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Principles of Accounts Notes

Theory, Application & SBQ Notes for Sec 3 & 4

Express/G3: 7087 (2025)
Normal (Academic)/G2: 7086 (2025)

Source: Dunman Sec POA Notes, MCE POA Textbook, Holy Grail Resources
Made by: Javier (@javiererie) & Kah Shin (@kah.shin)

Refer to the links below for each tab.
Table of contents are available in Google Docs.

Disclaimer:

Information with a Red Heading indicates that the content is only tested for the G3 Level!!!!!

This document was created for the 7087/7086 syllabus. Hence some changes made in the new K342/K233 syllabus may not be reflected here.

This document generally covers the whole POA syllabus, but you should also use your school notes and your own resources to aid in your learning.

This is inclusive of but not limited to practicing topical questions, doing papers, or making your own notes (after improving your understanding of the subject)!

Last updated on 9 Sept 2026. Refer to the latest copy here.

For Secondary 3 & 4, G2 (NA) & G3 (EXP)

📚 Theory

POA Theory Notes

Made by: Javier (@javiererie) & Kah Shin (@kah.shin)

Information with a Red Heading indicates that the content is only tested for the G3/Express Level!!!!!

Assessment Scheme

EXPRESS/G3: 7087 Syllabus (2025)

	Details	Weighting	Duration
Paper 1	Answer 3 to 4 compulsory structured questions. (40 marks)	40%	1 hour
Paper 2	Answer 4 compulsory structured questions. (60 marks) • One question requires the preparation of financial statements for a business for one financial year. (20 marks) • A scenario-based question (7 marks) will be part of one of the 3 remaining questions.	60%	2 hours

N(A)/G2 – 7086 Syllabus (2025)

	Details	Weighting	Duration
Paper 1	Answer 3 to 4 compulsory structured questions. (40 marks)	40%	1 hour
Paper 2	Answer 4 compulsory structured questions. (60 marks) • One question requires the preparation of financial statements for a business for one financial year. (20 marks) • A scenario-based question (5 marks) will be part of one of the 3 remaining questions.	60%	2 hours

Only for Paper 2:

- Q1 – Preparation of Financial Statements (F. Performance & Position) [20m]
- Q2, 3, or 4 – Scenario-based Question (SBQ) [7m for G3 | 5m for G2]
    - Refer to the SBQ Notes section for info and notes.

Summary of Accounting Theories

Source: MCE POA Textbook (page 13)

Chapter	Name	Definition	Application
2	Objectivity theory	Accounting information must be supported by **verifiable and reliable evidence** so that financial statements will be **free from opinion and biases**.	Source Documents
	Historical Cost theory	Transactions should be **recorded at their original cost.**	
	Monetary theory	Only transactions that can be **measured in monetary terms** are recorded.	Accounting Information System
3/14	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**.	Capital, Drawings Share Capital, Dividends
5	Going Concern theory	A business is assumed to have an **indefinite economic life** unless there is credible evidence that it may close down.	Financial Statements
	Accounting period theory	The life of a business is divided into **regular time intervals**.	
6	Revenue Recognition theory	Revenue is earned when **goods have been delivered** or **services have been provided.**	Income **receivable** / **received in advance**
6/7	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.	Income **receivable** / **received in advance** **Prepaid** expense / Expense **payable**
7/10/11	Matching theory	Expenses incurred must be **matched** against **income earned in the same accounting period** to determine the **profit** for that period.	Expenses (in general)
9	Valuation theory on Inventory	Inventory should be **valued at cost** or **net realisable value, whichever is <u>lower</u>**.	Net realisable value, Impairment loss on inventory
10	Valuation Method for Trade Receivables	Trade receivables is valued at the expected collectible amount, which is the amount after deduction of allowance for impairment of trade receivables.	Allowance for impairment of trade receivables
9/10/11	Prudence theory	The accounting treatment chosen should be the one that **least overstates assets and profits** and **least understates liabilities and losses**.	Impairment loss on inventory / trade receivables Allowance for impairment of trade receivables Depreciation expense
11	Consistency theory	Once an accounting method is chosen, this method should be applied to **all future accounting periods** to enable **meaningful comparison**.	Depreciation method (SLM / RBM)
	Materiality Theory	Relevant information should be reported in the financial statements if it is likely to **make a difference** to the decision-making process.	Revenue vs Capital expenditure

Chapter 1: Introduction to Accounting

Role of Accounting

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

In simple terms, it's a way of putting financial info in a standardized form for stakeholders to make choices based on relevant data, rather than by their own personal interests, in order to improve the business in the form of managing its assets (resources) and effectiveness (performance).

However, who is doing the accounting? Obviously, the accountants!

Role of Accountants

- Accountants act as **stewards of the business**.
- They set up the **accounting information system** to provide accounting information for stakeholders' decision-making.

Stewards are people who are responsible for managing the resources of the business on behalf of the owner (for example, Managers). The accounting information system as mentioned is the same as what the Role of Accounting mentions, made for stakeholders to make their informed decisions.

Professional Ethics

It is important that these accountants have professional ethics, such as **Integrity** and **Objectivity**.

One way to remember is through how accountants are influenced (refer to second bullet point)!

Integrity	Objectivity
• Accountants are **straightforward and honest** in all professional relationships. 　○ The **I** in Integrity represents the **Inside** influence, meaning you **ARE NOT** being influenced by others	• Accountants will **not** let bias, conflict of interest, or influence of others override their **professional judgement**. 　○ The **O** in Objectivity represents the **Outside** influence, meaning you **ARE** being influenced by others.

Why are they important?

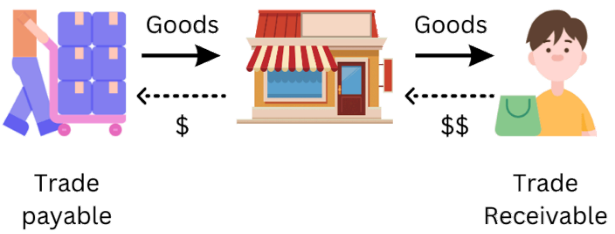
- Stakeholders **place trust in the information** provided by accountants and use them for decision-making.

If the accountants were **NOT honest** (❌ Integrity), and wasbeing **influenced by others** (❌ Objectivity) to change the accounting information, the stakeholders would trust these accountants less, and hence not want to work with them... leading to the business going 📉📉📉

Trading and Service Businesses

Trading Business

- **buys goods** from suppliers and **sells goods** to their customers for profit
  - e.g. Fairprice (supermarket)



Service Business

- **provides services** to their customers for profit
  - e.g. Tuition Centres

Forms of business ownerships

Forms of B.O.	Sole Proprietorship	Limited Liability Partnership[1]	Private Limited Company[1]
Ownership	One person who contributes all capital	Two or more partners where each contributes capital	50 or less shareholders where each buy shares and contribute capital
Liability for debts & losses	Owner personally liable for biz's debts & losses **(-)**	Partners not personally liable unless they are a result of their wrongful actions **(+)**	Shareholders not personally liable **(+)**
Control	Owner has absolute control over biz **(+)**	Shared among partners, at least one heavily involved in running biz **(-)**	No control over running biz unless part of management team **(-)**
Obtaining Loans from banks and other lenders	Harder – lack of personal assets serving as collaterals **(-)**	More likely to lend – more sources of personal assets serving as collaterals **(+)**	More likely to lend – more business assets of high value serving as collaterals **(+)**
Transferring Ownership	Easy **(+)**	All partners need to agree to addition/withdrawl of partners before corporate regulatory authority acknowleges transfer of ownership **(-)**	Shareholders must pay a stamp duty to tax authority to give shares to another person/organisation **(-)**
Existance	As long as owner is alive and wants to continue operation	Exists forever until wound up or struck off **(+)**	
Administrative Duties	Minimal to adhere to ➡️ limited business management experience **(+)**	Few regulatory duties to adhere to ➡️ manageable with partners' help	Must comply with statuory requirements and file annual financial reports ➡️ managed by hired professionals **(-)**

(+) – Advantages | (-) – Disadvantages

[1] – LLP & PLC are NOT covered in the G2 Syllabus!

Stakeholder Information

You should remember at least 2-4 stakeholders for your answers

Stakeholders	Decisions
Owners	Whether to continue to **invest** in the business or sell the business, depending on the **risks and returns** related to the business.
Managers	Whether to think of ways to **improve the business performance.**
Government	Ensure that businesses **comply with tax regulations** and decide on the **amount of tax** the business has to pay.
Employees	Whether to **continue working** at the business.
Lenders	Whether to **grant loans** to the business, depending on the business' ability to **repay** the loan principal and pay interest.
Suppliers	Whether to **sell** to the business **on credit**, depending on its **ability to pay.**
Customers	Whether to **buy** from the business, depending on the business' ability to provide the goods or services they need and **good after-service support.**
Competitors	Whether they are **comparable** to the business and how to **improve their own performance.**

Q: Why are owners and managers of a business interested in **non-accounting information**?

- Making decisions with only accounting information may cause stakeholders to leave out important business-related factors that are not shown on financial statements but may affect decisions

What are some examples of accounting and non-accounting information that may be needed?

– Refer to the SBQ Notes for all the accounting/non-accounting information! –

Chapter 2: Accounting Information System

Cash vs Credit Transactions

Cash Transactions	Credit Transactions
• Immediate payment at point of purchase • Cash at bank / Cash in hand	• Delayed payment • Trade Payable / Trade Receivables

Monetary Theory: Why is employee loyalty not recorded?

[Definition]
- States that only transactions that can be **measured in monetary terms** are recorded.

[Link]
- Employee loyalty cannot be measured in monetary terms, hence should not be recorded.

Source Documents	Related Accounting Theories
• Invoice – bought/sold **on credit** • Receipt – received **cash/cheque** • Payment voucher – **business paid** • Credit note – **return/over**charged • Debit note – **under**charged • Bank statement – **bank** charges / interest / standing order • *Remittance advice – payment by cheque for specific invoice (rarely tested)* **Keywords in bold!**	**Objectivity theory: Why record at cost?** **[Definition]** • Accounting information must be supported by **verifiable and reliable evidence** so that financial statements will be **free from opinion and biases**. **[Link]** • Source docs. provide **evidence** that a transaction has occurred. **Historical Cost theory: Why are Source docs. important?** **[Definition]** • Transactions should be **recorded at their original cost**. **[Link]** • Source docs. reflect the **original cost** of the transaction.

Order of Processing in the Accounting Information System

Source documents ➡️ Journal ➡️ Ledger ➡️ Trial balance
➡️ Financial Statements (Statement of F. Performance ➡️ Statement of F. Position)

Stages of Accounting Cycle

Identify and record ➡️ Adjust ➡️ Report ➡️ Close

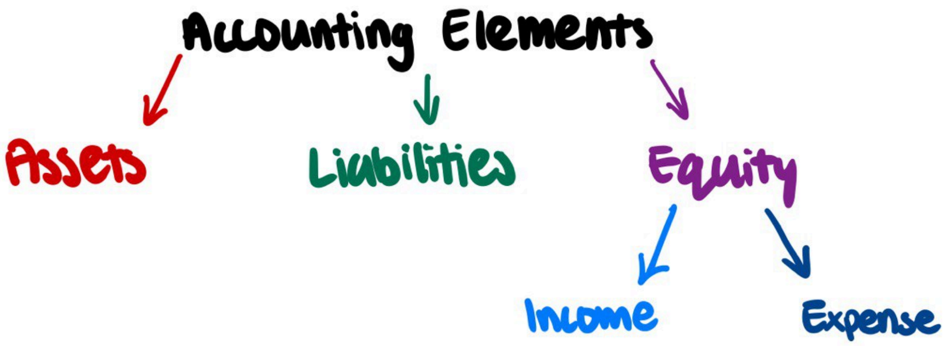
Chapter 3: Elements of Financial Statements & the Accounting Equation

The Accounting Equation (ALE & ALICED)

You NEED to remember this as it is your basic fundamentals for POA!!

Basic (A=L+E)	Expanded (A=L+I+C-E-D)
Assets = Liability **+ Equity**	Assets = Liability **+ Capital + Income – Expenses – Drawings** **(Equity)**

Keywords in the Accounting Elements



Name	Definition
Assets	Resources a business **owns or controls** that are expected to provide **future benefits**
Liabilities	Obligations **owed** by a business to others that are expected to be **settled in the future**
Equity	Claim by the owner on the **net assets of the business**
Income	Amount **earned** through **business activity**
Expenses	Cost **incurred** in the business for it to **earn income**

Classification of (some) accounts

Non-current & current assets/liabilities are not included here (C5)

Not exhaustive, some accounts explained in further details in later topics.

Assets	**Liability**	**Equity**	**Income**	**Expense**
Fixtures and fittings	Long-term borrowings	Capital	Sales revenue	Cost of sales
Office equipment	Trade payables	Drawings	Service fee revenue	Rent expense
Motor vehicles	Bank overdraft	Profit / Loss for the period	Rent income	Interest expense
Inventory			Interest income	Salaries expense
Trade receivables			Commission income	Utilities expense
Cash at bank			Discount **received**	Stationery expense
Cash in hand				Bank charges
				Discount **allowed**

Application Notes:

– Identifying effects of transactions –

Chapter 4: Double-entry Recording

Nature of accounts – ALICED

AED: Debit (Dr) in Nature	**Dr**	**Cr**
Assets	**+**	-
Expenses	**+**	-
Drawings	**+**	-

LIC: Credit (Cr) in Nature	**Dr**	**Cr**
Liabilities	-	**+**
Income	-	**+**
Capital	-	**+**

Summary

Accounting element	**Dr**	**Cr**	**Suffix (Ledger)**
Assets	+	-	Dr
Liabilities	-	+	Cr
Income	-	+	Cr
Capital	-	+	Cr
Expenses	+	-	Dr
Drawings	+	-	Dr

Rules of double-entry recording systems (Journal Entries)

1. At least **two accounts** are affected **per transaction**
2. At least **one account** is **debited** (Dr) and **one account** is **credited** (Cr)
3. **Total debit = Total credit** (i.e. Both columns should have the same amount)

Application Notes:

– Preparation of Journal Entries –

– Journal Entry Recording (non-exhaustive) –

– Preparing Ledger Accounts –

– Interpreting Accounts –

Chapter 5: Trial Balance and Financial Statements

Trial Balance ➡️ Financial Performance ➡️ Financial Position

Trial Balance

- In a trial balance, you will list accounts (as given by the question) and fill in the Debit / Credit columns to the right with each of their ending balances.
- At the end of the trial balance, you will need to make sure that **total debit = total credit.**

Purpose	Limitations
• To facilitate **preparation of financial statements** • Ensure **arithmetic accuracy** in recording	• Not an **absolute proof of accuracy** • There may be **errors that are not revealed** in the trial balance ○ Refer to C15: COE

Rules in recording a trial balance:

- Assets, Expenses, Drawings (AED) – to be recorded on the **Debit** side
- Liabilities, Income, Capital (LIC) – to be recorded on the **Credit** Side
- **Total debits = Total credits**

– Application Notes: Preparing Trial Balance –

Financial Statements

Accounting period theory	Going concern theory
• States that the life of a business is divided into **regular time intervals**	• States that the business is assumed to have **indefinite economic life** unless there is credible evidence that it may close down.

Statement of Financial Performance

- shows income earned and expenses incurred for a period of time
- shows stakeholders of profitability of business
- use to find your **profit/loss for the year** (will use in the F. Position)

– Application Notes: Preparing Statement of Financial Performance –

Statement of Financial Position

- a representation of the accounting equation: **Assets = Liabilities + Equity (net assets)**

Non-current assets (NCA)	Current assets (CA)
• Benefits last **beyond** one financial year (used for >1 year) • **Not easily** converted to cash E.g. Motor Vehicles, Office equipment, Fixtures and fittings	• Benefits are used **within** one financial year (used for <1 year) • **Easily** converted to cash E.g. Trade receivables, Cash in hand, Cash at bank, Inventory
Non-current liabilities (NCL)	**Current liabilities (CL)**
• Due to be paid **beyond** one financial year (> 1 year) E.g. Long-term borrowings	• Due to be paid **within** one financial year (< 1 year) E.g. Trade payables, Bank overdraft, Current portion of long-term borrowings
Equity (EQ) • Capital = Beginning Capital + Additional Capital **+ Profit / - Loss for the year** - Drawings (from Financial Performance)	

– Application Notes: Preparing Statement of Financial Position –

Chapter 6: Revenue and other income

Income

Revenue	Other income

• earned from the **main** business activities
• **Sales Revenue**
    ○ sale of goods (trading biz)
• **Service Fee Revenue**
    ○ provide services (service biz)
	• earned from **other** business activities
	• e.g. Rent **income**
	Commission **income**
	Interest **income**

Net sales revenue = Sales revenue - Sales returns	**Revenue recognition theory: Why (name of income) must be adjusted at the end of the year?** **[Definition]** • states that **revenue is earned** when goods have been **delivered** or services have been **provided.** **[Link]** • When biz has provided service, (income) is considered earned and should be recorded, even if money has not been received.

Journal Entry Accounts: Income

1. Credit Sale of <u>Goods</u> Dr Trade receivables Cr Sales revenue	**1. <u>Closing</u> Entries (sale of goods)** Dr Sales revenue Cr Income summary
2. Credit Sale Return of <u>Goods</u> Dr Sales returns Cr Trade receivables	**2. <u>Closing</u> Entries (return)** Dr Income summary Cr Sales returns
3. Credit Sale of <u>Services</u> Dr Trade receivables Cr Service fee revenue	**3. <u>Closing</u> Entries (sale of services)** Dr Service fee revenue Cr Income summary
4. Receipt of Cash (<u>other income</u>) Dr Cash at bank / Cash in hand Cr (name) income	**4. <u>Closing</u> Entries (other income)** Dr (name) income Cr Income summary
All sales of goods/services are the same as the "selling price" for <u>Customers</u>. (name): Name of income from accounts	All income entries are **<u>closed</u>** and **<u>transferred</u>** to **Income summary** account at the end of the Financial Year.

Received in advance

Income has been received but services has not been provided (not earned) yet

Journal Entry Accounts: Received in advance

End of Financial Year	Start of Financial Year
1. **Service fee revenue received in advance** Dr Service fee revenue Cr Service fee revenue received in advance	1. **Service fee revenue received in advance** Dr Service fee revenue received in advance Cr Service fee revenue
2. **Income received in advance** Dr (name) income Cr (name) income received in advance	2. **Income received in advance** Dr (name) income received in advance Cr (name) income
• (name) – Name of income • **(name) income/Service fee revenue** in F. Performance under **Other Income (TIE)** • Income/Service fee revenue **received in advance** in F. Position under **Current Liabilities**, since you have NOT earned (i.e. worked for) the income yet	

Accrual basis of accounting theory *(why business has to adjust at the end of the year)*

- States that business activities that have **occurred**, **regardless of whether cash has been paid or received**, has to be recorded in the relevant accounting period

Interpretation: Received in Advance

Reversal	The business **reversed** $xxx (type of income) received last year but for services only provided this financial year.
Payment	The business **received** (type of income) of $xxx in cheque / cash.
Adjustment	The business **adjusted** $xxx (type of income) received in advance but services not provided in this financial year.
Closing	A total (type of income) of $xxx earned for the year is transferred to the **income summary** account.

Effect on Income and Profit for the Period (Income RIA)

- Both accounts (income & profit) will follow the same effect.

Not Adjusted	Adjusted
• Income AND profit for the period will be **OVERSTATED** by (amount)	• Income AND profit for the period will **DECREASE** by (amount)

Income receivable

Income has been earned/provided but not received yet

Journal Entry Accounts: Income receivable

End of Financial Year – Last day	Start of Financial Year – First day
1. Income receivable Dr (name) income receivable Cr (name) income	**1. Income receivable** Dr (name) income Cr (name) income receivable

- (name) – Name of income

- (name) income in F. Performance under **Other Income (TIE)**
- Income receivable in F. Position under **Current Assets,** since you have already earned the income but have NOT received it yet

Accrual basis of accounting theory *(why business has to adjust at the end of the year)*

[Definition]
- States that business activities that have **occurred**, **regardless of whether cash has been paid or received**, has to be recorded in the relevant accounting period

[Link]
- When services have been provided, income is considered earned and should be recorded, even if the money has not been received.

Interpretation: Received in Advance

Reversal	The business **reversed** $xxx (type of income) <u>earned</u> last year but <u>payment to be received</u> this financial year.
Payment	The business **received** (type of income) of $xxx in cheque/cash.
Adjustment	The business **adjusted** $xxx (type of income) <u>earned but not received</u> in this financial year.
Closing	A total (type of income) of $xxx earned for the year is transferred to the **income summary** account.

Effect on Income and Profit for the Period (Income receivable)
- Both accounts (income & profit) will follow the same effect.

Not Adjusted	Adjusted
• Income AND profit for the period will be **UNDERSTATED** by (amount)	• Income AND profit for the period will **INCREASE** by (amount)

In summary,

Accounts	Reversal	Adjustment
Income received in advance **(Current Liability)**	+	-
Income receiv**able** **(Current Asset)**	-	+

Effect on Income and Profit for the Period	
• Both accounts will have the same effect. "Overstated / Understated" and "Increase / Decrease"	
Income Received in Advance	
Not Adjusted	**Adjusted**
• Income AND profit for the period will be **OVERSTATED** by (amount)	• Income AND profit for the period will **DECREASE** by (amount)
Income receivable	
Not Adjusted	**Adjusted**
• Income AND profit for the period will be **UNDERSTATED** by (amount)	• Income AND profit for the period will **INCREASE** by (amount)

– Application Notes: Preparing JE involving RPAC –

Chapter 7: Cost of sales and other expenses

Expenses

Cost of sales	Other expenses
• **Total cost** price of goods that have been **sold**	• **Other costs incurred** during the operation of a business to earn income

Journal Entry Accounts: Cost of Sales

1. Sale of Goods Dr Cost of Sales Cr Inventory **2. Return Goods sold previously** Dr Inventory Cr Cost of Sales	**1. Closing Entries** Dr Income Summary Cr Cost of sales Cost of sales account closed at the end of financial year. Amount is transferred to **income summary** account.
All sales of goods/services are the same as the "cost price" for Customers.	**Matching theory (cost of sales)** • States that the cost incurred to buy inventory must be **matched against the sales revenue earned** from selling the inventory in the same accounting period to determine the **gross profit** for that period.

Journal Entry Accounts: other expenses

1. Payment of other expenses Dr (name) expense Cr Cash in hand / Cash at bank	**1. Closing Entries** Dr Income summary Cr (name) expense
Matching theory (other expenses) • States that other costs incurred during the operation of a business must be **matched against revenue** and **other income earned** in the same accounting period to determine the **profit for that period.**	

Expenses Payable

Expense incurred in the current accounting period, but have not been paid for yet

Journal Entry Accounts: Expense Payable

1. **Expense Payable** Dr (name) expense   Cr (name) Expense Payable
• (name) – Name of expense • **(name) expense** in F. Performance under **Less: other expenses (TIE)** • **Expense Payable** in F. Position under **Current Liabilities**, since you have already incurred the expense but have not paid it yet.

Accrual basis of accounting theory (why business has to adjust at the end of the year)

[Definition]

- States that business activities that have **occurred**, **regardless of whether cash has been paid or received**, has to be recorded in the relevant accounting period

[Link]

- When business has incurred the expense, it should be recorded even if the money has not been paid.

Interpretation: Expenses Payable

Reversal	The business **reversed** $xxx (type of expense) <u>incurred</u> last year <u>and to be paid</u> this financial year.
Payment	The business **paid for** (type of expense) of $xxx in cheque / cash
Adjustment	The business **adjusted** $xxx (type of expense) <u>incurred but not paid</u> in this financial year.
Closing	A total (type of expense) of $xxx incurred for the year is transferred to the **income summary** account.

Effect on Expense and Profit for the Period (Expense Payable)

Not Adjusted	Adjusted
• Expense will be **UNDERSTATED** by (amount) • Profit for the period will be **OVERSTATED** by (amount)	• Expense will **INCREASE** by (amount) • Profit for the period will **DECREASE** by (amount)

Prepaid Expenses

Expense has been paid in advance before services are used

Journal Entry Accounts: Prepaid Expense

1. **Prepaid Expense** Dr Prepaid (name) expense Cr (name) expense
• (name) – Name of expense • **(name) expense** in F. Performance under **Less: other expenses (TIE)** • **Prepaid Expense** in F. Position under **Current Assets**, since you have already paid the expense in advance but have not incurred it yet (services not used yet).

Interpretation: Prepaid Expense

Reversal	The business **reversed** $xxx (type of expense) paid last year but to be incurred this financial year.
Payment	The business **paid for** (type of expense) of $xxx in cheque / cash
Adjustment	The business **adjusted** $xxx (type of expense) paid in advance but not incurred yet in this financial year.
Closing	A total (type of expense) of $xxx incurred for the year is transferred to the **income summary** account.

Effect on Expense and Profit for the Period (Prepaid Expense)

Not Adjusted	Adjusted
• Expense will be **OVERSTATED** by (amount) • Profit for the period will be **UNDERSTATED** by (amount)	• Expense will **DECREASE** by (amount) • Profit for the period will **INCREASE** by (amount)

In summary,

Accounts	Reversal	Adjustment
Expense Pay**able** **(Current Liability)**	-	+
Prepaid Expense **(Current Asset)**	+	-

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<tr><th colspan="2">Effect on Expense and Profit for the Period</th></tr>
<tr><th colspan="2">Expense Payable</th></tr>
<tr><th>Not Adjusted</th><th>Adjusted</th></tr>
<tr><td>Expense will be UNDERSTATED by (amount)
Profit for the period will be OVERSTATED by (amount)</td><td>Expense will INCREASE by (amount)
Profit for the period will DECREASE by (amount)</td></tr>
<tr><th colspan="2">Prepaid Expense</th></tr>
<tr><th>Not Adjusted</th><th>Adjusted</th></tr>
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Profit for the period will INCREASE by (amount)</td></tr>
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– Application Notes: Preparing JE involving RPAC –

Chapter 8: Cash & Bank Reconciliation

Cash

Giving & Receiving Discounts

Giving discounts (Collecting from customers)	Receiving discounts (paying suppliers)
Dr Cash at bank / Cash in hand **Dr** Discount **Allowed** Cr Trade receivables – (name)	Dr Trade payables – (name) Cr Cash at bank / Cash in hand **Cr** Discount **received**

Cash Discounts: Discount Allowed vs Received

Discount Allowed	**Discount Received**
• **credit customer** pays early – business gives cash discount • **decrease** in profit • **Expense (Dr + / Cr -)**	• **business** pays early – receives cash discount from credit suppliers • **increase** in profit • **Income (Dr - / Cr +)**

Dishonoured Cheque (aka Rejected cheque)

Reasons (know **at least two**)

- **Expired**
- **Post-dated**
- Information on cheque is **incomplete** (e.g. missing amount)
- Information on cheque is **inconsistent** (e.g. signature on cheque is different from specimen signature in bank records)
- The payer's bank account has **insufficient funds / frozen / closed.**

Received cheque **(with cash discount)**	Dishonoured Cheque **(withdrawn cash discount)**
Dr Cash at bank **Dr Discount Allowed** Cr Trade receivables	Dr Trade receivables Cr Cash at bank **Cr Discount allowed**

Internal Controls

Purposes	Purposes for Internal Controls over <u>cash</u>
• **Safeguard assets** of business • Ensure business transactions are recorded **accurately** • **Comply with laws** and regulations	• Cash is **highly portable** and has a high chance of getting stolen • Internal controls help to reduce **possibility of theft** and **likelihood of error** • Ensures that cash is **well-protected** and **accurately reported**

Internal Control	Explanation
Separation of duties	**Separate cash handling and cash recording duties** among different employees so that **no single person controls** the entire cash process
Custody of cash	**Secure cash** and cheques in a locked storage and **limit access** to it to only authorized personnel
Authorisation	Obtain **proper approvals** from authorized personnel, requires **valid supporting documents** for all payments
Bank reconciliation	Compare business records and bank records to **identify items that caused the differences** between the business cash at bank account and bank statements

Bank Reconciliation

Purposes of Bank Reconciliation

- To **find out the items that cause the difference** between the business CAB balances and the bank statement balances
- To **calculate the accurate** cash at bank and bank statement balances
- Acts as a **deterrence against fraud**

Timing Differences in BR Statement & CAB Ledger

<table>
<tr><th>Bank Reconciliation Statement</th><th>Cash at bank Ledger</th></tr>
<tr><td>When the business has recorded the transaction, but the bank has not.</td><td>When the bank has recorded the transaction, but the business has not.</td></tr>
<tr><td>Parts of a Bank Recon Statement
1. deposits in transit
  ○ when business has deposited the cheque with the bank, but bank has not processed the cheque yet

2. cheques not yet presented
  ○ business has issued a cheque to supplier, but supplier has not presented cheque to bank for payment yet</td><td>Parts of a Cash at bank Ledger
1. dishonoured (rejected) cheques

2. direct deposits (e.g. credit transfer)
  ○ customer deposit cash/cheque with bank directly
  ○ customer transfer funds directly to business account

3. direct payments (e.g. standing order, bank charges)
  ○ bank authorized by the business to transfer funds directly into supplier's bank account
  ○ standing order: instruction to the bank to pay a specific amount to a specific payee from the payer's bank account on a regular basis</td></tr>
</table>

Errors made by the bank/business

- identify the errors and whether they are made by the bank or business (stated)
- make the needed changes so that both bank and business statements are the **same amount**.

Errors by the bank	Errors by the business
Record under **Bank Reconciliation** as "Bank Error"	Record under **Cash at bank**, following the account associated with the error.

Definitions

Bank Statement

Direct Deposits	Customers **deposit cash/cheques** with the bank directly, or **transfer funds** directly into the business account. *(similar to reducing trade receivables)*
Direct Payments	Bank has been authorized by the business to **transfer funds** directly into the **supplier's bank account.** *(similar to paying off trade payables)*
Standing Order	**Instruction** to the bank to **pay a specific amount** to a **specific payee** from the payer's bank account **on a regular basis.** *(similar to paying off expenses / trade payables)*

Bank Reconciliation Statement

Deposits in Transit	**Business has deposited the cheque** with the bank but the **bank has not processed the cheque** yet. *(the "debit" column of the CAB ledger)*
Cheques not yet presented	**Business has issued a cheque** to its supplier but the **supplier has not presented the cheque to the bank** for payment yet. *(the "credit" column of the CAB ledger)*

Effect of Profit for the year after preparing Bank Reconciliation

- With your **updated cash at bank account** (i.e. the ledger that you completed), calculate the profit amount again using **Income – Expense**.
    - Compare it with the old profit amount, and determine whether the value **increases or decreases** and by **how much**.

Format: The profit **increases / decreases** by (amount).

Example:
- The profit decreases by $50.
- The profit increases by $700.

Stating adjusted cash at bank balance presented on Financial Position

Refer to your **updated cash at bank balance** (i.e. the ledger that you completed) for the **Dr (cash at bank)** or **Cr (bank overdraft)** amount.

Format: Section, account, amount

Example:
- Current **assets**, Cash at bank, $4880
- Current **liabilities**, Bank overdraft, $1245

Use the Application Notes for the following sections below:

- Same/different opening balances

[– Application Notes: Preparing Bank Reconciliation –]

Chapter 9: Inventory

Why keep inventories?	How to manage?
• avoid a **stock-out situation** that often result in **loss of sales**	• keep **proper records to track inventory** so as to maintain just enough to meet customer demand • **buying insurance** to insure inventory against theft / natural disasters

Cost of inventory (non-exhaustive)	First-in-first-out (FIFO) method
• cost price of goods • salaries of workers packing goods • transport costs • custom duties • insurance incurred to bring in goods • cost of packing materials	• assumed that **goods bought first are sold first** • only calculating cost of sales

Net Realisable Value (NRV) & Impairment Loss on Inventory

Valuation theory of inventory	Prudence theory: ***(Why is IL on Inventory recorded?)***
• States that inventory should be valued **at cost or net realisable value (NRV),** whichever is **lower.**	**[Definition]** • The accounting treatment chosen should be one that **least overstates assets and profits** and **least understates liabilities and losses.** **[Link]** • When NRV is lower than cost, Inventory value should be **reduced to NRV** to **avoid overstating assets**, and **IL on inventory** has to be recorded to **avoid understating losses.**

Calculations

- Net Realisable Value (NRV)
    - NRV = Inventory - Impairment Loss on Inventory

- Impairment Loss (IL) on Inventory
    - IL = Inventory - NRV

– Application Notes: Answering Impairment Loss questions –

– Application Notes: Suppliers & Customers Journal Entries (for Inventory) –

– SBQ Notes: Inventory (G2/3) –

Chapter 10: Trade Receivables

Trade Receivables

Amount owed by customers who buy goods & services from businesses **on credit**.

Journal Entry Accounts for Trade Receivables

Credit Sale of **Goods** / Services

Dr Trade receivables: (+ increase in T/R)
    Cr **Sales revenue** / Service fee revenue

Collecting from Credit Customers **(with cash discount)**

Dr Cash at bank / Cash in hand – depending on question
Dr Discount allowed – cash discount
    Cr Trade receivables: (take away amount owed, since already repaid)

NOTE:
Cash at bank + Discount allowed amount should equal (=) Trade Receivables
If discount allowed, make sure to minus off the discounted $$ from cash at bank

---

Dishonoured Cheque **(with cash discount)**

Dr Trade receivables
    Cr Cash at bank / Cash in hand
    Cr Discount allowed: **(take away cash discount)**

NOTE:
- Trade receivables ($) = Cash at bank ($) + Discount allowed ($)
- If calculating Cash at bank amount, make sure to **remove the Discount allowed amount** from the original balance.

Allowance for Impairment of Trade Receivables

The estimated amount of trade receivables that is likely to be **uncollectible**.

Formula:
Allowance = Est. Unrecoverable (%) × Ending trade receivable balance ($)

Nature of Allowance accounts

Accounts	Dr	Cr
Allowance for impairment <u>of</u> trade receivables (contra-assets – current assets)	-	+
Impairment loss <u>on</u> trade receivables (expense)	+	-

Recording of Allowance in <u>FINANCIAL PERFORMANCE</u>

<u>less: Other expenses</u>	$	$
Impairment loss on trade receivables (⬆️ allowance)		xxxx
Reversal of impairment loss on trade receivables (⬇️ allowance)		(xxxx)

Use the difference (Final Allowance – Original Allowance) for "xxxx" (i.e. IL on TR).

<u>In accordance to MATCHING THEORY</u>
The **expenses incurred** must be **matched** against the **income earned** in the same period to determine the **profit for the period.**

Recording of Allowance in <u>FINANCIAL POSITION</u>

<u>Current Assets</u>	$	$	$
Trade receivables	xx		
less: Allowance for impairment of trade receivables	(xx)	**xx**	

Note: Use the final allowance amount
Use Trade Receivables as the first CA to less the Allowance amount

Prudence Theory *(Why is it necessary to account for allowance?)*

[Definition]

- States that the accounting treatment chosen should be one that **least overstates assets and profits** and **least understates liabilities and losses**.

[Link]
The provision of allowance for impairment of trade receivables is to ensure that the trade receivables balance is **not overstated** and reflects the net amount that is collectible.

Valuation Method for Trade Receivables in F. Position

- Trade receivables is valued at the **expected collectible amount**, which is the amount **after deduction of allowance for impairment of trade receivables.**

(basically means that T/R amount is how much you expect to collect from your customers, after removing all your allowance (how much you expect to NOT collect))

Journal Entry Accounts for Allowance

(+) denotes increase in amount, while (-) denotes decrease in amount

Providing / Increasing Allowance

Dr Impairment loss on trade receivables **(+)**
    Cr Allowance for impairment of trade receivables **(+)**

Decrease in allowance

Dr Allowance for impairment of trade receivables **(-)**
    Cr Impairment loss on trade receivables **(-)**

Writing off (closing down of) business

Dr Allowance for impairment of trade receivables **(-)**
    Cr Trade receivables – (customer) **(-)**

When you write off a business, the amount has been **confirmed unrecoverable**. Thus, you will **remove** the amount from **both Allowance and Trade receivables**.

– Application Notes: Answering Allowance questions –

Interpreting Allowance for Impairment of Trade Receivables Ledger Accounts

Format(s):

- Allowance for Impairment Loss of Trade Receivables
    - On (date), the business **reviewed its trade receivables** and **increased/decreased** the amount of allowance for impairment of trade receivables by (inc/dec amount) to (new amount).

- [Write-off] Trade Receivables – (name of business)
    - On (date), the business **wrote off** (amount owed) of **debts** owed by (name of business).

Effects of Adjusting Allowance for Impairment of Trade Receivables

Increase in allowance	**Decrease** in allowance

• **increase** in **other expenses**
 	
• **decrease** in **profit**
  ○ due to Impairment Loss on Trade Receivables
 	
• **decrease** in **current assets**
  ○ due to Allowance for Impairment on Trade Receivables
	• **decrease** in **other expenses**
	
	• **increase** in **profit**
	  ○ due to Reversal of Impairment Loss on Trade Receivables
	
	• **increase** in **current assets**
	  ○ due to Allowance for Impairment on Trade Receivables

– SBQ Notes: Trade Receivables (G2/3) –

Chapter 11: Non-Current Assets

Incurring costs on non-current assets (NCA)

<table>
<tr>
<td>

Capital Expenditure (NCA)

costs to buy and bring NCA to intended use
costs to enhance NCA
provides benefits for > 1 year

i.e. Capital Expenditure <u>improves</u> NCA.

E.g. Replacement of engine to extend useful life of a motor vehicle for another 3 years.

</td>
<td>

Revenue Expenditure (Expense)

costs to operate, repair and maintain NCA in working condition
provides benefits for < 1 year

i.e. Revenue Expenditure <u>maintains</u> NCA.

E.g. Servicing the engine parts in a motor vehicle.

</td>
</tr>
<tr>
<td>Dr Non-current assets
Cr Trade payables / Cash at bank
/ Cash in hand</td>
<td>Dr Expenses
Cr Expenses payable / Cash at bank
/ Cash in hand</td>
</tr>
</table>

Materiality Theory

Definition

- Materiality theory states that relevant information should be reported in the financial statements if it is likely to make a difference to the decision-making process.

How does it work? *(Explain the materiality theory)*

- If the amount spent on an NCA is **insignificant** to decision-making when compared to the size of income, profit, asset or equity of the business, it does not need to be reported in the financial position as an NCA.
- Instead, it can be classified as a revenue expenditure and be reported in the financial performance as an expense.

Format for Answering Questions for classifying RE/CE

- Adapt to what is given in the question.
  - Income / Profit / Asset / Equity of the business
  - Type of NCA that is given
- **Capital** Expenditure – **Significant** to decision-making
- **Revenue** Expenditure – **Insignificant** to decision-making

According to Materiality Theory, the costs of **(NCA)** will be classified as **capital / revenue expenditure**. The cost of **(NCA)** is **significant / insignificant** to decision-making when compared to **(income/profit/asset/equity)** of the business.

Wrongly Classifying Expenditures

Wrongly classified as <u>Revenue Exp.</u>	Wrongly classified as <u>Capital Exp.</u>
• NCA understated • Other expenses overstated • Profit understated	• NCA overstated • Other expenses understated • Profit overstated

Depreciation

The allocation of the cost of a non-current asset over its estimated useful life.

Causes (know at least 2-3) – *meanings labelled in brackets, only remember the bolded!*:

- **usage** *(how much/often an asset is used)*
- **wear and tear** *(gradual reduction in value from normal use over time)*
- **obsolescence** *(outdated, no longer useful)*
- **legal limits** *(laws reducing how long NCA can be used)*

Key Terms!

Net Book Value (NBV): Value of an asset after deducting Accumulated Depreciation

Accumulated Depreciation (AD): Total depreciation to date

Scrap Value (SV): Estimated value of an asset at the end of its useful life

Journal Entry Accounting for Depreciation

Dr Depreciation of (asset)
 Cr Accumulated depreciation of (asset)

Depreciation is an **expense (Dr +, Cr -)**
Accumulated depreciation is a **non-current asset and a contra-asset (Cr +, Dr -).**
It is recorded under the second column of Financial Position.

Recording of Depreciation in <u>FINANCIAL PERFORMANCE</u>

	$	$
<u>less: Other expenses</u>		
Depreciation of (NCA)		xxxx

Note: to use the amount for that year only!! (calculate with formulas)

Recording of Depreciation in <u>FINANCIAL POSITION</u>

	Cost $	Accumulated Depreciation $	Net book value $
<u>Non-Current Assets</u>			
(Name of NCA, *E.g. Office Equipment)*	xxx	(xxx)	xxxx

Note: Accumulated Depreciation is recorded in the second column.
Brackets to be put in the accumulated depreciation column.
To use the <u>Financial Position Format with 3 columns</u>.

Calculating Depreciation

Net Book Value Formula:

$$Net\ Book\ Value = Cost - Accumulated\ Depreciation$$

Straight-line method	Reducing-balance method
• assumes NCA provide **same benefits** throughout estimated useful life e.g. fixtures & fittings • Two formulas!! $Dep.\ (SLM) = \frac{Cost - Scrap\ Value}{Est.\ Useful\ Life\ (Years)}$ $Dep.\ (SLM) = (Cost - SV) \times Rate\ of\ Dep.\ (\%)$	• assumes NCA provides **more benefits** in earlier years than later years e.g. motor vehicles • **ONE** Formula $Dep.\ (RBM) = NBV \times Rate\ of\ Dep.\ (\%)$
Consistency theory (associated with calculations) • states that a business should use the same method of depreciation and rate of depreciation every financial period to enable meaningful comparison of the net book value of non-current assets over time.	

Interpreting Accumulated Depreciation Ledger Accounts

Format(s):

- Depreciation of (non-current asset)
  - The accumulated depreciation of (non-current asset) for the year ended (date) is (amount)
    - Note: Use the amount that is accumulated **for the entire year only**.

Stating how Profit for the year & Non-current assets will be affected <u>if a different method of depreciation is used</u>

Calculate the depreciation using the other method (SLM or RBM) not used in the question and compare the value difference.

New > Old Dep. (Higher Value)	New < Old (Lower Value)
DECREASED Profit & NCA	**INCREASED** Profit & NCA

Sale of Non-current Assets (G3 ONLY)

In this sub-topic, you are finding the **gain or loss on the sale of NCA**.

Sale of Non-current assets is like a **temporary** account to calculate the gain/loss incurred. Two values fall under this one account:

- Net book value (cost & accumulated depreciation)
- Sale Proceeds (amount received from selling the NCA)

You can calculate the gain or loss with this formula:

$$Sale\ Proceeds\ -\ NBV\ =\ Gain/Loss\ on\ sale\ of\ NCA$$

When the final amount is **positive**, it is a **gain** on sale of non-current assets.
When the final amount is **negative**, it is a **loss** on sale of non-current assets.

Gain on sale of non-current asset	**Loss on sale of non-current asset**
The final amount is a **positive** (Dr) value. Sale proceeds **>** Net book value **Gaining profit** ➡️ record under **other income (TIE – I)**	The final amount is a **negative** (Cr) value. Sale proceeds **<** Net book value **Losing profit** ➡️ record under **other expense (TIE – E)**

Steps in recording Sale of Non-Current Assets

Step 1: Remove Non-current assets
Dr Sale of non-current asset (+)
Cr Non-current asset (name of NCA) (–)

Step 2: Remove Accumulated Depreciation
Dr Accumulated Depreciation of (name of NCA) (–)
Cr Sale of non-current asset (–)

Step 3: Collect Sale Proceeds (amount received)
Dr Cash at bank / Cash in hand / Other receivables *(e.g. T/R)* (+)
Cr Sale of non-current asset (–)

Step 4: Transfer Gain/Loss on sale of NCA to income summary account

Gain
Dr Sale of non-current asset
Cr Income Summary (+ income)

Loss
Dr Income Summary (+ expense)
Cr Sale of non-current asset

Pro-rating Depreciation (for a set number of months)

Typically, when you see the sentence:

A full year's depreciation is to be charged in the year of purchase.

You can calculate depreciation as per usual with the formulas given above.

However, what if this sentence **doesn't appear in the question?**
You will need to **prorate depreciation!**
(i.e. charge depreciation for a **set number of months**)

How do you pro-rate depreciation?

$$\left(\text{Depreciation Method (SLM or RBM)}\right) \times \frac{\text{No. of Months}}{12}$$

Interpreting Sale of NCA Ledger Accounts

Format(s):

- Removal of Non-current Assets
    - On (date), the business sold (non-current asset) **costing** (amount).
- Removal of Accumulated Depreciation
    - On (date), the (non-current asset) sold had been depreciated by (amount) **since the business had bought it.**
- Collection of Sale Proceeds
    - On (date), the business sold (non-current asset) ***and received (amount) in cheque/cash***// for (amount) on credit.
        - bold+italic – cash in bank/cash in hand
        - normal font – other receivables (e.g. trade receivables)

– SBQ Notes: Non-current Assets (G3) –

Chapter 12: Trade Payables

Amount owed to **suppliers** when businesses buy goods and non-current assets on credit

Why buy on credit?

- When a business buys goods / non-current assets on credit, it can receive them first and pay later.
- Thus, cash can be used for other operations of the business.

Trade vs Cash discount

Trade discount	Cash discount

• reduction to **list** price
• **encourage customers to:**
  ○ buy in bulk
  ○ customer patronage
• ❌ **NOT** recorded in business' books
	• reduction to **invoiced** price
	• encourage credit customer to pay early within a specified time
	• ✅ recorded in F. Performance as:
	  ○ discount **allowed (expense)**
	  ○ discount **received (income)**

Accounting for Giving & Receiving Discounts

Giving discounts (collecting from customers)	Receiving discounts (paying suppliers)

Dr Cash at bank / Cash in hand
Dr Discount **Allowed**
  Cr Trade receivables – (name)
	Dr Trade payables – (name)
	  Cr Cash at bank / Cash in hand
	  Cr Discount **received**

Accounting for Trade Payables

The 3 "Rules" of Accounting for Trade Payables:

1. **Trade** discount **NOT** recorded *(but include the working!)*
2. **Cash** discount **IS** recorded, either as:
   a. Discount **ALLOWED (expense)**
   b. Discount **RECEIVED (income)**
3. If **buy @ discount, return @ discount**

Note: Although Trade Discount is not recorded as an account, the working for it is still required, wherever applicable!

Interpreting Trade Payable Ledger Accounts

Format(s):

- Balance b/d
  - On (date), the business **owed** (business name) (amount).

- Buying Inventory / NCA
  - On (date), the business bought goods / (name of NCA) costing (amount) from (business name) **on credit.**

- Returning Inventory / NCA
  - On (date), the business returned goods / (name of NCA) costing (amount) to (business name) **previously bought on credit.**

- Cash at bank + Discount received
  - On (date), the business **issued a cheque** of (amount) to (business name) and **received a cash discount of (amount).**
    - Note: Cash discount amount should reflect what is written on the ledger account, *not percentage*.

- Expenses (for service business)
  - On (date), the business **engaged** (services) costing (amount) from (name on business) **on credit**.
    - E.g. On **11 May 2024**, Howie engaged **cleaning services** costing **$699** from **Sparkling Clean Ltd** on credit.

– SBQ Notes: Trade Payables (G2/3) –

Chapter 13: Long-term Borrowings

Borrowings

Money borrowed from third parties such as banks and finance companies.

<table>
<tr>
<td>

Long-term borrowings (Bank Loan)
- borrowed for more than 1 financial year
- *Non-current liabilities (NCL)*

linked with...

Current portion of long-term borrowings
- amount to be repaid within the next financial year
- *Current Liabilities (CL)*

</td>
<td>

Short-term borrowings
- borrowed for less than 1 financial year

linked with...

Bank overdraft
- amount overdrawn
- *Current Liabilities (CL)*

</td>
</tr>
</table>

Bank Loan vs Bank Overdraft

	Bank Loan	Bank Overdraft
how?	borrow **fixed amount**, cash transferred to the bank account	amount withdrawn more than what has been deposited in the bank, up to the limit agreed upon between the business and the bank
repayment	regular cash payments in equal installments over the loan period or a one-time lump sum payment at the end of the loan period	deposit cash into the bank account to reduce overdraft
presentation	long-term borrowings under non-current liabilities (f. position)	bank overdraft under current liabilities (f. position)

Journal Entry Accounts for Bank Loan

Obtain Loan	Repayment of Loan
Dr Cash at bank Cr Long-term borrowing	Dr Long-term borrowing Cr Cash at bank

Interest Expense

Matching Theory

- Interest expense incurred must be **matched against the income earned** from using the loan to operate the business in the same accounting period to determine the profit for that period.

Formula for Annual Interest Expense:

$$Interest\ Expense\ (\$) = Interest\ Rate\ per\ annum\ (\%) \times Principal\ sum\ borrowed$$

Note: You may need to pro-rate interest expense if the full year of interest expense is not mentioned. (G3 Only!!)

Interest Expense Payable: incurred but not yet paid

Accrual basis of accounting • interest expense must be recognised in the financial period when incurred, regardless of whether it has been paid	Recall: Expense Payable (CL)
End of Financial Year – Last day	**Start of Financial Year – First day**
Dr Interest expense Cr Interest expense payable	Dr Interest expense payable Cr Interest expense

Interpreting Long-term borrowing and Interest Expense Ledger Accounts

Format(s):

- Long-term borrowings (take out bank loan)
  - On (date), the business took up a bank loan of (amount) and received the money in the business bank account.

- Current Portion of Long-term borrowings (partial repayment)
  - On (date), the business did a **partial repayment of the bank loan** by paying (repayment method) of (amount).

- Interest expense
  - On (date), the business paid interest expense of (amount) by (method of repayment).
    - Note: For interest expense payable, refer to Chapter 7 Interpretation for Expenses Payable.

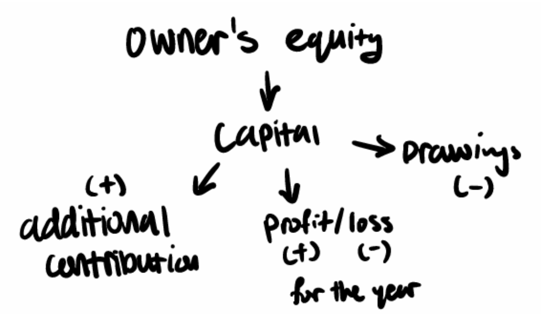
Chapter 14: Equities

Sole Proprietorship

Owner's Equity (OE)

- claim by the **sole owner** on the **net assets** of the sole proprietorship
  - *Recall (C1): Sole Proprietorship only has* ***ONE OWNER***
- **Drawings**: **Withdrawal of business assets** by the owner for **personal use**.

- OE = Capital = Beginning Capital + Additional Capital **+ Profit / - Loss** - Drawings
  (Profit/Loss for the year from F. Performance)
  - Distribution of Owner's Equity:



Effect on Owner's Equity			
Income ⬆️	Expense ⬇️	Capital ⬆️	Drawings ⬇️

Accounting Entity Theory: Why does capital/drawings need to be recorded?

- Activities of a business are separate from the actions of the owner.
- All transactions are recorded from the point of view of the business.

Journal Entry Accounts for Drawings (OE)

(+) – increase in amount, (-) – decrease in amount
Note: Drawings – debit-in-nature account

Withdrawing assets from business	**Transfer of Drawings to Capital (Closing of account)**
Dr Drawings **(+)** Cr Name of Asset **(-)**	Dr Capital **(-)** Cr Drawings **(-)**

Journal Entry Accounts for Capital (OE)
(+) – increase in amount, (-) – decrease in amount
Note: Capital & Income Summary – credit-in-nature account

Contributing Assets to business	
Dr Name of asset **(+)** Cr Capital **(+)**	

Profit made (Profit for the year)	**Loss incurred (Loss for the year)**
Dr Income Summary Cr Capital **(+)**	Dr Capital **(-)** Cr Income Summary

Recording of Owner's Equity in FINANCIAL POSITION

	$	$	$
Owner's Equity			
Capital (beginning balance *+ profit / - loss* - drawings)			xxxx

Note:
- Follow the Financial Position format with **3 columns** (refer to this section)

(Question Format) Explain how the owner's equity changed from … to …

You should include the following into the format:
- Overall Trend
- The increase/decrease of accounts
  (compare with additional capital contribution, profit/loss for the year, drawings)

Note: This format may change depending on questions, so you should know how to **modify and adapt** the format to answer the question!

Increase in Amount
- The owner's equity **increased** from **(initial amount)** to **(final amount).**
  This is due to an **additional capital contribution of (added capital amount)** and **a profit for the year of (profit amount)**, which is **more than the drawings of (amount).**

Decrease in Amount
- The owner's equity **decreased** from **(initial amount)** to **(final amount).**
  This is due to the **loss for the year of (loss amount) and drawings of (amount)**, which is **more than the additional capital contribution of (added capital amount).**

Interpreting Drawings and Capital Ledger Accounts

Format(s):

- Drawings
    - On (date), the **owner** took (assets) costing (amount) from the business for their **personal use.**

- Contribution of assets
    - On (date), the owner **contributed** (assets) costing (amount) to the business.

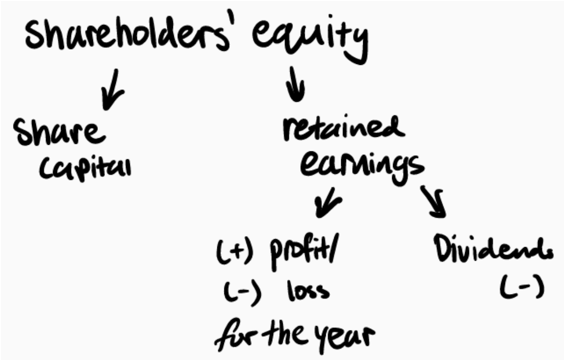
- Transfer of profit/loss for the year to capital account
    - On (date), the business **transferred profit/loss for the year** of (amount) **to the capital account.**

- Transfer of drawings to capital account
    - On (date), the business **transferred drawings** of (amount) **to the capital account.**

Private Limited Company (G3 Only!!)

Shareholders' Equity

- claim by the **shareholders** on the **net assets** of the private limited company
- Includes Share Capital, Dividends and Retained Earnings
  - Refer to the diagram below on how shareholders' equity is distributed



Effect on SH's equity			
Profit ⬆️	Loss ⬇️	Share Capital ⬆️	Dividends ⬇️

Accounting Entity Theory: Why does share capital/dividends need to be recorded?

- Activities of a business are separate from the actions of the owner.
- All transactions are recorded from the point of view of the business.

Share Capital

• Cash raised by **issuing shares to shareholders** • Credit in nature (Dr –, Cr +) **Share Capital = No. of shares × Price per share**	**Journal Entry:** Take note of any (+) or (-) **Issue Shares** Dr Cash at bank Cr Share Capital **(+)**

Dividends

• A portion of retained earnings that was **distributed to shareholders** • Debit in nature (Dr +, Cr –) **Dividends = No. of shares × Dividends declared per share**	**Journal Entry:** Take note of any (+) or (-) **Declare & pay immediately** Dr Dividends **(+)** Cr Cash at bank **(-)** **Declare & pay later** Dr Dividends **(+)** Cr Dividends Payable **(+)** **Paying out dividends** Dr Dividends Payable **(-)** Cr Cash at bank **(-)**

Retained Earnings

• **Accumulation of profits and losses** that has **not been distributed to shareholders** yet since operation • Credit in Nature (Dr -, Cr +) **Retained Earnings = Beginning Balance <u>+ Profit / - Loss</u> - Dividends**	**Journal Entry:** Take note of any (+) or (-) **Transfer Profit (credit RE)** Dr Income summary Cr Retained Earnings **(+)** **Transfer Loss (debit RE)** Dr Retained Earnings **(-)** Cr Income summary **Transfer & Closing Dividends account** Dr Retained Earnings **(-)** Cr Dividends **(-)**

Recording of Shareholders' Equity in FINANCIAL POSITION

	$	$	$
<u>**Shareholders' Equity**</u>			
Share capital, *xxx* ordinary shares		xxxx	
Retained earnings (beginning balance *+ profit / - loss* - dividends)		<u>xxxx</u>	xxxx

Note:
- Shareholders' Equity (PLC) replaces **Owner's Equity** (SP)

Identifying a SP or PLC business in a FS Question

Look out for these **key pointers**:
1. (company name) <u>Pte Ltd</u>
2. Share capital & Retained earnings in given balances

(Question Format) Explain how the <u>shareholders' equity</u> changed from … to …

You should include the following into the format:
- Overall Trend
- The increase/decrease of accounts
  (compare with additional share capital, profit/loss for the year, dividends)

Note: This format may change depending on questions, so you should know how to **modify and adapt** the format to answer the question!

Increase in Amount
- The shareholders' equity **increased** from **(initial amount)** to **(final amount)**. This is due to an **additional share capital of (added capital amount)** and **a profit/loss for the year of (profit amount)**, which is **more than the dividends of (amount).**

Decrease in Amount
- The shareholders' equity **decreased** from **(initial amount)** to **(final amount)**. This is due to the **profit/loss for the year of (loss amount) and dividends of (amount)**, which is **more than the additional share capital of (added capital amount).**

Interpreting Share Capital, Dividends and Retained Earnings Account

Format(s):

- Share capital
  - On (date), the business issued shares and recorded (amount) into the business bank account.

- Dividends (paid **immediately**)
  - On (date), the business declared and paid dividends of (amount).

- Dividends (paid **later**)
  - On (date), the business declared dividends of (amount) to be paid later.

- Transferring **profit** for the year into Retained earnings account
  - On (date), the business transferred profit for the year of (amount) to the retained earnings account.

- Transferring **loss** for the year into Retained earnings account
  - On (date), the business transferred loss for the year of (amount) to the retained earnings account.

- Transferring dividends into Retained earnings account
  - On (date), the business transferred dividends of (amount) to the retained earnings account.

Chapter 15: Correction of Errors

How can errors not revealed by a Trial Balance happen?

1. transaction **not recorded** at all a. Transaction not recorded, record as per how normal journal entry is recorded…
2. **wrong amount** recorded a. record correct amount i. e.g. if amount recorded wrongly is more than actual: higher amt – lower amt = amt to record into journal entries
3. transaction recorded in the **wrong account** of the **same** accounting element a. same element – e.g. record in wrong expenses etc. i. if that scenario happens: Dr (correct expense) & Cr (wrong expense)
4. transaction recorded in the **wrong account** of a **different** accounting element a. record into correct account and reverse the previous account…
5. transaction recorded on the **wrong sides** of the accounts involved **a. Any account that has this error must multiply the amount given by two** i. look at examples to understand this…

Effects of errors before/after correction
affects assets, liabilities, income, expense, profits etc.
varies depending on question, so don't take this as a full guide

Effects of error before correction: **overstated/understated**	Effects of adjustment after correction: **increase/decrease**

Format for showing adjusted profit for the year (with example accounts):

(name of business) Statement to show adjusted profit for the year ended (date)	
	$
Unadjusted profit for the year	xxxx
1. No effect	-
2. Add: Commission income	xx
3. No effect	-
4. Less: Bank charges	(xx)
5. Less: Discount received	(xx)
Adjusted profit for the year	xxxx

Chapter 16: Financial Statements Analysis (G3 Only!!)

Liquidity

The ability of a business to **convert current assets into cash to pay current liabilities**

Why is it important to the business?

- A business with **low liquidity** is usually **short of cash** and may be **unable to settle its immediate debts**.
- If it persists, the business **may eventually close down**.

Profitable ≠ Liquidity

- may have **difficulty in collecting payment** from credit customers
- may have **used cash to buy non-current assets** with an aim to generate more income in the future

Not ideal for businesses to be too liquid

- business might be holding onto **excessive idle cash** which could have been **reinvested into the business** for more productive purposes

Improving Liquidity

Strategy	Examples
Increase sources of cash	• owner/shareholders **contribute cash** • take a **long-term** loan • sell **excess** non-current assets for cash
Manage cash outflow	• reduce operating expenses, e.g. **hire part-timers** to reduce wages expense, **reduce utilities expense** etc. • negotiate for **better credit terms** from supplier

Formulas for Liquidity

No Units!

⬆️ **WC/CR/QR = ⬆️ Liquidity of business**

⭐ – Leading Indicator

Working Capital (WC) $$Working\ Capital = Current\ Assets - Current\ Liabilities$$
Current Ratio (CR) $$Current\ Ratio = \frac{Total\ Current\ Assets}{Total\ Current\ Liabilities}$$ General benchmark = 2
Quick Ratio (QR) ⭐ $$Quick\ Ratio = \frac{Total\ Current\ Assets - Inventory - Prepayments}{Total\ Current\ Liabilities}$$ General benchmark = 1 Prepayments: Prepaid expenses, etc.

– Application Notes: Evaluating Liquidity –

Profitability

The ability of a business to **generate excess income to cover its expenses**

Why is it important to a business?

- Being profitable ensures that a business has an **indefinite economic life**

Improving Profitability

Section	How to improve?

Trading Portion
(T)
	• sell goods @ **higher selling price** (⬆️ sales revenue)
	• buy goods @ **lower cost price** (⬇️ cost of sales)
	  ○ **buying in bulk** for trade discount
	  ○ **switching to another supplier** that offers **lower prices** without compromising on quality

Increase sources of other income **(I)**	• sublet (lease) **excess** space to another business to earn **rental income** (⬆️ rent income) • **pay early** to take advantage of **cash discounts** (discount received)
Reduce operating expenses **(E)**	• **reduce the use of electrical appliances** to **lower utilities expense** • hire freelances or part-timers on a **needs basis** to **reduce wages and salaries** • **relocate** to another premise that charges **lower rental** (⬇️ rent expense)

Formulas for Profitability

Units: **%**

⬆️ GPM/PM/MOC/ROE = ⬆️ Profitability of business

⭐ – Leading Indicator

Gross Profit Margin

$$Gross\ Profit\ Margin\ = \frac{Gross\ Profit}{Net\ Sales\ Revenue} \times\ 100\%\ =\ \_\_\%$$

Note: When calculating, you can compare with **Mark-up on cost** to check whether it is correct. The "improved/worsened" or "better/worse" statement should be the **same**.

Profit Margin ⭐

$$Profit\ Margin\ = \frac{Profit}{Net\ Sales\ Revenue} \times\ 100\%\ =\ \_\_\%$$

Mark-up on cost

$$Markup\ on\ Cost\ = \frac{Gross\ Profit}{Cost\ of\ sales} \times\ 100\%\ =\ \_\_\%$$

Note: When calculating, you can compare with **Gross Profit Margin** to check whether it is correct. The "improved/worsened" or "better/worse" statement should be the **same**.

Return on equity

$$Return\ on\ equity\ = \frac{Profit}{Average\ Equity} \times\ 100\%\ =\ \_\_\%$$

Average Equity:

$$Average\ Equity\ = \frac{Beginning\ Equity + Ending\ Equity}{2}$$

Note: If question asks "should xx **invest** in business A?", refer to the **Return on Equity** to form your answer.

– Application Notes: Evaluating Profitability –

Efficiency in Inventory Management

Maintaining inventory at an optimal level to meet customer demand.
A measure of how efficiently a business can convert inventory to cash.

Why is it important for a business to manage its inventory?

1. prevent stock-out situation *(too little stocks)* ➡️ often results in loss of sales
2. prevent buying too much goods and unable to sell them *(too much stocks)* ➡️ incur high storage cost & risk of goods being obsolete

Why is it more meaningful to compare efficiency ratios of businesses from the same industry?

- Depending on the **nature of the business**, the management of inventory that is considered efficient might **differ**.

- For example:
    - Fast-moving goods (e.g. perishable food) require fast turnover
    - However, luxury goods do not require fast turnover to be profitable

Improving Efficiency in Inventory Management

Strategy	Examples
Sell inventory faster (to prevent overstocking)	• **reduce selling price** for **slow-moving goods** *(hard to sell)* • provide **trade discounts** – encourage customers to **buy in bulk** & regularly • attract more customers through **marketing campaigns**
Keep sufficient inventory on hand (to prevent understocking)	• use technological tools to improve accuracy of **predictions about customer demand** to know when and how much inventory to buy

Note: for questions that ask on suggestions to improve, you need to state the **strategy + example.**

For example:

Suggest **two** ways to improve on the efficiency in the management of its inventory.

1. **Sell inventory faster** by **decreasing selling price for slow-moving goods**
2. **Provide discounts** for customers who **buy in bulk**

Formulas for Efficiency Ratio

Units in **brackets.**

The general formula for this section is the **same** since it only uses two components (COS & Avg Inventory)!

⭐ – Leading Indicator

Rate of Inventory Turnover (times)

$$Rate\ of\ Inventory\ Turnover\ (times)\ = \frac{Cost\ of\ sales}{Average\ Inventory}$$

⬆️ Rate of Inv Turnover = More efficient

Days Sales in Inventory (days) ⭐

$$Days\ sales\ in\ Inventory\ (days)\ = \frac{Average\ Inventory}{Cost\ of\ sales} \times 365\ Days$$

⬇️ Days sales in inventory = More efficient

Average Inventory

$$Average\ Inventory\ = \frac{Beginning\ Inventory + Ending\ Inventory}{2}$$

– Application Notes: Evaluating Efficiency in Inventory Management –

Efficiency in Trade Receivables Management

Maintaining trade receivables by **granting appropriate credit terms to promote sales** and **collecting cash from its credit customers on a timely basis**

Why is it important for businesses to manage its trade receivables?

- When a business **takes longer** than usual to collect payment from its credit customers, it would have **lesser cash**, causing its **liquidity position to worsen**.

Why is it more meaningful to compare efficiency ratios of businesses from the same industry?

- Depending on the nature of the business, the management of trade receivables that is considered efficient might **differ**.

Improving Efficiency in Trade Receivables Management

Strategy	Examples
Improve credit granting processes	• **monitor collection patterns** closely • ensure credit is granted to customers who are **financially able**
Provide monetary incentives	• offer **cash discounts** to encourage credit customers to **pay early**
Increase debt collection efforts	• send **regular reminders** to credit customers who delay payment or refuse to pay • engage **professional debt recovery agencies** to collect payment from financially distressed credit customers

Formulas for Efficiency Ratio

Units in **brackets.**

The general formula for this section is the **same** since it only uses two components (COS & Avg Inventory)!

⭐ – Leading Indicator

<u>Rate of trade receivables turnover (no. of times)</u>

$$Rate\ of\ trade\ receivables\ turnover\ (times) = \frac{Net\ credit\ sales\ revenue\ /\ Service\ fee\ revenue}{Average\ Net\ Trade\ Receivables}$$

⬆️ Rate of TR Turnover = More efficient

<u>Trade receivables collection period (days)</u> ⭐

$$Trade\ receivables\ collection\ period\ (days) = \frac{Average\ Net\ Trade\ Receivables}{Net\ credit\ sales\ revenue\ /\ Service\ fee\ revenue} \times 365\ Days$$

⬇️ Trade receivables collection period = More efficient

<u>Average Net Trade Receivables</u>

$$Average\ Net\ Trade\ Receivables = \frac{Beginning\ Net\ TR + Ending\ Net\ TR}{2}$$

- Learn the format to evaluate T/R Management using the Application Notes here -

📝 Application

POA Application Notes

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NOTES DISCLAIMER:

Notes provided here are taken from different sources. It may not be fully accurate and if you have notes or tips from your own teacher(s) you should follow them.

Identifying effects of transactions (ALICED)

Applicable for Chapter 3 questions

1. Identify the affected accounts **(with ALICED, increase or decrease)**

① Identify the affected accounts (ALICED, +/-)

Jun, the owner of HIJ Shots, a business selling cameras, carried out the following transactions.

Biz

Fixtures & Fittings +3000 | Trade Payables +3000

Date	Transaction
May 4	Bought display shelves on credit from D-Shelf, $3 000.
May 24	Jun paid for personal expenses, $50, with business cash. Cash at bank -50
May 26	Sold cameras costing $1 500 for $2 300 to Family Studio on credit. → (sold on credit) Trade Receivables +2300

drawings -50

Inventory - 1500

(cost price) ↓ Inventory & Cost of sales

(selling price) ↓ CAB or T/R & Sales revenue

2. Put in the accounts from (1), and make sure that **Assets = Liabilities + Equity**
    a. Remember that **at least 2 accounts will be affected by each transaction**

② Put in accounts from ① make sure that Assets = Liabilities + Equity

(+capital + Income - Expense - Drawings)

Date	Assets	=	Liabilities	+	Equity
May 4	**Fixtures and fittings + $3 000**		**Trade payable – D-Shelf + $3 000** remember to incl. name of payable biz		**No effect**
May 24	**Cash in hand - $50**		**No effect**		**Drawings - $50**
May 26	**Trade receivables – Family Studio + $2 300**		(selling price)		**Sales revenue + $2 300**
	Inventory - $1 500		**No effect** (cost price)		**Cost of sales - $1 500**

Important points to take note:

- Assets = Liabilities + Equity (Refer to ALICED table)
- At least two accounts affected (four accounts, if sale of goods)
- Remember the $ sign!!!

Journal Entries

Applies from Chapter 4 onwards

Preparation of Journal Entries

Recall: What exactly is a "Journal"?

It's a daily record of **each transaction that takes place in the business**. Thus, every record that happens will be recorded under your Journal!

When preparing Journal Entries, you should follow the checklist below:

1. Which **accounts** are affected? **(Note: At least two accounts should be affected)**
2. Which **accounting element** applies to them? (based on ALICED)
3. Should the affected accounts **Increase** or **Decrease**? Should they be **Debited** or **Credited**?
4. Does **total debit = total credit**?

The format of Journal Entries is as follows:

Journal			
Date	**Particulars**	**Debit**	**Credit**
YYYY		$	$
MMM DD	**Debited** account	xxxx	
	Credited account		xxxx
	Narration (if required)		

Note:

- Debit (Dr) amount should always = Credit amount
- Narration to write only if question states (i.e. "Narration is required")
  - it is a description of the transaction, and contains:
    - the amount
    - the two accounts affected
  - it is similar to interpretation
  - refer to the non-exhaustive journal entry recording for some of the narrations

<table>
<tr><th colspan="2">Journal Entry Recording (non-exhaustive)</th></tr>
<tr><th colspan="2">Owner’s Equity: Capital & Drawings</th></tr>
<tr><td>Capital: Asset Contribution
Dr Assets (e.g. Motor Vehicles / Cash at bank)
Cr Capital
Narration: Owner contributed (asset) costing (amount) to the business</td><td>Drawings: Asset Withdrawal
Dr Drawings
Cr Assets (e.g. Cash in hand / Inventory)
Narration: Owner withdrew/took (asset) costing (amount) for personal use.</td></tr>
<tr><td>Capital: Transfer of Income Summary
[Profit for the year]
Dr Income Summary
Cr Capital
[Loss for the year]
Dr Capital
Cr Income Summary</td><td>Drawings: Closing of account
Dr Capital
Cr Drawings</td></tr>
<tr><th colspan="2">Bank</th></tr>
<tr><td>Obtain bank loan
Dr Cash at bank
Cr Long-term borrowings
Narration: Obtained borrowing of (amount)</td><td>Partial/Full Repayment of bank loan
Dr Long-term borrowings
Cr Cash at bank
Narration: Partially/Fully repaid bank loan of (amount)</td></tr>
<tr><th>Other income</th><th>Other expense</th></tr>
<tr><td>Receipt for income
Dr Cash at bank / Cash in hand
Cr (name) income (e.g. Rental income)
Narration: Received (name) income of (amount) by cheque/in the business bank account/in cash.</td><td>Payment for expenses
Dr (name) expense (e.g. Rental expense)
Cr Cash at bank / Cash in hand
Narration: Paid for (name) expense of (amount) with cheque/cash/via bank transfer.</td></tr>
<tr><th colspan="2">Suppliers</th></tr>
<tr><td>Purchase of NCA with cash/cheque
Dr Motor Vehicles / Office Equipment / Fixtures and Fittings
Cr Cash at bank / Cash in hand
Narration: Purchased (NCA) of (amount) and paid with cheque/in cash.</td><td>Purchase of NCA on credit
Dr Motor Vehicles / Office Equipment / Fixtures and Fittings
Cr Trade payable – (name of supplier)
Narration: Purchased (NCA) of (amount) on credit.</td></tr>
<tr><td>Purchase of goods with cash/cheque
Dr Inventory
Cr Cash at bank / Cash in hand
Narration: Business purchased goods costing (amount) and paid with cheque/cash.</td><td>Purchase of goods on credit
Dr Inventory
Cr Trade payable – (name of supplier)
Narration: Business purchased goods costing (amount) on credit from (name of supplier).</td></tr>
<tr><td>Return of goods (paid cash/cheque)
Dr Cash at bank / Cash in hand
Cr Inventory
Narration: Business returned goods worth (amount) and received the money in cheque/the business’ bank account/cash.</td><td>Return of goods (paid on credit)
Dr Trade payable – (name of supplier)
Cr Inventory
Narration: Business returned goods worth (amount) to credit supplier, (name of supplier).</td></tr>
</table>

Journal Entry Recording (non-exhaustive)

Return of goods (paid on credit)

Dr Trade payable – (name of supplier)
    Cr Cash at bank / Cash in hand

Narration: Paid credit supplier, (name of supplier), (amount) by cheque/cash

Customers

Cash sale of goods

[Selling Price]
Dr Cash at bank / Cash in hand
    Cr Sales revenue

[Cost Price]
Dr Cost of sales
    Cr Inventory

Narration: Sold **goods** costing (cost price) and received (selling price) **cheque/cash**.

Credit sale of goods

[Selling Price]
Dr Trade receivables – (name of customer)
    Cr Sales revenue

[Cost Price]
Dr Cost of sales
    Cr Inventory

Narration: Sold **goods** costing (cost price) on credit to (name of customer) for (selling price).

Return of goods (sold with cash)

[Selling Price]
Dr Sales returns
    Cr Cash at bank / Cash in hand

[Cost Price]
Dr Inventory
    Cr Cost of sales

Narration: (customer) returned **goods** worth (selling price) previously **paid with cash**. The goods originally cost (cost price).

Return of goods (sold on credit)

[Selling Price]
Dr Sales returns
    Cr Trade receivables – (name of customer)

[Cost Price]
Dr Inventory
    Cr Cost of sales

Narration: (customer) returned **goods** worth (selling price) previously **bought on credit**. The goods originally cost (cost price).

Credit provision of services

Dr Trade receivables – (name of customer)
    Cr Service fee revenue

Narration: Provided (name of service) services costing (amount) to credit customer, (customer).

Cash provision of services

Dr Cash at bank / Cash in hand
    Cr Service fee revenue

Narration: Provided (name of service) services costing (amount).

Receipt from credit customer (repayment)

Dr Cash at bank
    Cr Trade receivables – (name of customer)

Narration: Received cheque of (amount) from credit customer, (customer).

Other transactions

Deposit cash into bank account

Dr Cash in hand
    Cr Cash at bank

Narration: Cash deposited into the business bank account.

Withdraw cash for business use

Dr Cash at bank
    Cr Cash in hand

Narration: Cash withdrawn from the business bank account for business use.

<table>
<tr><th colspan="2">Journal Entry Recording (non-exhaustive)</th></tr>
<tr><th colspan="2">Cash Discounts</th></tr>
<tr><td>Giving Discounts (supplier collect from credit cust.)
Dr Cash at bank / Cash in hand
Dr Discount allowed
Cr Trade receivables – (name)
Narration: ?</td><td>Receiving discounts (credit cust. repayment to supplier)
Dr Trade payables – (name)
Cr Cash at bank / Cash in hand
Cr Discount received
Narration: ?</td></tr>
<tr><th colspan="2">Dishonoured Cheque</th></tr>
<tr><td>Received cheque (w. cash discount)
Dr Cash at bank
Dr Discount allowed
Cr Trade receivables – (name)
Narration: ?</td><td>Dishonoured cheque (withdrawn cash disc.)
Dr Trade receivables – (name)
Cr Cash at bank
Cr Discount allowed
Narration: ?</td></tr>
<tr><th colspan="2">Closing Entries</th></tr>
<tr><td>Sale of goods
Dr Sales revenue
Cr Income summary
Narration: Closed sales revenue account and transferred (amount) to income summary.</td><td>Return of goods
Dr Income summary
Cr Sales returns
Narration: Closed sales returns account and transferred (amount) to income summary.</td></tr>
<tr><td>Sale of services
Dr Service fee revenue
Cr Income summary
Narration: Closed service fee revenue account and transferred (amount) to income summary.</td><td>Other income
Dr (name) income
Cr Income summary
Narration: Closed (name) income account and transferred (amount) to income summary.</td></tr>
<tr><td>Cost of sales
Dr Income summary
Cr Cost of sales
Narration: Closed cost of sales account and transferred (amount) to income summary.</td><td>Other expense
Dr Income summary
Cr (name) expense
Narration: Closed (name) expense account and transferred (amount) to income summary.</td></tr>
<tr><th colspan="2">Impairment Loss on Inventory</th></tr>
<tr><td>Deducting to Net Realisable Value
Dr Impairment loss on trade receivables
Cr Inventory</td><td></td></tr>
</table>

Journal Entry Recording (non-exhaustive)	
RPAC: Reversal, Paid, Adjustment, Closing	
Income received in advance **[End of Financial Year]** Dr (name) income Cr (name) income received in advance **[Start of Financial Year]** Dr (name) income received in advance Cr (name) income	**Service fee revenue received in advance** **[End of Financial Year]** Dr Service fee revenue Cr Service fee revenue received in advance **[Start of Financial Year]** Dr Service fee revenue received in advance Cr Service fee revenue
Income receivable **[End of Financial Year]** Dr (name) income receivable Cr (name) income **[Start of Financial Year]** Dr (name) income Cr (name) income receivable	
Expense payable Dr (name) expense Cr (name) expense payable	**Prepaid expense** Dr Prepaid (name) expense Cr (name) expense
Allowance	
Providing/Increasing Allowance Dr Impairment loss on trade receivables Cr Allowance for impairment of trade receivables	**Decreasing allowance** Dr Allowance for impairment of trade receivables Cr Impairment loss on trade receivables
Writing off business Dr Allowance for impairment of trade receivables Cr Trade receivables – (customer)	
Shareholders' Equity	
Issuing Share Capital Dr Cash at bank Cr Share Capital	**Dividends: Declare and pay immediately** Dr Dividends Cr Cash at bank
Retained Earnings: Transfer of Inc Summary **[Profit for the year]** Dr Income Summary Cr Retained Earnings **[Loss for the year]** Dr Retained Earnings Cr Income Summary	**Dividends: Declare and pay later** **[Pay later]** Dr Dividends Cr Dividends Payable **[Paying out of payable]** Dr Dividends Payable Cr Cash at bank
	Dividends: Transfer & Closing to RE account Dr Retained Earnings Cr Dividends

Ledger Accounts

- These are an extension to Journal Entries, and consolidate all the transactions that relate to a specific account

The format for Ledger Accounts is as follows:

Name of account				
Date		**Debit**	**Credit**	**Balance**
YYYY		**$**	**$**	**$**
MMM DD	**Credited** account	xx		xx Dr
DD	**Debited** account		xx	xx Dr
MMM DD	*Balance b/d*			xx Dr

- The account recorded should be the other account (besides the main account in the header)
- The amount (xx) should follow the main account
    - Example: Dr Cash at bank 1000, Cr Sales Revenue 1000
    - If the ledger was for Cash at bank, you would record Sales Revenue and put the amount (1000) in the debit column.

- Note: When is Balance brought down (**balance b/d**) needed?
    - when there is a **starting balance**
    - when there is a **remaining balance** at the end of the month
- If there is zero balance, you do not need to bring down the balance (i.e. 0 Dr/Cr)
    - Drawings, Income, and Expenses will always end with 0 balance
- Balance b/d should always be on the **first day of the month.**
- The Dr/Cr in balance is dependent on the name of account
    - Assets, Expenses, Drawings are debit in nature
        - Their Debit column will be +, Credit will be -, and Balance should be Dr (if it is a positive balance)
    - Liabilities, Income, Capital are credit in nature
        - Their Debit column will be -, Credit will be +, and Balance should be Cr (if it is a positive balance)

Interpretation

Key points for interpretation:

1. What is the date of the transaction?
2. What is the debited account and its amount? Is it a + or -?
3. What is the credited account and its amount? Is it a + or -?

On **(date)**, the **(account credited) (amount)** into the **(amount debited)**.

NOTE: This format may vary depending on the interpreted accounts.

Examples of some interpretations:

5 Jan 2023 Dr Cash at Bank $10000 (+) Cr Capital $10000 (+)	On **5 January 2023**, the owner **deposited $10,000** into the **business bank account**.
10 Jan 2023 Dr Drawings $500 (+) Cr Cash at bank $500 (-)	On **10 January 2023**, the owner **withdrew $500** from the **business bank account** for **personal use**. (indicates drawings)
12 Jan 2023 Dr Inventory $1700 (+) Cr Trade Payable – Look See $1700 (+)	On **12 January 2023**, the business **bought goods** costing **$1700 on credit** from **Look See**. "On credit" indicates Trade Payables Need to include supplier name (if given)
17 Jan 2023 Dr Trade Payable – Look See $700 (-) Cr Inventory $700 (-)	On **17 Jan 2023**, the business **returned goods** costing **$700 previously bought on credit** to Look See. "Previously bought on credit" indicates Trade Payables Need to include supplier name (if given)
25 Jan 2023 Dr Cash in hand $4600 (+) Cr Sales revenue $4600 (+) Dr Cost of sales $4600 (+) Cr Inventory $4600 (-)	On **25 January 2023**, the business **sold goods** worth **$4600** and **received cash.** "Worth" indicates the selling price of the goods On **25 Jan 2023**, the business **sold goods** that cost **$4600** originally. "cost .. originally" indicates the cost price of the goods
1 Jan 2024 Cash at bank – Ledger Account Balance b/d Amount: $35000	On **1 January 2023**, the business had **$35000** in the **business bank account**. This format may vary across different accounts, but generally it should be something like this.

Trial Balance

Applies from Chapter 5 onwards

Rules in recording a trial balance (from Chapter 5):

- Assets, Expenses, Drawings (AED) – to be recorded on the **Debit** side
- Liabilities, Income, Capital (LIC) – to be recorded on the **Credit** Side
- **Total debits = Total credits**

The format for Trial Balance is as follows (do note of the example accounts):

Name of business		
Trial balance **as at** (Day) (Month) (Year)		
	Debit	Credit
	$	$
Capital		xx
Sales revenue		xx
Cost of sales	xx	
Cash at bank	xx	
Trade receivables	xx	
Inventory	xx	
Trade payables		xx
Utilities expense	xx	
	XXX	XXX

Legend of Trial Balance Format:

Name of business	Follow as stated in the question
as at (Day) (Month) (Year)	"as at" indicates the use of Trial Balance. (Day) (Month) (Year) will be the last day of the Financial Year. E.g. as at 31 June 2024
"xx" in the example accounts	The ending balance of each account should be filled in. If there are any adjustments, do make sure to fill in their workings too.
"XXX" under the last account	Indicates the total amount that is debited/credited. They should be the same, otherwise, you must go back and check for any errors that are missed out in your Trial Balance.

How to record a trial balance?

1. If there are any adjustments, make sure to complete them before continuing on with the next steps.
    a. NOTE!! If there is a **BANK OVERDRAFT / CREDIT CASH AT BANK VALUE**, put a **minus (-) sign** before the number, then adjust! It makes it easier to calculate the new amount of cash at bank!

2. Identify your accounts (based on ALICED) and state whether they are a **Debit** or **Credit** account

3. Transfer the accounts, and ensure that the amounts are inputted and transferred into their respective columns

4. Calculate your final Debit and Credit amount, and make sure that they are **equal**.

Financial Statements

Applies from Chapter 5 onwards

Financial Performance

- In your financial performance, you will use the values from your trial balance (following TIE) and fill in the format as shown below.
  - Remember the bracket after calculating any "less" amounts and the total "Less: other expenses" section!! This shows the **reduction of that** amount.
  - If you have Profit for the year – List final amount as is
  - **If you have Loss for the year – Put bracket in final amount**

<u>Format – Trading business</u>

T - Trading Portion (only for trading business!)
I - Income Portion (other income)
E - Expenses Portion (less: other expenses)

Name of Business
Statement of Financial Performance for the year ended…

		$	$	
	Sales revenue	xxxx		
	less: Sales returns	(xxxx)		Put brackets to indicate "less:"
	Net sales revenue		xxxx	
T	less: Cost of sales		(xxxx)	
	Gross profit		xxxx	
	<u>Other income</u>			
I	Commission income	xxxx		
	Discount received	xxxx		
	Gain on sale of non-current assets[1]	xxxx		
	Rent income	xxxx	xxxx	
	<u>less: Other expenses</u>[3]			
	Impairment loss on trade receivables	xxxx		
	Depreciation of fixtures and fittings[2]	xxxx		
	Depreciation of office equipment[2]	xxxx		
	Depreciation of motor vehicles[2]	xxxx		
	Interest	xxxx		
E	Insurance	xxxx		
	Loss on sale of non-current assets[1]	xxxx		
	Motor vehicle expenses	xxxx		
	Office expenses	xxxx		
	Rent and rates	xxxx		
	Wages and salaries	xxxx	(xxxx)	Put brackets to indicate "less:"
	Profit for the year		xxxx	
	OR			
	Loss for the year		(xxxx)	

Format – Service business

No Trading Portion - only Service Fee revenue!
I - Income Portion (other income)
E - Expenses Portion (less: other expenses)

Name of Business
Statement of Financial Performance for the year ended…

No Trading Portion!

	$	$
Service Fee revenue		xxxx
Other income		
Commission income	xxxx	
Discount received	xxxx	
Gain on sale of non-current assets[1]	xxxx	
Rent income	xxxx	xxxx
less: Other expenses[3]		
Impairment loss on trade receivables	xxxx	
Depreciation of fixtures and fittings[2]	xxxx	
Depreciation of office equipment[2]	xxxx	
Depreciation of motor vehicles[2]	xxxx	
Interest	xxxx	
Insurance	xxxx	
Loss on sale of non-current assets[1]	xxxx	
Motor vehicle expenses	xxxx	
Office expenses	xxxx	
Rent and rates	xxxx	
Wages and salaries	xxxx	(xxxx) ← Put brackets to indicate "less:"
Profit for the year		xxxx
OR		
Loss for the year		(xxxx)

I

E

Questions that could be asked relating to Financial Performance

Q: State the account and amount to be reported in the statement of financial performance for the year ended …

Format:
Account, Amount
e.g. Rent income, $7150
Commission income, $140

Financial Position

- In your financial position, you will use the values from your trial balance (using NCA, CA, NCL, CL & EQ), as well as Profit/Loss of the year from your Financial Performance, and put them into the SP/PLC format.

Common Mistakes:

- Bank loan to change to Long-term borrowings (NCL)
- Capital / Retained Earnings working **must** be included!
- Ensure that any calculation workings made should be included
- Non-current Assets/Liabilities should come first, followed by Current Assets/Liabilities

---

Format – Sole Proprietorship (G2/3)

order to follow { ① Non-current ② Current

Name of Business (Sole Proprietorship)

Statement of Financial Position as at …

	$	$	$
Assets			
Non-current assets	Cost	Accumulated depreciation	Net book value
Property	xxxx	xxxx	xxxx
Fixtures and fittings	xxxx	xxxx	xxxx
Office equipment	xxxx	xxxx	xxxx
Motor vehicles	xxxx	xxxx	xxxx
			xxxx
Current assets			
Inventory		xxxx	
Trade receivables	xxxx		
less: Allowance for impairment of trade receivables	xxxx	xxxx	
Other receivables/ prepaid expenses/ income receivables		xxxx	
Cash at bank		xxxx	
Cash in hand		xxxx	xxxx
Total assets			xxxx
Equity and Liabilities			
Owner's equity			
Capital (beginning capital + additional capital + profit / - loss for the year - drawings)			xxxx
Non-current liabilities			
Long-term borrowings → change from Bank Loan			xxxx
Current liabilities			
Trade payables		xxxx	
Expenses payable/income received in advance		xxxx	
Current portion of long-term borrowings		xxxx	xxxx
Total equity and liabilities			xxxx

must be equal!

Format – Private Limited Company (G3)

order to follow { ① Non-current ② Current

Name of Business (Private Limited Company)

Statement of Financial Position as at …

	$	$	$
Assets			
Non-current assets	Cost	Accumulated depreciation	Net book value
Property	xxxx	xxxx	xxxx
Fixtures and fittings	xxxx	xxxx	xxxx
Office equipment	xxxx	xxxx	xxxx
Motor vehicles	xxxx	xxxx	xxxx
			xxxx
Current assets			
Inventory		xxxx	
Trade receivables	xxxx		
less: Allowance for impairment of trade receivables	xxxx	xxxx	
Other receivables/ prepaid expenses/ income receivables		xxxx	
Cash at bank		xxxx	
Cash in hand		xxxx	xxxx
Total assets			xxxx
Equity and Liabilities			
Shareholders' equity			
Share capital, xxx ordinary shares		xxxx	
Retained earnings (beginning R.E. + profit / - loss for the year - dividends)		xxxx	xxxx
Non-current liabilities			
Long-term borrowings → change from Bank loan			xxxx
Current liabilities			
Trade payables		xxxx	
Expenses payable/income received in advance		xxxx	
Current portion of long-term borrowings		xxxx	xxxx
Total equity and liabilities			xxxx

Must be equal!

RPAC Application

Income Received in Advance, Income Receivable, Expense Payable, Prepaid Expense
Applicable for Chapter 6 & 7 Questions

Whenever you answer a question that involves the following accounts listed below, you will need to use **RPAC** to answer them:

- Expense **payable**
- **Prepaid** expense
- Income **received in advance**
- Income **receivable**

What is **RPAC?**
NOTE: The +/- in the brackets indicate how to label each account.

- R – Reversal **(+/-)**
- P – Paid **(+)**
- A – Adjustment **(+/-)**
- C – Closing **(=)**

Refer to the more detailed format below.

Steps to solve these questions:

1. Identify your **RPAC** and whether they are **+ or -**
   (Refer to the Summary Tables on the next page)

2. Complete your **Journal**, following the identified RPAC.

3. Complete your Financial Performance
   (for Income & Expense, take the final amount from Income Summary)

4. Complete your Financial Position
   (Refer to the Summary Table for current assets / liabilities to sort accounts)

5. Answer the Effect on **Income / Expense & Profit for the year**
   (Refer to the Effects table in the C6 & C7 Notes, also attached on the next page)

Format for RPAC:

R – **Previous year's** Income RIA / Income Receivable / Exp Payable / Prepaid Exp
P – Income / Expense **paid this year** (i.e. Cash in hand / Cash at bank)
A – **This year's** Income RIA / Income Receivable / Exp Payable / Prepaid Exp
C – **Total** Income / Expense received or incurred **this financial year**

Ref. to summary table for reversal or adjustment (when to +/-)

Summary Table for Reversal / Adjustment

Accounts	Reversal	Adjustment
Expense Pay**able** **(Current Liability)**	-	+
Prepaid Expense **(Current Asset)**	+	-
Income received in advance **(Current Liability)**	+	-
Income receiv**able** **(Current Asset)**	-	+

One way to remember this table:

- All the "able" accounts (i.e. Expense Payable & Income receivable) will "+" under Adjustment.
- The rest will be the opposite (i.e. Prepaid Expense & Income received in advance), "+" under Reversal.

<table>
<tr><th colspan="2">Effect on Income and Profit for the Period
● Both accounts (income & profit) will follow the same effect.</th></tr>
<tr><td colspan="2">Income Received in Advance</td></tr>
<tr><td>Not Adjusted</td><td>Adjusted</td></tr>
<tr><td>● Income AND profit for the period will be OVERSTATED by (amount)</td><td>● Income AND profit for the period will DECREASE by (amount)</td></tr>
<tr><td colspan="2">Income receivable</td></tr>
<tr><td>Not Adjusted</td><td>Adjusted</td></tr>
<tr><td>● Income AND profit for the period will be UNDERSTATED by (amount)</td><td>● Income AND profit for the period will INCREASE by (amount)</td></tr>
</table>

<table>
<tr><th colspan="2">Effect on Expense and Profit for the Period</th></tr>
<tr><td colspan="2">Expense Payable</td></tr>
<tr><td>Not Adjusted</td><td>Adjusted</td></tr>
<tr><td>● Expense will be UNDERSTATED by (amount)
● Profit for the period will be OVERSTATED by (amount)</td><td>● Expense will INCREASE by (amount)
● Profit for the period will DECREASE by (amount)</td></tr>
<tr><td colspan="2">Prepaid Expense</td></tr>
<tr><td>Not Adjusted</td><td>Adjusted</td></tr>
<tr><td>● Expense will be OVERSTATED by (amount)
● Profit for the period will be UNDERSTATED by (amount)</td><td>● Expense will DECREASE by (amount)
● Profit for the period will INCREASE by (amount)</td></tr>
</table>

Bank Reconciliation

Applicable for Chapter 8 Questions

Format (with example accounts)

Jack Bank reconciliation statement as at 30 April 20X6		
	$	**$**
Balance as per bank statement		xx
<u>Add: Deposits in Transit</u>		
Andrew Co		xx
		xxx
<u>Less: Cheques not yet presented</u>		
Phoenix Ltd (Cheque no. 1234)	xx	
Bank error	xx	(xx)
Adjusted balance as per cash at bank account		xxxx

<u>Areas to take note when analysing a Bank Recon Question</u>

Differences in opening balances

Same opening balance	**Different opening balance**
1. Circle any differences in Cash at bank account and Bank statement 2. Update the Cash at bank account 3. Prepare Bank reconciliation statement	1. Check the cause of the different opening balance and cancel it out 2. Circle any other differences in Cash at bank and Bank statement 3. Update the Cash at bank account 4. Prepare Bank reconciliation statement

Errors made by the bank/business

- identify the errors and whether they are made by the bank or business (stated)
- make the needed changes so that both bank and business statements are the **same amount**.

Errors by the bank	Errors by the business
Record under **Bank Reconciliation** as "Bank Error"	Record under **Cash at bank**, following the account associated with the error.

How to do a bank reconciliation question?

1. **Identify** your **Debits and Credits** in your CAB account and bank statement
    a. In your bank statement, your Withdrawals is the same as your Credit (-) and your Deposits is the same as your Debits (+)
2. **Circle** out the **differences** in the CAB account and bank statement
3. **Correct** any business/bank **errors**, if any
4. Check whether the **starting balance** for the CAB account and bank statement are the **same**. If they aren't, find the account causing the indifference and cancel it out.
5. **Correct the differences** from the bank statement into your updated **cash at bank** account
    a. Include any **business error corrections**, if any (indicate the account associated with the error)
    b. If rejected cheque, should indicate "**(rejected cheque)**" beside the original account
6. **Correct the differences** from your cash at bank account into your **bank reconciliation statement**, following the format (above).
    a. Include any **bank error corrections**, if any (indicate as "**Bank Error**")

Answering Impairment Loss on Inventory Questions

Applicable for Chapter 9 Questions

Question extracted from DMN 2024 Inventory Notes

This section covers:

- Net Realisable Value = New value of inventory
- Preparing Journal Entries
- Preparing extracts for Financial Performance & Position

<u>Question (without annotations)</u>

On 30 September 2022, Henry's goods have a net realisable value of $2 000. The cost price of the goods was $2 500.

REQURIED

(a) State the value of the inventory as at 30 September 2022.
(b) Prepare the journal entry to record the decrease in value on 30 September 2022.
(c) Prepare an extract of the statement of financial performance for the year ended 30 September 2022, showing only the relevant section.
(d) Prepare an extract of the statement of financial position as at 30 September 2022, showing only the relevant section.
(e) State the effect on profit and current assets if the value of the inventory was not adjusted.

Answers & Annotations on the next page.

<u>Answers and Annotations</u>

Step 1: Analyse the question

- highlight any important information
- note down the Net Realisable Value (NRV) and original cost amount for inventory.

On 30 September 2022, Henry's goods have a net realisable value of $2 000. The cost price of the goods was $2 500.

NRV= $2000
Original Cost = $2500

REQURIED

(a) State the value of the inventory as at 30 September 2022.
(b) Prepare the journal entry to record the decrease in value on 30 September 2022.
(c) Prepare an extract of the statement of financial performance for the year ended 30 September 2022, showing only the relevant section.
(d) Prepare an extract of the statement of financial position as at 30 September 2022, showing only the relevant section.
(e) State the effect on profit and current assets if the value of the inventory was not adjusted.

Step 2: Solve the question

(a) – take note of the text above the answer (underlined)

New value of inventory is the same thing as Net Realisable Value

Thus, your answer would be:

<u>$2000</u>

(b) – you will need to calculate the impairment loss amount, refer to the annotated text with the formula etc.

Calculate Impairment Loss!
IL= Original Cost – NRV
= $2500 - $2000
= <u>$500</u>

(b)

put in workings!!

Date	Particulars	Debit	Credit
2022		$	$
Sep 30	Impairment Loss on Inventory (2500-500)	500	
	Inventory		500

(c) – remember that impairment loss is considered an expense, hence recorded under Financial Performance!

(c)

Henry Statement of financial performance for the year ended 30 September 2022		
<u>Less: Other expenses</u>	$	$
Impairment Loss on Inventory		500

Impairment Loss is an expense!!

(d) – remember to put your new value of inventory (i.e. your NRV)

(d)

Henry Statement of financial position as at 30 September 2022		
Current Assets	$	$
Inventory		2000

put new value of inventory

(e) – take note of the text above the answer (underlined)

(e)

Recall that $\boxed{\text{effect}}$ can be either overstated, understated, or no effect.

If inventory was NOT adjusted, the amount of profits earned would be HIGHER than what is earned. Subsequently, the amount of current assets (i.e. inventory) would also be HIGHER than what we have.

Thus, this would be your answer for this question:

Profit and current assets will be **overstated** by $500.

In summary,

- Highlight and annotate any important information
- Identify your Original Cost/NRV/Impairment Loss, where applicable, and apply any calculations if necessary.
- Include your workings in Journal Entries

Answering Allowance for Impairment on T/R Questions

Applicable for Chapter 10 Questions

Question extracted from DMN 2025 C10 – Allowance Notes

This section covers a question that includes:

- **starting balance** (allowance)
- finding the **increase/decrease in Allowance**
- **writing off of a business**
- **Reversal of Impairment Loss on Trade Receivables** in Financial Performance.

<u>Question without annotations</u>

Example 4

Madelene, the owner of Fan Trading provided the following balance on 1 January 2023.

	$
Allowance for impairment of trade receivables	2 740

Madelene reviews its list of trade receivables at the end of every financial year and estimates that 5% of its trade receivables are likely to be uncollectible.

	31 Dec 2023	31 Dec 2024
	($)	($)
Trade receivables	29 800	69 400

On 17 September 2024, Kool Wind Trading was declared bankrupt and Madelene wrote off $650 as irrecoverable.

REQUIRED

(a) Prepare the journal entry to write off the debt owed and adjust the balance for allowance for impairment of trade receivables for the years ended 31 December 2023 and 2024.

(b) Prepare the extracts of statement of financial performance for the two years ended 31 December 2023 and 2024, showing only the expenses portion.

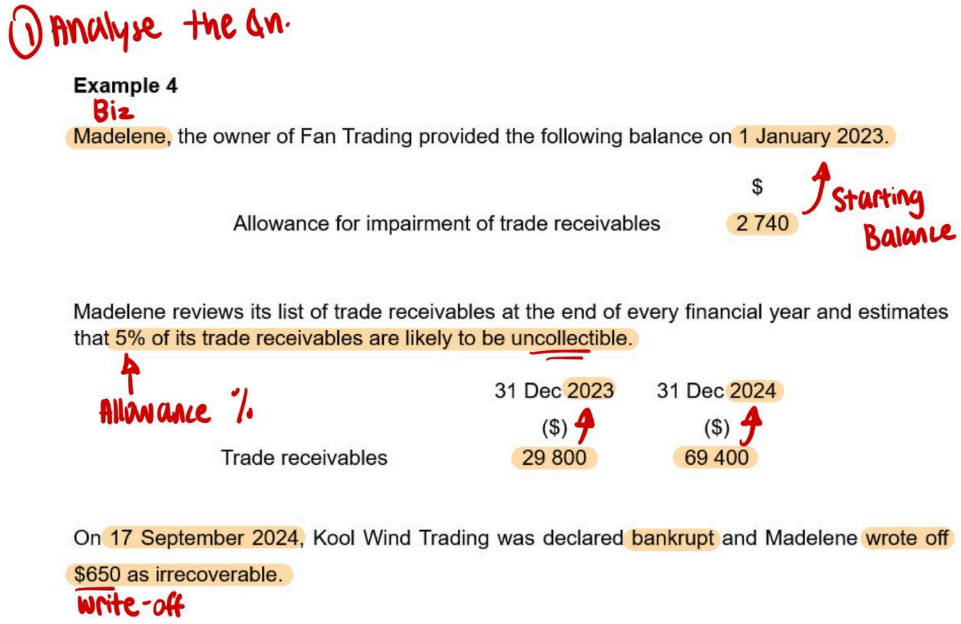
(c) Prepare the extracts of statement of financial position as at 31 December 2024, showing only the current assets section.

Answers & Annotations on the next page.

Answers & Annotations

Step 1: Analyse the Question

- Take note of any **T/R and starting balances**, as well as the **% for allowance.**



Example 4

Madelene, the owner of Fan Trading provided the following balance on 1 January 2023.

	$
Allowance for impairment of trade receivables	2 740

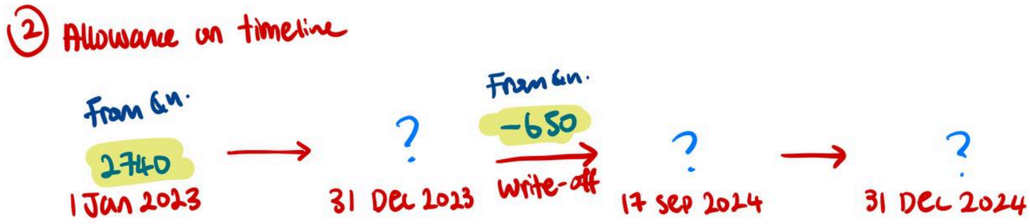
Madelene reviews its list of trade receivables at the end of every financial year and estimates that 5% of its trade receivables are likely to be uncollectible.

	31 Dec 2023	31 Dec 2024
	($)	($)
Trade receivables	29 800	69 400

On 17 September 2024, Kool Wind Trading was declared bankrupt and Madelene wrote off $650 as irrecoverable.

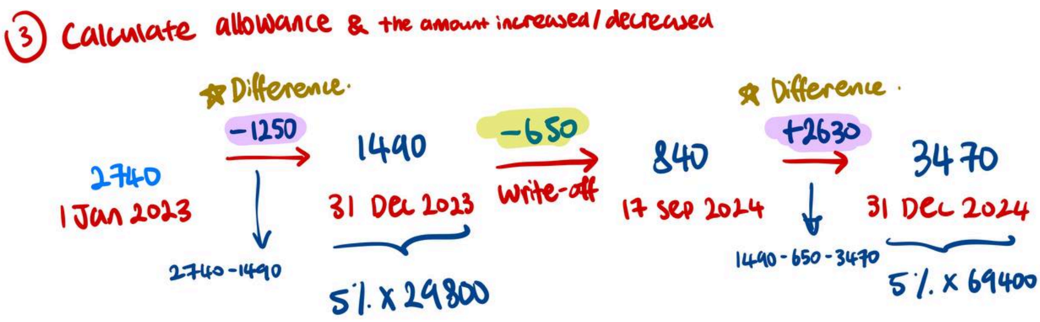
Step 2: Write out the given information on a timeline

- This is **very important** in helping solve the question!!



Step 3: Calculate the **amount of allowance for each financial year**, as well as the **difference between each amount** (increase / decrease)

- Calculating the difference is **VERY IMPORTANT**, as you will use these values in your Journal Entries and Financial Performance



Step 4: Solve the question – (a)

For (a), remember to
- include the **workings**
- **identify** which account is in the Dr/Cr column
- include the **increase/decrease** amount in allowance/impairment loss
  - **NOT the new allowance amount**

④ Solve the Q

(a)

Date	Particulars	Dr ($)	Cr ($)
2023			
Dec 31	Allowance for impairment of trade receivables (-) ($2 740 – $1 490) reduction in $$	1 250	
	Impairment loss on trade receivables (-)		1 250
2024			
Sep 17	Allowance for impairment of trade receivables (-)	650	
	Trade receivables: Kool Wind Trading (-)		650
Dec 31	Impairment loss on trade receivables (+) ($1 490 – $650 – $3 470) increase in $$	2 630	
	Allowance for impairment of trade receivables (+)		2 630

rmbr to include workings!

→ Difference calculated from timeline

→ from Q

Do not include new allowance amount!! You're recording the increase/decrease in Allowance amount, not the actual amount!

Step 4: Solve the question – (b)

Use **Reversal of Impairment Loss** only when you **decrease** in allowance amount.
You should remember **WHEN** to use Allowance or Impairment Loss:

- **Performance – Impairment Loss** on Trade Receivables
- **Position – Allowance for Impairment** of Trade Receivables

Take the amount increased/decreased as your impairment loss amount in this section.

(b)

Fan Trading		
Extract of statement of financial performance for the year ended 31 December 2023		
Less: Other expenses	$	$
Reversal of impairment loss on trade receivables		(1 250)

Since you decrease in allowance & imp. loss, you need to include that you are 'reversing' your imp. loss amount.

Rmbr to include brackets!! (bc decrease in amt)

Fan Trading		
Extract of statement of financial performance for the year ended 31 December 2024		
Less: Other expenses	$	$
Impairment loss on trade receivables		2 630

Rmbr: Performance – Imp. Loss on T/R
Position – Allowance for Imp. of T/R

Step 4: Solve the question – (c)

Take note that you need to include **"less:"** when recording allowance, since you are **reducing** the amount in Trade Receivables!

Also, remember to include workings!!

(c)

Fan Trading		
Extract of statement of financial position as at 31 December 2024		
Assets	$	$
Current assets		
Trade receivables ($69 400 – $650)	68 750	
Less: Allowance for impairment of trade receivables	(3 470)	65 280

Write-off working

Reducing amt of T/R!!

"less:"

Chapter 16 Evaluation Formats [G3]

When evaluating, there are **two** different types of comparisons:
(keywords for each of them are in bold)

1. over two or three years – **improved / worsened**
2. between two businesses – **better / worse**

The sections below show a **summary** of what points should be covered, as well as a **general format** for writing out your answer.

Liquidity

The following points should be covered in your answer, depending on which type of comparison you are doing.

Between years: **Improved / Worsened**	Between 2 businesses: **Better / Worse**

1. Compare the trend of working capital & explain reason
    - **more/less** current assets for daily operations

2. Compare the trend of current ratio, support with general benchmark (**above/below** 2) & explain reason
    - **more/less** current assets to pay for current
    - Evidence:
        a. Cash at bank / Bank Overdraft
            - Cash at bank ➡️ **More** cash
            - (decrease to) Bank Overdraft ➡️ **insufficient** cash
        b. Trade Payables
            - **Higher** ➡️ **Less cash** to pay credit suppliers
            - **Lower** ➡️ **More cash** to pay to credit suppliers
        c. Trade Receivables
            - **Higher** ➡️ **Less efficient** in managing T/R ➡️ cash tied up
            - **Lower** ➡️ **More Efficient** in managing T/R

3. Compare the trend of quick ratio, support with general benchmark (**above/below** 1) & explain reason
    - **more/less** quick assets to pay for current liabilities
    - Evidence:
        a. Inventory
            - **Higher** ➡️ **Cash tied up** in Inventory
            - **Lower** ➡️ **Efficient** at managing inventory

4. Conclusion
    - Follow quick ratio (leading indicator)

General Format for Between Years (may differ by question)

Step 1: Compare the trend of working capital, explain reason

- The working capital of $__ in **(year)** has **improved/worsened** to $__ in **(year)** [and **improved/worsened** to $__ in **(year)**].
- This means the business has **more/less current assets** for its **daily operations** in **(year)** than **(year).**

Step 2a: Compare the trend of current ratio, support with G.B., explain reason

- The current ratio of __ in **(year)** has **improved/worsened** to __ in **(year)** [and **improved/worsened** to __ in **(year)**].
- The current ratio in **(year)(s)** is/are **above/below** the **general benchmark of 2**.
- This means the business has **more/less current assets** to **pay for its current liabilities** in **(year)** than in **(year)**.

Step 2b: Evidence for current ratio

- Cash at bank ➡️ **Bank Overdraft**
  - The **decrease** in cash at bank of $__ in **(year)** to bank overdraft of $__ in **(year)** suggests that the business has **insufficient cash**.
- **Trade Payables**
  - The trade payables of $__ in **(year)** has **increased** to $__ in **(year),** suggesting that the business has **insufficient cash to pay its credit suppliers**.
- **Trade Receivables**
  - The trade receivables of $__ in **(year)** has **increased** to $__ in **(year),** suggesting that the business is **less efficient** in managing its trade receivables, resulting in **cash being tied up**.
  - The trade receivables of $__ in **(year)** has **decreased** to $__ in **(year)** suggests that the business is **efficient** in managing its trade receivables.

Step 3a: Compare the trend of quick ratio, support with G.B., explain reason

- The quick ratio of __ in **(year)** has **improved/worsened** to __ in **(year)** [and **improved/worsened** to __ in **(year)**].
- The quick ratio in **(year)(s)** is/are **above/below** the **general benchmark of 1**.
- This means the business has **more/less quick assets** to **pay for its current liabilities** in **(year)** than in **(year)**.

Step 3b: Evidence for quick ratio

- **Inventory**
  - This could be due to the inventory of $__ in **(year)**, which **increases** to $__ in **(year)** [and **increases** to $__ in **(year)**]. This suggests that **cash** could be **tied up in inventory**.
  - This could be due to the inventory of $__ in **(year)**, which **decreases** to $__ in **(year)** [and **decreases** to $__ in **(year)**]. This suggests that the business is **efficient** at managing its inventory.

Step 4: Consolidate all the points into a summarised conclusion

- With the current ratio **improved/worsened** from **(year)** to **(year)** and the quick ratio **improved/worsened** from **(year)** to **(year)**, liquidity has **improved/worsened** over the **two / three** years.

General Format for Between 2 businesses (may differ by question)

Step 1: Compare the trend of working capital, explain reason

- The working capital of **(biz A)** is $__, which is **better/worse** than **(biz B)** of $__.
- This means **(biz A)** has **more/less current assets** for its **daily operations** than **(biz B)**.

Step 2a: Compare the trend of current ratio, support with G.B., explain reason

- The current ratio of **(biz A)** is __, which is **better/worse** than **(biz B)** of __.
- The current ratio of **(biz A)** is **above the general benchmark of 2** while **(biz B)**'s current ratio is **below the benchmark**.
- This means **(biz A)** has **more/less current assets** than **(biz B)** to **pay for its current liabilities**.

Step 2b: Evidence for current ratio

- **Bank Overdraft**
  - **(biz B)** has a bank overdraft of $__ while **(biz A)** has a cash at bank of $__, suggesting that **(biz B)** has **insufficient cash**.
- **Cash at bank**
  - **(biz A)** has a cash at bank of $__ while **(biz A)** has a bank overdraft of $__, suggesting that **(biz A)** has **more cash**.
- **Trade Payables**
  - **(biz B)**'s trade payables is $__, which is **higher** than **business name**'s trade payables of $__. This suggests that **(biz A)** has **lesser cash to pay its credit suppliers**.
  - **(biz A)** trade payables is $__, which is **lower** than **(biz B)**'s trade payables of $__. This suggests that **(biz B)** has **more cash to pay its credit suppliers**.
- **Trade Receivables**
  - **(biz B)**'s trade receivables is $__, which is **higher** than **(biz A)**'s trade receivables of $__. This suggests that **(biz B)** is **less efficient** than **(biz A)** in **managing its trade receivables**.
  - **(biz A)**'s trade receivables is $__, which is **lower** than **(biz B)**'s trade receivables of $__. This suggests that **(biz A)** is **more efficient** than **(biz B)** in **managing its trade receivables**.

Step 3a: Compare the trend of quick ratio, support with G.B., explain reason

- The quick ratio of **(biz A)** is __, which is **better/worse** than **(biz B)** of __.
- The quick ratio of **(biz A)** is **above the general benchmark of 1** while **(biz B)**'s quick ratio is **below the benchmark**.
- This means **(biz A)** has **more/less quick assets** than **(biz B)** to **pay for its current liabilities**.

Step 3b: Evidence for quick ratio

- **Inventory**
  - This could be due to **(biz B)**'s inventory of $__, which is **more** than **(biz A)**'s inventory of $__. This suggests that **(biz B)**'s **cash could be tied up** in inventory.
  - This could be due to **(biz A)**'s inventory of $__, which is **less** than **(biz B)**'s inventory of $__. This suggests that **(biz A)** is **more efficient** at managing its inventory.

Step 4: Consolidate all the points into a summarised conclusion

- With the current ratio **better/worse** than **(biz B)** and the quick ratio **better/worse** than **(biz B)**, **(biz A)**'s liquidity is **better/worse** than **(biz B)**.

Profitability

The following points should be covered in your answer, depending on which type of comparison you are doing.

Between years: **Improved / Worsened**	Between 2 businesses: **Better / Worse**
1. Compare the trend of gross profit margin & explain reason • sell goods at **higher/lower** selling price or buying goods at **lower/higher** cost price • Evidence: a. Mark-up on Cost (**increase/decrease** %) b. Net sales revenue (**increase/decrease**)	
2. Compare the trend of profit margin & explain reason • **more/less** efficient in controlling expenses to generate net sales revenue • Provide Evidence from: a. Gross Profit (**increase/decrease**) b. Expense accounts (**increase/decrease**)	
3. Compare the trend of return on equity & explain reason • **more/less** efficient at generating profits for **owner/shareholders**	
4. Conclusion • follow **profit margin** (leading indicator)	

General Format for Between Years (may differ by question)

Step 1a: Compare the trend of gross profit margin, explain reason

- The gross profit margin has **improved/worsened** from __% in **(year)** to __% in **(year)** [and **improved/worsened** to __% in **(year)**].
- This could be due to the business selling its goods at a **higher/lower** selling price **and/or** buying its goods at a **lower/higher** cost price.

Step 1b: Evidence for gross profit margin

- **MUOC**
  - This is supported by the business's mark-up on cost of __% in **(year)**, which is **better/worse** than __% in **(year)**.
- **Accounts**
  - This can be seen from the **increasing/decreasing** **net sales revenue** over the **two/three** years.

Step 2a: Compare the trend of profit margin, explain reason

- The profit margin has **improved/worsened** from __% in **(year)** to __% in **(year)** [and **improved/worsened** to __ in **(year)**].
- This is due to the business being **more/less** **efficient** in controlling its expenses to generate net sales revenue.

Step 2b: Evidence for profit margin

- **Accounts**
  - This can be seen from the **increasing/decreasing** **(expense account)** over the **two/three** years.

Step 3: Compare the trend of return on equity, explain reason

- The return on equity has **improved/worsened** from __% in **(year)** to __% in **(year)** [and **improved/worsened** to __ in **(year)**].
- This suggests that the business is **more/less** **efficient** at generating profits for its **owner/shareholders**.

Step 4: Consolidate all the points into a summarised conclusion

- In conclusion, the business has become **more/less** **profitable** over the **2/3** **years.**

General Format for Between 2 businesses (may differ by question)

Step 1a: Compare the trend of gross profit margin, explain reason

- The gross profit margin of **(biz A)** is __%, which is **better/worse** than **(biz B)** of __%.
- This could be due to **(biz A)** selling its goods at a **higher/lower** selling price **and/or** buying its goods at a **lower/higher** cost price than **(biz B)**.

Step 1b: Evidence for gross profit margin

- **MUOC**
  - This is supported by **(biz A)**'s mark-up on cost of __% in **(year)**, which is **better/worse** than
    (biz B)'s $__.
- **Accounts**
  - This can be seen from the **increasing/decreasing** **net sales revenue** of $__, **which is better/worse than (biz B)** of $__.

Step 2a: Compare the trend of profit margin, explain reason

- The profit margin of **(biz A)** is __%, which is **better/worse** than **(biz B)** of __%.
- This is due to **(biz A)** being **more/less** **efficient** in controlling its expenses to generate net sales revenue than **(biz B)**.

Step 2b: Evidence for profit margin

- **Accounts**
  - This can be seen from **(biz A)**'s **(expense account)** of $__, which is **better/worse** than **(biz B)** of $__.

Step 3: Compare the trend of return on equity, explain reason

- The return on equity of **(biz A)** is __%, which is **better/worse** than **(biz B)** of __%.
- This suggests that **(biz A)** is **more/less** **efficient** at generating profits for its **owner/shareholders** than **(biz B)**.

Step 4: Consolidate all the points into a summarised conclusion

- In conclusion, **(biz A)** is **more/less** **profitable** than **(biz B).**

Inventory Management

The following points should be covered in your answer, depending on which type of comparison you are doing.

<table>
<tr><th>Between years: Improved / Worsened</th><th>Between 2 businesses: Better / Worse</th></tr>
<tr><td colspan="2">1. Compare the trend of rate of inventory turnover & explain reason
● sell inventory at faster/slower rate</td></tr>
<tr><td colspan="2">2. Compare the trend of days sales in inventory & explain reason
● taking fewer/more days to sell inventory</td></tr>
<tr><td colspan="2">3. Conclusion
● follow days sales in inventory (leading indicator)</td></tr>
</table>

General Format for Between Years (may differ by question)

Step 1: Compare the trend of rate of inventory turnover, explain reason

- The rate of inventory turnover of __ times in **(year)** has **improved/worsened** to __ times in **(year)** [and **improved/worsened** to __ times in **(year)**].
- This means that the business was selling its inventory at a **faster/slower rate** in **(year)** than in **(previous year(s))**.

Step 2: Compare the trend of days sales in inventory, explain reason

- The days sales in inventory of __ days in **(year)** has **improved/worsened** to __ days in **(year)** [and **improved/worsened** to __ days in **(year)**].
- This shows that it was taking **fewer/more days** to sell its inventory in **(year)** than in **(previous year(s))**.

Step 3: Consolidate all the points into a summarised conclusion

- With the rate of inventory turnover **improving/worsening**, and the days sales in inventory also **improving/worsening**, the business has become **more/less efficient** in managing its inventory.

General Format for Between 2 businesses (may differ by question)

Step 1: Compare the trend of rate of inventory turnover, explain reason

- **(biz A)**'s rate of inventory turnover of __ times is **better/worse** than **(biz B)**'s rate of inventory turnover of __ times.
- This means that **(biz A)** was selling its inventory at a **faster/slower rate** than **(biz B).**

Step 2: Compare the trend of days sales in inventory, explain reason

- **(biz A)**'s days sales in inventory of __ days is **better/worse** than **(biz B)**'s days sales in inventory of __ days..
- This shows that **(biz A)** was taking **fewer/more days** to sell its inventory as compared to **(biz B).**

Step 3: Consolidate all the points into a summarised conclusion

- With a **better/worse** rate of inventory turnover, and a **better/worse** days sales in inventory, **(biz A)** is **more/less efficient** in managing its inventory than **(biz B).**

Trade Receivables Management

The following points should be covered in your answer, depending on which type of comparison you are doing.

Between years: **Improved / Worsened**	Between 2 businesses: **Better / Worse**
1. Compare the trend of rate of trade receivables turnover & explain reason ● collect payment on **more/less** timely basis	
2. Compare the trend of trade receivables collection period & explain reason ● taking **fewer/more** days to sell inventory	
3. Conclusion ● follow **trade receivables collection period** (leading indicator)	

General Format for Between Years (may differ by question)

Step 1: Compare the trend of rate of trade receivables turnover, explain reason

- The rate of trade receivables turnover of __ times in **(year)** has **improved/worsened** to __ times in **(year)** [and **improved/worsened** to __ times in **(year)**].
- This means that the business was collecting payment from its credit customers on a **more/less** timely basis in **(year)** than in **(previous year(s))**.

Step 2: Compare the trend of trade receivables collection period, explain reason

- The trade receivables collection period of __ days in **(year)** has **improved/worsened** to __ days in **(year)** [and **improved/worsened** to __ days in **(year)**].
- This **is still within / had gone beyond** the __-day credit period. **[add if provided]**
- This shows that it was taking a **shorter/longer** time to collect from its credit customers in **(year)** as compared to **(previous year(s))**.

Step 3: Consolidate all the points into a summarised conclusion

- With the rate of trade receivables turnover **improving/worsening**, and the trade receivables collection period **improving/worsening**, the business has become **more/less** **efficient** in managing its trade receivables.

General Format for Between 2 businesses (may differ by question)

Step 1: Compare the trend of rate of trade receivables turnover, explain reason

- **(biz A)**'s rate of trade receivables turnover of __ times is **better/worse** than **(biz B)**'s rate of inventory turnover of __ times.
- This means that **(biz A)** was collecting payment from its credit customers on a **more/less** timely basis than **(biz B).**

Step 2: Compare the trend trade receivables collection period, explain reason

- **(biz A)**'s trade receivables collection period of __ days is **better/worse** than **(biz B)**'s days sales in inventory of __ days..
- This shows that **(biz A)** was taking a **shorter/longer** time to collect from its credit customers as compared to **(biz B).**

Step 3: Consolidate all the points into a summarised conclusion

- With a **better/worse** trade receivables collection period, and a **better/worse** days sales in inventory, **(biz A)** is **more/less** **efficient** in managing its inventory than **(biz B).**

Comparison over two/three years AND between two businesses

Some questions may ask for a mix of the two types.

In this case, you will have to compare them in this order:

1. Compare within the business (between the two/three years)
2. Compare between businesses (for specific factors)
3. Conclude (which business is more/less efficient)

Scenario-based Questions

Refer to [this tab].

SBQ

POA SBQ Notes

Made by: Javier (@javiererie)

Answering Scenario-based Questions

What are Scenario-based Questions (SBQ)?

- As the name suggests, they are scenarios in which you need to decide on which business can better suit what the question is asking for
- It will appear in Paper 2, awarding either 5 marks (7086) or 7 marks (7087).
    - Note: There is also a separate question that may ask for examples for accounting & non-accounting information needed for decision-making. You just need to list the types, do not need to explain or anything.

NOTES DISCLAIMER:

Notes provided here are taken from different sources. It may not be fully accurate and if you have notes or tips from your own teacher(s) you should follow them.

Express / G3	Normal (Academic) / G2
4 Paragraphs (7m) 1. Decision (1m) 2. Reason & Development 1 (2m) 3. Reason & Development 2 (2m) 4. Reason & Development 3 (2m)	**3 Paragraphs (5m)** 1. Decision (1m) 2. Reason & Development 1 (2m) 3. Reason & Development 2 (2m)
Topics Tested Chapter 1: Business Ownership Chapter 9: Inventory Chapter 10: Trade Receivables Chapter 11: Non-current Assets Chapter 12: Trade Payables	**Topics Tested** Chapter 9: Inventory Chapter 10: Trade Receivables Chapter 12: Trade Payables

Chapter 1: Business Ownership (G3)

Decide on whether owner should open a SP/LLP/PLC based on the given conditions

Content required to **memorise** (from Chapter 1):

Forms of B.O.	Sole Proprietorship	Limited Liability Partnership	Private Limited Company
Ownership	One person who contributes all capital	Two or more partners where each contributes capital	50 or less shareholders where each buy shares and contribute capital
Liability for debts & losses	Owner personally liable for biz's debts & losses	Partners not personally liable unless they are a result of their wrongful actions	Shareholders not personally liable
Control	Owner has absolute control over biz	Shared among partners, at least one heavily involved in running biz	No control over running biz unless part of management team
Obtaining Loans from banks and other lenders	Harder – lack of personal assets serving as collaterals	More likely to lend – more sources of personal assets serving as collaterals	More likely to lend – more business assets of high value serving as collaterals
Transferring Ownership	Easy	All partners need to agree to addition/withdrawl of partners before corporate regulatory authority acknowleges transfer of ownership	Shareholders must pay a stamp duty to tax authority to give shares to another person/organisation
Existance	As long as owner is alive and wants to continue operation	Exists forever until wound up or struck off	
Administrative Duties	Minimal to adhere to ➡️ limited business management experience	Few regulatory duties to adhere to ➡️ manageable with partners' help	Must comply with statuory requirements and file annual financial reports ➡️ managed by hired professionals

Chapter 9: Inventory (G2/G3)

Which inventory to buy to sell as goods? (business point of view)

Accounting Information	Non-accounting Information

• cost of inventory (delivery charges, import tax etc.)
  ○ lower cost of sales and higher gross profit ➡️ use to pay for business' operating expenses
  ○ more competitive pricing to attract customers
 	
• storage cost
  ○ lower expenses and higher profit for the year
 	
(EXP/G3) – using FSA (C16)
• Gross Profit Margin
 	
• Rate of Inventory Turnover
  ○ generate more sales due to stronger demand
  ○ reduced expenses spent on storage
 	
• Days sales in Inventory
  ○ fewer days ➡️ more efficient inventory management
	• nature of product
	  ○ durability: good quality, enhance reputation of business
	  ○ perishability: long shelf life, more time for business to sell them before expires ➡️ reduces risk of write-off and minimizes loss of profit
	  ○ eco-friendliness: satisfy customers' expectations & improve brand image by contributing to sustainability efforts etc.
	  ○ **anything related to the features, attributes, or quality of the product**
	
	• types of storage
	  ○ bulkiness: require less space to store = lower rental costs
	  ○ specific storage needs (eg. require refrigeration): less sensitive reduces risk of spoilage
	
	• customers' preferences
	  ○ offer wide range of colours/designs to cater to broader customer base ➡️ increased sales
	  ○ **any motivating factors that influences decisions**
	
	• Reputation & Reviews
	  ○ reputable brands: attract and retain customers easily ➡️ consistent customer base
	  ○ good reviews: quality assurance, minimises sales returns & improve brand image

Chapter 10: Trade Receivables (G2/G3)

Creditworthiness of customer (extend credit term to customer)

Accounting Information	Non-accounting Information
• Higher Sales Revenue 　○ earn more ➡️ more likely to repay debts owed to business • Lower Trade Receivables balance 　○ **Lesser loss incurred** if customer defaults on payment and business has to do write-off • History of repayment 　○ Lesser number of days taken ➡️ collect payment earlier ➡️ business can **receive cash earlier for its daily operations** • Credit terms & Cash discounts 　○ decrease expenses of business & increase profits	• Specific industry outlook 　○ more growth potential ➡️ more sales revenue ➡️ more likely to repay debts owed to the business • New customers' history of repayment 　○ good track record ➡️ lesser number of days taken ➡️ more prompt on payment ➡️ business can receive cash earlier for its daily operations • Economic outlook 　○ better economic performance of customers' country ➡️ more likely to repay debts owed to business • Reputation of customers 　○ more experience ➡️ more financially stable ➡️ more likely to continue existing and repaying debts owed to the business

Chapter 11: Non-current Assets (G3)

Type 1: Whether to buy or rent NCA?

<table>
<tr><th>Accounting Information</th><th>Non-accounting Information</th></tr>
<tr>
<td>

business’ current financial situation
owner’s ability to contribute capital/obtain loans, and whether buying/renting aligns with goals

cost of ownership vs renting
lower upfront/monthly/total cost

use cost savings to pay for other business’ expenses / critical operation expenses such as utilities and expenses
more funds for day-to-day operations

</td>
<td>

advantages/disadvantages of buying/renting

new or used
buy new ➡️ less likely to break down/need major repair, likely to come with warranty to save on repair cost

flexibility to change NCA
renegotiate contract terms to switch to newer models ➡️ suit business’ changing needs in generating income

service and maintenance (maintain NCA)
sourced/arranged by rental company ➡️ don’t need to be concerned of upkeep of NCA and can focus on business operations

flexibility of using NCA (e.g. painting van)
buying – full control ➡️ (e.g.) reduced adv. expense

</td>
</tr>
</table>

Chapter 11: Non-current Assets (G3)

Type 2: Which NCA to buy to use?

Accounting Information	Non-accounting Information

• price of NCA + installation costs
• costs of maintaining & repairing NCA
    ○ lower paid upfront / expenses ➡️ use cost savings to pay for business' operating expenses
	• purpose & features of NCA
	    ○ durability: good quality, save costs on repair expense
	    ○ customisation: tailor asset to specific needs
	    ○ eco-friendliness: offer cost savings through energy efficiency
	    ○ **anything related to the features, attributes, or quality of the product**
	• customers' reviews of NCA
	    ○ positive reviews ➡️ quality goods and services
	• warranty
	    ○ longer ➡️ assurance of product durability, safeguard against possible cost of repair

Chapter 12: Trade Payables (G2/G3)

Which supplier to buy goods/NCA from?

<table>
<tr><th>Accounting Information</th><th>Non-accounting Information</th></tr>
<tr>
<td>

Lower…

Cost of Inventory/Services/NCA + Delivery etc.
Installation/Maintenance costs

save on cost of sales / each purchase / whatever applicable and can use the cost savings to pay for other business expenses

Higher…

Trade discounts
Credit terms

manage business’ cash flow & more liquidity

Cash discounts

cost savings if paid earlier ➡️ higher discount received & higher profits

</td>
<td>

Local vs Overseas suppliers

Local: quicker delivery time & convenience

Online vs brick-and-mortar (Physical) suppliers

B&M: able to test the physical product before making purchase to ensure its quality
Online: conveniently browse online for product specifications and reviews before making purchases

After-sales service

encourages long-term commitment & improved customer relation

Warranty

Replace & repair NCA within specific period of time
safeguard against possible cost of repair

Return policy

more time to check and return defective goods

Reputation of suppliers

positive reviews of business ➡️ quality goods and services
in the industry for many years ➡️ established and trustworthy brand

</td>
</tr>
</table>