

BUSINESS ACCOUNTING

Rosnia Masruki · Halizah Md. Arif
Supiah Salleh · Norman Hamdan
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Statment of Financial Position

As at 31 December 2012

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BUSINESS **ACCOUNTING**



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FOREWORD

Business Accounting for non-Accounting students was written as a main text book for students undertaking the course. This book was inspired by Rosnia Masruki and co-authors; Halizah Md. Arif, Supiah Salleh, Norman Hamdan, Nurazalia Zakaria, Zurina Shafii, Kasumalinda Alwi and Norhazlina Ibrahim, Accounting Lecturers from Faculty of Economics and Muamalat, Universiti Sains Islam Malaysia. Congratulations to all writers on the successful completion of this first edition of Business Accounting book.

The content in this book is prepared using simple language in a very straightforward style. It covers the basics underlying financial accounting and management accounting. Worked examples and illustrations are discussed to convince the understanding of each topic. In this first edition also, it comprises several past year questions, quizzes and tests. Thus, it is recommended to be used by both non-accounting students and accounting students in the first year.

The first part (Chapters 1 through 4) of this book covers aspects of Financial Accounting and Management Accounting (Chapters 5 through 9) is covered in the subsequent chapters. This book can also be useful to future business leaders who need to comprehend the basic understanding of financial accounting and management accounting for decision making and performance measurement in any organisations.

In addition to that, I believe this book would benefit all students and lecturers. It gives me great pleasure to congratulate the academic staff of the Faculty of Economics and Muamalat, Universiti Sains Islam Malaysia for their efforts in publishing this book. To students, hopefully, this book is useful as one of the main references to better enhance their understanding in the Business Accounting course.

A handwritten signature in black ink, appearing to read 'Asmaddy Haris', with a stylized flourish at the end.

Dr Asmaddy Haris
Dean
Faculty of Economics and Muamalat
Universiti Sains Islam Malaysia



PREFACE

Welcome to the world of Accounting. Initially, this book was primarily prepared for non-accounting students following a first course in Accounting. Yet, it is useful also to help those who are really interested to know the basic knowledge in Accounting including future business leaders or even future managers to grasp the basic knowledge in Financial Accounting as a pre-requisite to Management Accounting content.

It offers a comprehensive coverage of topics in an easy and straightforward style. The review questions at the end of each chapter in this book should lead to a better understanding. But students are reminded to have extra exercises from any other Financial Accounting and Management Accounting references to enhance understanding of a particular topic. This book is the first edition by the authors to include additional questions consisting of multiple choice questions and structured questions which are from the past year questions in this course. Yet, suggestions are most welcome to improve the usefulness of this book.

This book is divided into TWO (2) sequenced parts as follows:

The Financial Accounting Section (Chapters 1 through 4):

Chapter 1: Accounting and the Business Environment introduces the students to the meaning of Accounting as the language of business and the importance of Accounting to various users for different needs. The professional accounting bodies in Malaysian context are also briefly discussed to show that accounting records are governed by such bodies. Meanwhile, the main accounting concepts underlying accounting practices are covered to assure the relevance and reliability of financial accounting and reporting.

Chapter 2: Recording Transactions explains the basic accounting terms used in bookkeeping system to record business transactions. An introduction to accounting equation followed by the journal entries and T-accounts with emphasis on the double entry rules as the way to understand the effect of transactions on the accounting equation is presented. The illustration of the effect of transaction analysis on the T-accounts is finally constructed and discussed in this chapter.

Chapter 3: Adjusting Entries is necessary adjustments made to the relevant Accounts at the end-of-period journal entry that assigned the financial effects of explicit transactions to the appropriate time period. This is to ensure that the financial reporting of a business reflects a true and fair view. The adjustments cover accruals and prepayment, bad debts and doubtful debts and depreciation.

Chapter 4: Completing Accounting Cycles involves the whole process in accounting from recording until summarising the business transaction in the accounting books. This chapter covers accounting worksheet which helps a bookkeeper to summarise the financial accounting and reporting easily into a useful format. Inversely, the presentation of financial statement from the worksheet is illustrated.

The Management Accounting Section (Chapters 5 through 9):

Several major parts in Management Accounting topics for non-accounting students are highlighted here in a straightforward style for the sake of brevity.

Chapter 5: Merchandising Operations is part of the business units besides services. The accounting records for merchandising business are discussed here particularly on the goods sold and purchased followed by the coverage about inventory systems and its valuation methods for the accurate presentation of the financial statement.

Chapter 6: Cost-Volume-Profit (CVP) Analysis represents “A big picture” of the business operation in planning and controlling. CVP is also synonymous with Break Even Point (BEP) Analysis. Different costs and sales in business operations affect profit or loss. Thus, CVP or even BEP concepts are presented in this chapter as a tool to forecast what will happen if changes are made to several costs, sales volume or selling prices. This forecast then could benefit managers in many ways particularly in selecting the best business strategy.

Chapter 7: Standard Costing describes the use of different types of standard costs in variance analysis. This analysis is a tool used in performance evaluation for controlling and monitoring business activities. Standard costing and budgeting are interrelated with each other for future planning. Thus, the next chapter will discuss on budgeting.

Chapter 8: Budgeting is a formal action plan about financial details in a compilation set called Master Budget. It serves various purposes for planning, controlling, coordinating and evaluating actual results and management performance to provide managers a glimpse of future business plan to be translated into actions. Worked examples on different types of budgets are discussed and defined to illustrate the human behaviours and problems in budgeting.

Chapter 9: Financial Statement Analysis shows how to use financial statements to evaluate a business's financial performance by using financial ratio analysis. Understanding of ratios would assist users to compare performances across companies within the same industry. The application of ratio analysis is illustrated in this chapter and it concludes with the limitations of ratio analysis.

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First and the foremost, praise be to Allah S.W.T. the Almighty, for blessing us with good health, strength, patience and courage to finally complete this book for publication as planned.

We would like to record our sincere appreciation to Prof Hajah Mustafa Mohd Hanefah who had tirelessly reviewed and edited this book for sharing his precious ideas. Our deepest gratitude to the Dean of Faculty of Economics and Muamalat, Dr Asmaddy Haris for his continuous encouragement in producing this book as part of our contribution to the academia and ummah (society) as a whole.

We wish to acknowledge the contributions of colleagues, students and family, who have in any way or another, made this book a reality. It is hoped that we could enjoy the teamwork in writing other books in the near future. Lastly, we would like to thank all persons responsible directly or indirectly in the writing and publication of this book.



“To my beloved husband, Ahmad Asfahani Bashiron, not forgetting to my 3 little princesses; Nurul ‘Izzah, Nurul Insyirah and Nurul Iffah”. May Allah S.W.T. grant our prayers. Ameen.

Rosnia Masruki



“Mohamad Fouzi, Faris, Fudayl dan Humayra. Thanks for your understanding”.

Halizah Md. Arif



“To my beloved husband and children”.

Kasumalinda Alwi



"To my beloved wife; Noor Hasinah and daughter; Noor Najdah".

Norman Hamdan



"To my understanding and adored husband; Fakri and my loving children; Aisyah, Balqis and Iyad".

Nurazalia Zakaria



"To my beloved husband Ahmad Azaharudin Mohd. Anuar, children and family".

Norhazlina Ibrahim



"To my loving husband Muhamad Rahmad and children: Aiman Harith, Yusuf Iskandar and Khadijah Hanim".

Supiah Salleh



"Muhasib is one of Allah's name which refers as Him looking out of what we are doing. Thus, learning accounting is more than understanding numbers and figures, it's more of understanding how one will be made accountable of what he/she is doing. There is a lot of reading between the lines of figures and numbers to be done when reading man made financial reports too!".

Zurina Shafii



CHAPTER 1



ACCOUNTING AND THE BUSINESS ENVIRONMENT

Learning Objectives:

After reading this chapter, you should be able to:

1. Explain the importance and functions of Accounting.
2. Differentiate the forms of business.
3. Determine the users of financial information.
4. Identify the Professional Accounting Bodies.
5. State the main Accounting concepts and principles.
6. Understand the overview of Islamic Accounting.

INTRODUCTION

Accounting is a language. The purpose of any language is to convey information. In particular, accounting is sometimes called the “language of business” as it is the medium used by businesses to report their activities to better understand how a business entity works. Accounting information is provided by reports called **Financial Statement**. However, accounting is not restricted to business activities alone. Other non-business entities also use accounting to manage the financial aspects of their operations.

As a financial information system, **Accounting** is the process of recording, classifying and summarising transactions and business events in monetary terms and interpreting the results obtained. For accounting information to be useful for decision making, this information should be made available to the users in a timely fashion.

Note that this definition involves four stages:

- i) Recording - where transactions are recorded in the books of the business. E.g. journals and ledgers.
- ii) Classifying - that involves sorting out the mass of accounting data into orderly and meaningful categories. E.g. receipts, payment, purchases, sales etc.
- iii) Summarising - where periodically the accounting data are summarised. E.g. Income Statement and Statement of Financial Position.
- iv) Interpreting - where the financial data are analysed and used as guides to decision making.

Bookkeeping is different from accounting but it is the procedural part of the field of accounting, like arithmetic is part of mathematics. It refers to the mechanical aspects of accounting, such as recording, classifying and summarizing transactions systematically. The need for recording transactions systematically gives rise to the various accounting concepts.

1.1 FUNCTIONS OF ACCOUNTING

Why is Accounting very popular? Why are there so many accounting jobs and so many Accounting graduates nowadays? Why are companies very concerned in accounting numbers? Nowadays we live in the era of information-age where that information and its reliability, impacts the financial well-being among all of us.

Amongst them are:

- a) establishing accountability for the assets.
- b) keeping track of routine business activities.
- c) obtaining detailed information about a particular transaction.
- d) evaluating the efficiency and performance of various departments within the organisation.
- e) maintaining documentary evidence of the company's business activities.



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BUSINESS ACCOUNTING

Business Accounting is designed for Non-Accounting students in the Faculty of Economics and Muamalat at Universiti Sains Islam Malaysia. It is packaged as a source of reference

also for those who seek guidance on the basic knowledge in Accounting including business leaders to grasp the understanding in Accounting.

The book begins with the introduction to accounting in the business environment followed by the discussion on the process of classifying, recording and summarising of business transactions. Readers who do not possess accounting knowledge should be able to comprehend the basic understanding of Financial Accounting and subsequently, Management Accounting fields for decision making and performance measurement in the business.

The book offers a comprehensive coverage of chapters in an easy and straightforward style. Some examples given in every chapter will assist students to enhance their understanding. At the end of each chapter, various questions are provided consisting of multiple choices, structured and discussion questions. Some of the questions are taken from past year examinations to familiarize students with the questions. Readers may find the book very beneficial as it will help them to understand Business Accounting through numerous exercises, just as the saying that 'practice makes perfect'.

Statement of Financial Position



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