this transaction (i.e. not the title account). Hence it is written in the particulars column.

Let's Learn

Let's learn to prepare ledger accounts together!

https://go.gov.sg/studypoa008

Do you understand?

Prepare the Trade Payables – Cindy ledger account for the transactions below:

	$
Balance as at 1 April 2020	2 000

Date	Transaction
3 April 2020	Bought $3 000 of goods on credit from Cindy.
6 April 2020	Returned goods worth $200 to credit supplier, Cindy.
23 April 2020	Paid a cheque of $2 000 to settle the amount owed on 1 April 2020.

Trade Payables - Cindy *(Current Liability)*				
Date	**Particulars**	**DR $ -**	**CR $ +**	**Balance $**
2020				

Check your answer!

Trade Payables - Cindy *(Current Liability)*				
Date	**Particulars**	**DR $ -**	**CR $ +**	**Balance $**
2020				
Apr 1	Balance b/d			2 000 CR
Apr 3	Inventory		3 000	5 000 CR
Apr 6	Inventory	200		4 800 CR
Apr 23	Cash at Bank		2 000	2 800 CR
May 1	Balance b/d			2 800 CR

Achievement Unlocked!

- Learning Outcome 3.3.3 – Prepare the ledger accounts.

5.5.3. Interpreting Ledger Entries

To interpret entries in a ledger, read the ledger in a clockwise fashion.

Step 1: What is the title account and its element?
Start with the title account and identify the element and nature of the account.
e.g. Cash at bank is a current asset, hence it is debit natured (DR+, CR-).

Step 2: What is happening to the title account?
Is the title account being debited or credited? Is it increasing or decreasing?
e.g. On June 7, Cash at bank is being debited. Hence it is increasing.

Step 3: What is the other account in the transaction?
The other account will be named in the particulars column.
e.g. On June 7, The other account is Capital, Capital is an equity account.

Step 4: What is happening to the other account?
Is the account increasing or decreasing?
e.g. On June 7, since Cash at Bank is debited, Capital will be Credited. Hence Capital is increasing.

Step 5: What transaction causes these double entries?
e.g. On June 7, the double entries are:
DR Cash at bank (+)
CR Capital (+)

Therefore, this is a contribution of $4000 of cash at bank from the owner.

Cash at Bank *(Current Asset)*

Date	Particulars	DR $ +	CR $ -	Balance $
2017				
Jun 1	Balance b/d			400 DR
Jun 7	Capital	4 000		4 400 DR
Jun 15	Rent expense		2 000	2 400 DR
Jul 1	Balance b/d			2 400 DR

Let's Learn

Let's learn to interpret ledger accounts together!

https://go.gov.sg/studypoa009

Do you understand?

Cash at Bank

Date	Particulars	DR $ +	CR $ -	Balance $
2017				
Jun 1	Balance b/d			400 DR
Jun 7	Capital	4 000		4 400 DR
Jun 15	Rent expense		2 000	2 400 DR
Jul 1	Balance b/d			2 400 DR

Match the following transactions to the entries in the Cash at Bank Ledger above.

S/N	Transaction	Date
(i)	Owner contributed personal cash to the business bank account.	
(ii)	Paid for rent using a business cheque.	

Check your answer!
(i) Owner contributed personal cash to the business bank account. (ii)Paid for rent using a business cheque.

Achievement Unlocked!

- ☐ Learning Outcome 3.3.4 – Interpret the transactions recorded and the balances in the ledger accounts.

5.6. Trial Balance

5.6.1. What is a Trial Balance?

A trial balance is a list of all ledger accounts and their balances sorted according to whether the balances are debits or credits.

The purpose of preparing a Trial Balance is to:

- Check for arithmetic (mathematical calculation) errors that may have happened.
- Help in the preparation of the financial statements.

The limitation of the Trial Balance is that it is **not an absolute proof of accuracy** as it cannot identify certain errors which are recorded according to double entry rules.

★Achievement Unlocked!★

- ☐ Learning Outcome 3.2.6 – Explain the purpose of the Trial Balance.
- ☐ Learning Outcome 3.2.7 – Explain the limitation of the Trial Balance.

5.6.2. The Format of the Trial Balance

POA Company
Trial Balance as at 31 December* 2017

	DR $	CR $
Capital		xxx
Cash at bank (400 + 200)	600	
Cash in hand	xxx	
Inventory	xxx	
Trade receivables	xxx	
Motor vehicles (1600 +2100)	3 700	
Drawings	xxx	
Bank loan		xxx
Trade payables		xxx
Interest income (200 + 610)		810
Salaries expense	xxx	
	XXX	XXX

Show workings for adjustments in brackets beside the account name.

Total Debits must be equal to total Credits.

*Spell out the month in full.

5.6.3. Preparing a Trial Balance

Step 1: DR or CR	**Identify if accounts are DR or CR** (AED = LIC)
Step 2: Capital	**If capital is missing, Calculate Capital** (Total Debits – Total Credits)
Step 3: Adjustments	**Make adjustments based on additional information.** Every transaction affects at least 2 accounts.
Step 4: Prepare Trial Balance	**Record all accounts in the DR or CR column.** Show all workings in brackets beside the account name.

Let's Learn

https://go.gov.sg/studypoa010

Let's prepare a trial balance together!

https://go.gov.sg/studypoa010

★Achievement Unlocked!★

- ☐ Learning Outcome 3.2.8 – Prepare a Trial Balance.

5.7. Statement of Financial Performance

The statement of financial performance presents the balances of all the income and expenses of a business. The format of the trading portion is slightly different depending on whether it is a trading or service business.

5.7.1. Statement of Financial Performance for a Trading Business

POA Trading
Statement of Financial Performance for the year ended 31 December 2017

		$	$
	Sales Revenue	(a)	
Less:	Sales Returns (220 +130)	(b)	
	Net Sales Revenue		(a)-(b)=(c)
Less:	Cost of Sales		(d)
	Gross Profit		(c)-(d)=(e)
Add:	Other Income		
	Commission Income		(f)
Less:	Other Expenses		
	Salaries (1440 + 2180)	(g)	
	Utilities expense	(h)	
	Rent expense	(i)	
	Depreciation – motor vehicles	(j)	
	Impairment loss on trade receivables	(k)	
	Impairment loss on inventory	(l)	
			(g)+(h)+(i)+(j)+(k)+(l) = (m)
	Profit (Loss) for the year		(e)+(f)-(m) = (P)

This is the trading portion. It shows the gross profit or loss from buying and selling goods.

If there is only one account in the category, write the amount as a total in the right-hand column.

Sub-totals (balances for each account) are written in the first column.

Totals are written in the right-hand column.

This is the profit and loss portion. It reports the overall profit earned from operating the business.

5.7.2. Statement of Financial Performance for a Service Business

POA Services
Statement of Financial Performance for the year ended 31 December 2017

		$	$
	Service fee revenue		(a)
Add:	Other Income		
	Commission Income		(b)
Less:	Other Expenses		
	Salaries (1440 + 2180)	(d)	
	Utilities expense	(e)	
	Rent expense	(f)	
	Depreciation – motor vehicles	(g)	
	Impairment loss on trade receivables	(h)	
	Impairment loss on inventory	(i)	
			(d)+(e)+(f)+(g)+(h)+(i) = (L)
	Profit (Loss) for the year		(a)+(b)-(L) = (P)

Service businesses do not have a trading portion.

★Achievement Unlocked!★

- Learning Outcome 2.1.2 – Distinguish between the financial statements of businesses in trading and services.
- Learning Outcome 2.5.2.2 – Explain the purposes of the trading portion and profit and loss portion of the Statement of Financial Performance.

5.8. Statement of Financial Position

The statement of financial position presents the balances of all assets, equity and liabilities of a business at a point in time. There are different formats in the Equity section for Sole Proprietors or Private Limited Companies. As per the accounting equation, **Total Assets should always equal to Total Equity and Liabilities**.

5.8.1. Statement of Financial Position for a Sole Proprietor

Cost, Acc Dep and NBV are only for the NCA section.

	POA Company			
	Statement of Financial Position as at 31 December 2017			
	Assets	**$**	**$**	**$**
	Non-current Assets	**Cost**	**Accumulated Depreciation**	**Net Book Value**
	Motor Vehicles	A	(B)	A – B = C
				C
	Current Assets			
	Trade receivables	D		
Less:	Allowance for impairment of trade receivables	(E)		
	Net Trade Receivables		D – E = F	
	Inventory		H	
				F + H = I
	Total Assets			C + I*
	Equity and Liabilities			
	Owner's Equity			
	Capital (Beginning + Additional + Profit – Drawings)			J
	Non-Current Liabilities			
	Long-term borrowings			K
	Current Liabilities			
	Trade payables		L	
	Current portion of long-term borrowings		M	
	Bank overdraft		N	
				L + M + N = O
	Total Equity and Liabilities			J + K + O*

Single lines are equal signs. Add numbers above the line to get the number below the line.

Subtotals are written in the 1st and 2nd columns, and totals in the 3rd column.

Total Assets must equal to Total Liabilities and Equity.

*C + I = J + K + O

Let's Learn

Let's prepare a **statement of financial performance** together!

https://go.gov.sg/studypoa011

Let's Learn

Let's prepare a **statement of financial position** together!

https://go.gov.sg/studypoa012

★Achievement Unlocked!★

- ☐ Learning Outcome 2.2.2 – Distinguish between the financial statements of a sole proprietorship and private limited company.
- ☐ Learning Outcome 2.4.3 – Apply the accounting equations to the Statement of Financial Position.

5.9. Adjustments to the Financial Statements

Based on the accounting cycle, adjustments may be made to the trial balance and financial statements before they are prepared.

5.9.1. Summary of Adjustments (TL;DR version)

INV – Impairment of Inventory (CA) Inventory - , (Exp) Impairment loss on inventory +	**LTB – Bank Loan / Mortgage due to be repaid in 1 year** (NCL) Long-term borrowings – (CL) Current portion of long-term borrowings +
I&E – Income & Expense **PRE – Prepaid Expenses** (Exp) _____ expense – (CA) Prepaid _____ expense + **PAY – Expenses Payable** (Exp) _____ expense + (CL) _____ expense payable + **RIA – Income Received in Advance** (Inc) ___ income – (CL) ___ income received in advance + **RCV – Income Receivable** (Inc) ___ income + (CA) ___ income receivable +	**TR – Trade Receivables** **CON –written off (confirm cannot pay)** (CA) Trade receivables – (-CA) Allowance for impairment of trade receivables – **EST – estimated to be uncollectible** (-CA) Allowance for impairment of trade receivables = (Exp) Impairment loss on trade receivables +/- **DEP – Depreciation** (Exp) Depreciation – _<Name>_ + (-NCA) Accumulated Depreciation-_<Name>_+ **GEN – General Adjustments (not yet recorded)** Step 1: What are the 2 or more accounts affected Step 2: Are the accounts increasing (+) or decreasing (-)
DIV – Dividends (EQ) Retained Earnings - (CL) Dividends payable +	

Let's Learn

Let's try **making adjustments** to the financial statements together!

https://go.gov.sg/studypoa013

5.9.2. Detailed Adjustments

1) INV: Inventory Losing Value

How to identify this?

Either:

A) $___X__ of goods were damaged / destroyed / stolen.

OR

B) The net realisable value (market value) of goods is $____Y____ (where Y is lower than the original value of the goods).

How to adjust?

Inventory (current asset) – Impairment loss on inventory (expense) +

Examples:

e.g. $5 000 of goods were destroyed in a fire.

Adjustments: Inventory -5000, Impairment loss on inventory +5000

e.g. Inventory $3 000

The net realisable value of inventory on 31 December 2020 is $2 000.

Calculation: The loss in value of inventory is $3000 - $2000 = $1000

Adjustments: Inventory -1000, Impairment loss on inventory +1000

2) DEP: Depreciation (Non-current asset losing value)

How to identify this?

Either:

__<Name of NCA>__ is to be depreciated at 20% per annum using the <straight-line / reducing balance> method. OR

__<Name of NCA>__ is to be depreciated at 20% per annum <on cost / on net book value>. OR

__<Name of NCA>__has an expected useful life of ___years with a scrap value of $_____.

How to adjust?

Step 1: Calculate Depreciation

Straight Line Method (on cost)	**Reducing Balance Method (on net book value)**
(Cost – Scrap value) X Rate (%) OR (Cost − Scrap value) / Useful life	(Cost – Accumulated depreciation) X Rate (%)

Step 2: Make adjustments

Accumulated Depreciation - __<Name of NCA>__ (negative non-current asset) +

Depreciation - __<Name of NCA>__ (expense) +

Examples:

e.g. Motor Vehicles $10 000 Accumulated depreciation on Motor Vehicles $2 000 Motor vehicles are depreciated at 20% per annum on cost. *Calculation: (10000 - 0) X 20% = 2000* *Adjustments:* *Accumulated Depreciation - Motor Vehicles +2000,* *Depreciation - Motor Vehicles +2000*	e.g. Office equipment $20 000 Accumulated depreciation on Office Equipment $2 000. Office equipment is depreciated at 10% on net book value. *Calculation:* *(20000 - 2000) X 10% = 1800* *Adjustments:* *Accumulated Depreciation - Office Equipment +1800,* *Depreciation - Office Equipment +1800*

3) I&E (Income & Expense)

How to identify this?

Key Question: Does it affect expenses or income?

Expenses	Income
PE: Prepaid Expenses Paid early, paid in advance, Annual expense is _<amt less than qn>_ paid for 15 months ending _<Date>_	**RIA: Income Received in Advance** Received early, Received in advance, Annual income is _<amt more than qn>_ Received for 15 months ending _<Date>_
EP: Expenses Payable Expenses are outstanding, Annual income is _<amt more than qn>_ Yet to be paid, not yet paid	**RCV: Income Receivable** Income is outstanding, Annual income is _<amt less than qn>_ Yet to be received, not yet received,

How to adjust?

Expenses	Income
PRE: Prepaid Expenses ____ Expense (expense) – Prepaid ____ expense (current asset) +	**RIA**: Income Received in Advance ___ Income (income) – ___ Income received in advance (current liability) +
PAY: Expenses Payable ____ Expense (expense) + ____ Expense payable (current liability) +	**RCV**: Income Receivable ___ Income (income) + ___ Income receivable (current asset) +

Examples:

e.g. $1 500 of rent expenses were paid in advance.

Adjustments: Rent expense -1500, Prepaid rent +1500

e.g. $2 000 of salaries were outstanding.

Adjustments: Salaries +2000, Salaries expense payable +2000

e.g. Year ended 31 March 2021.

$15 000 of commission income was received for the 15 months ended 31 June 2021.

Calculation: 1 year has 12 months,

therefore 15 months = 3 extra months received ($15000/15months) X 3months = $3000

Hence, an extra $3000 was received in advance.

Adjustments: Commission income -3000, Commission income received in advance +3000

e.g. Rent income $40 000

Annual rent income was $50 000.

Calculation: Rent income is less than the annual amt, therefore this is RCV:

50000-40000 = 10000

Hence, rent income receivable is $10000

Adjustments: Rent income +10000, Rent income receivable +10000

4) TR: Trade Receivables

How to identify this?

Key Question: Is the trade receivables confirmed or estimated (suspected) to be uncollectible?

CON: Trade Receivables written off (Confirmed)	EST: Trade receivables estimated to be uncollectible
_____ went bankrupt _____ was written off _____ decided to write off…	Trade receivables… estimated to be uncollectible. … may be uncollectible. the allowance for impairment of trade receivables was _____.

How to adjust?

CON: Trade Receivables written off (Confirmed)	EST: Trade receivables estimated to be uncollectible
Trade receivables (current asset) – Allowance for impairment of trade receivables (negative current asset) –	Allowance for impairment of trade receivables (negative current asset) = Impairment loss on trade receivables (expense) +/-

Examples:

e.g. A debtor, Charlie, went bankrupt. It was decided to write off the remaining debt of $300.

Adjustments: Trade Receivable -300, Allowance for impairment of trade receivables -300

e.g. Allowance for impairment of trade receivables $500

After a review of trade receivables, it was estimated that $700 of trade receivables may be uncollectible.

Calculation: Allowance: 500 + X = 700, Therefore, X = 200

Adjustments:

Allowance for impairment of trade receivables +200 =700,

Impairment loss on trade receivables +200

e.g. Allowance for impairment of trade receivables $500

At the end of the year, it was decided that $200 of trade receivables may be uncollectible.

Calculation: Allowance: 500 + X = 700, Therefore, X = -300

Adjustments:

Allowance for impairment of trade receivables -300 =200,

Impairment loss on trade receivables (reversal) -300

5) LTB: Part of a loan or mortgage is to be repaid within a year

How to identify this?

$_____ of the bank loan is repayable on __<Date>__

Where <Date> is within one year from the end of the financial year.

How to adjust?

Long term borrowings (non-current liability) –

Current portion of long term borrowings (current liability) +

Examples:

e.g. $2 000 of a mortgage is due to be repaid on 31 December 2020.

Adjustments: Long term borrowings -2000, Current portion of long term borrowings +2000

e.g. Bank loan $10 000 One-fifth of the bank loan is repayable on 31 December 2020.

Calculation: The part of the bank loan that is current $10000 X (2/5) = $2000

Adjustments: Long term borrowings -2000, Current portion of long term borrowings +2000

6) GEN: General Adjustments

How to identify this?

This has yet to be recorded OR This has not yet been recorded OR any other transaction.

How to adjust?

Step 1: Identify which accounts are affected.

Step 2: Identify if accounts increase (+) or decrease (-).

Examples:

e.g. Owner contributed $600 cheque to the business bank account. This has yet to be recorded.

Adjustments: Capital +600, Cash at bank +600

e.g. Owner took $400 of goods for a personal birthday celebration. This has not yet been recorded. *Adjustments: Inventory -400, Drawings +400*

★Achievement Unlocked!★

- ☐ Learning Outcome 2.5.1.6 – Prepare a Statement of Financial Position with end-of-financial-period accounting adjustments for a sole proprietorship or private limited company.
- ☐ Learning Outcome 2.5.1.7 – Prepare a Statement of Financial Position with end-of-financial-period accounting adjustments for a trading or service business.
- ☐ Learning Outcome 2.5.2.4 – Prepare a Statement of Financial Performance with end-of-financial-period accounting adjustments for a sole proprietorship or a private limited company.
- ☐ Learning Outcome 2.5.2.4 – Prepare a Statement of Financial Performance with end-of-financial-period accounting adjustments for a trading or service business.

6. Decision-Making (Scenario-Based Questions)

6.1. Types of Information

Owners and Managers use accounting and non-accounting information to make business decisions.

Type of Information	Description	Examples
Accounting Information	Information generated by the business accounting system. Usually, information that can be extracted from the journal, ledgers, and financial statements.	Inventory balance, Gross Profit, Total Assets, Profit, Cost of goods, etc.
Non-Accounting Information	Information about the business that are not found in the journal, ledgers, or financial statements.	Nature of the product, reputation of the supplier/customer, customer needs and wants, etc.

★Achievement Unlocked!★

- Learning Outcome 1.2.2 – State examples of accounting information needed by stakeholders of a business for decision-making.
- Learning Outcome 1.2.3 – State examples of non-accounting information needed by owners and managers of a business for decision- making.

6.2. Key Questions

You will be asked to comment on decision making for these topics.

Question	Relevant Topics
Which type of inventory to purchase?	Inventory
Which supplier to buy from?	Trade Payables
Which customer to sell to?	Trade receivables
Which customer to provide better credit terms to?	Trade receivables

6.3. How to Answer Scenario-Based Questions

To answer a SBQ, use **SEE**.

S	**Stand** e.g. The business should purchase from Supplier A. The business should not sell to Customer B on credit. The business should give longer credit terms to Customer A. The business should buy product B as inventory.
E (Point & Evidence)	**Evidence** e.g. Supplier A has a 10-year track record of good service.
E (Explanation & Links)	**Explanation** e.g. Supplier A will be able to provide the quality of goods needed by the business. Therefore, Supplier A is the better choice.

We will see further examples of SBQs for different topics in Part 2.

POA O'Level (7087) Study Notes

PART 2: Key Accounts & Topics

Name: ( )	Class/TG:	Date:

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7. Cash and Bank Reconciliation

8. Inventory

9. Non-Current Assets

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12. Equity Accounts

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