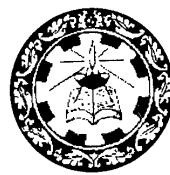


General Certificate of Education (Advanced Level)

ACCOUNTING

Grade 12

Teachers Instructional Manual



Department of Business Studies

Faculty of Science and Technology

National Institute of Education.

PRINTING AND DISTRIBUTION BY EDUCATIONAL PUBLICATIONS DEPARTMENT

ACCOUNTING

Teacher's Instructional Manual

Grade 12– 2010

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Department of Business Studies
Faculty of Science & Technology
National Institute of Education

Printed at the State Printing Corporation
Panaluwa, padukka.

Introduction

Curriculum developers of the NIE introduced Competency Based Learning and Teaching curricula for grades 6 and 10 in 2007 and also extended it to 7, 8 and 11 progressively every year and even to GCE (A/L) classes in 2009. In the same manner, syllabi and Teacher's Instruction Manuals for grades 12 and 13 for different subjects with competencies and competency levels that should be developed in students are presented descriptively. Information given on each subject will immensely help teachers to prepare for the Learning – Teaching situations.

I would like to mention that curriculum developers have followed a different approach when preparing Teacher's Instruction Manuals for Advanced Level subjects when compared to the approaches they followed in preparing Junior Secondary and Senior Secondary curricula (Grades 10, 11).

In grades 6, 7, 8, 9, 10 and 11 teachers were oriented to a given format as to how they should handle the subject matter in the Learning – Teaching process, but in designing AL syllabi and Teacher's Instruction Manuals, freedom is given to the teachers to work as they wished.

At this level we expect teachers to use a suitable learning method from the suggested learning methods given in the Teacher's Instruction Manuals to develop competencies and competency levels relevant to each lesson or lesson unit.

Whatever the learning approach the teacher uses, it should be done effectively and satisfactorily to realize the expected competencies and competency levels.

I would like to note that the decision to give this freedom is taken, considering the importance of GCE (A/L) examinations and the sensitivity of other stakeholders in the education system, to the Advanced Level examination. I hope that this Teacher's Instruction Manual would be of great help to teachers.

I hope the information, methods and instructions given in this Teacher's Instructional Manual will provide proper guidance to teachers to awaken the minds of our students.

Prof. W.M. Abeyrathna Bandara
Director General
National Institute of Education

Foreword

Action taken over long years of the past to retain the known and learn the predetermined has made us little able today to construct even what is. The first curriculum reform of the new millennium on secondary education that comes to being with a drastic change in the learning-teaching process at school level attempts to overcome this inability while producing a set of worthy citizens for the country capable of revising the known, exploring the undetermined and constructing what might be.

If you are a teacher teaching this subject or any other subject in grades 6 to 11, it will not be difficult for you to align yourself with the new learning-teaching approaches that are recommended in a considerable way for the GCE (A/L) as well. This reform calls on the teacher to identify competency levels under each competency and plan activities to achieve them. The teachers entering the new role of transformation should understand that the procedures which emphasize the teacher in the learning-teaching process are of limited use for the present and that it is more meaningful for the children to learn co-operatively sharing their experiences. This situation, however, requires the teachers to provide a new direction for their teaching by selecting new learning-teaching methods that emphasize the student over the teacher.

If you study the Teachers' Instructional Guides (TIGs) prepared by the National Institute of Education for Mathematics, Science, Health and Physical Education, Technology and Commerce subjects of grades 6 to 11, you certainly will be able to acquire a good understanding of the student-centred, competency based and activity- oriented approaches we have recommended for learning and teaching. The activities presented in these Guides attempt to bring learning, teaching assessment and evaluation on to the same platform and to help you to adopt co-operative learning techniques on the basis of the 5E Model.

Considering the need to establish an innovative teaching force we have selected just a few activities from the relevant activity continuum incorporated in the TIGs. Yet we have given you vast freedom to plan your own activities to suit the subject and the class requirements by studying the exemplar activities in the Guides and improving your understanding of the principles underlying the reform. The activities incorporated in the TIG, provide you with four types of information. At the beginning of each activity you are given the final outcome that the children are expected to achieve through each activity. This learning outcome named a 'Competency' is broad and long-term. The competency level stated next highlights one out of the number of abilities that the children have to develop to realize the competency.

The above explanation shows us that the competency levels are more specific and of a shorter duration when compared to the competency itself. The next section of the Guide presents a list of behaviours that the teacher has to observe at the end of each activity. To facilitate the task of both the teacher and the students, an attempt has been made to limit the number of such behaviours to five. These behaviours, referred to as learning outcomes, are more specific than the competency level. They include three abilities derived from the subject and two others derived from the learning teaching process. Out of the three subject abilities listed in order of difficulty, the teacher has to direct the children to realize at least the first two through exploration. The next section of the activity presents what the teacher should do to engage the children for exploration. Although the implementation of each and every activity starts with this step of engagement, the teachers should not forget that activity planning should begin with the exploration which is the second 'E' of the 5E Model.

Based on the Instructions for group exploration from the next section of the exemplar activities the teacher plans these procedures in such a way to allow different groups studying different facets of the same problem to reach the expected ends through a variety of learning-teaching methods. For this the teacher can select either Inquiry-based Learning carried out through a series of questions or Experiential Learning where children learn by doing. It is the responsibility of the GCE (A/L) teacher to use the knowledge that the children acquire by any of the above methods to solve problems that are specific to the subject or one that runs across a number of subjects of the curriculum as meaningful to plan such problem-based learning-teaching methods on the basis of real-life situations. For this you can select dilemmas, hypothetical situations, analogies or primary sources. Some techniques that can be used for the "explorations" are reading, information management, reflection, observation, discussion, formulation and testing of hypotheses, testing predictions, preparation of questions and answers, simulation, problem solving and aesthetic activities such as drawing or composing. There is room here even for memorization although it is considered as a form of mechanical learning.

Students explore in small groups. Instead of depending on the knowledge available to the teacher, they attempt to construct their own knowledge and meaning with the support of the teacher. Moreover, they interact with others in the group to learn from others and also to improve the quality of their findings from exploration. All this work successfully only if the teacher is capable of providing the students with the reading material and the other inputs they are in need of. The teacher also has to support student learning throughout the learning process by moving from one group to another. Although it is discovery that is prominent in this type of learning one has to recognize this as a guided discovery rather than a free discovery. There is no doubt that students learning likewise with instructional scaffolding both by the teacher and the peers acquire a whole lot of worthwhile experiences that they find useful later in life.

"Explanation" follows the second stage of "exploration". The small groups get ready to make innovative, team presentations on their findings. The special feature here is that the children have selected novel methods for their presentations. The responsibility for the presentation is also shared by all members of the group. In the next step of elaboration the children get the opportunity to clarify the unclear, correct the incorrect and fill any gaps that are left. They also can go beyond the known to present new ideas. All activities end with a brief lecture made by the teacher. This stage allows the teacher to go back to the transmission role. The teacher also has to deliver this lecture covering all the important points that the syllabus has prescribed for the relevant competency level. Step 3 of each Activity Plan guides the teachers in this compulsory final elaboration.

To overcome many problems that are associated with the general system of education today, the National Institute of Education has taken steps to move the teachers to the new transformation role recommended for them. This role that starts with a transaction gets extended to a lengthy exploration, a series of student explorations and elaborations and a summative transmission by the teacher. The students involve themselves in the exploration using reading material and other quality inputs provided to them by the teacher.

The students attend school daily to learn joyfully. They achieve a number of competencies that they need to be successful in life and in the world of work. They prepare themselves for nation building by developing thinking skills, social skills and personal skills. For the success of all this, an examination system that inquires into the ability of students to face real challenges of life is very much needed in place of an examination system that focuses on the knowledge acquired by children through the memorization of answers to model questions.

A number of activities have already commenced at national level to protect the real nature of school-based assessments. The written tests have been minimized to gain recognition for school-based assessments. A compulsory question has been incorporated in the term tests along with a scheme of authentic evaluation to ensure real outcomes of learning. It is the co-ordinated responsibility of all citizens of the country to open up doors for a new Sri Lanka by striving for the success of this new programme on the basis of sound instructional leadership and quality assurance by the management.

Mr. Lal H. Wijesinghe
Assistant Director General,
National Institute of Education.

| | |
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**LEARNING OUTCOMES
AND
MODEL ACTIVITIES**

| | |
|--------------------------|--|
| Competency | 1.0 : Analyses accounting and its purpose |
| Competency Level | 1.1 : Analyses the importance of providing accounting information to the stakeholders of a business, for decision making. |
| Number of periods | : 06 |

Learning outcomes :

- Selects appropriate definitions while developing - definitions
- Explains the necessity of accounting by learning the classification of accounting.
- Points out how the functions of each accounting classification contributes in decision making for the interested parties of the business.
- Arrives at conclusion considering similar view points.
- Arrives at required information speedily by using reading materials.

Learning - Teaching process:

Engagement

Present the information on Kusalsiri's Business to the class

Kusalsiri's Business.

Kusalsiri began a small -scale retail outlet, investing Rs.100000 out of his own savings. His purchases and sales are made on both cash and credit basis. His habit is to memorize transactions & he notes down only the things only he thinks as important on the table-cloth or on the calendar.

His wife, Kamala always complains that the debtors (who bought goods on credit) do not repay their debts on time. Further, Kusalsiri was scolded by the creditors (those who supply goods on credit) for failure to settle dues. He always meets his personal expenses using the cash in the business. When he fails to pay the creditors he asks money from his wife, which she refuses.

Nimal, an employee in his business resigned due to non payment of his wages properly. The bank loan application also was rejected due to failure in presenting adequate information required by the bank. Kamala always states that it would be better to wind up the business.

According to her, Jayasiri who started a cement block manufacturing business on the same day has become a successful businessman today.

- Conduct a discussion to highlight the following points.
 - That the information should be presented appropriately for the stakeholders to take decisions easily.
 - For this purpose all the financial activities should be recorded properly.
 - That accurate and complete information should be provided to gain the confidence of parties.
- That there are major classifications of accounting such as, financial accounting, managerial accounting and cost accounting in order to compute the revenue and expenditure of transactions and events, to calculate the accurate cost of a product etc.
- The necessity of identifying the characteristics of Accounting information.

Proposed instructions for Learning:

- Pay attention to the topic received by each group out of the following classifications of accounting.
 - Financial Accounting.
 - Cost Accounting.
 - Management Accounting
- Conduct a brain - storming session to understand what is meant by “accounting”.
- Instruct students to build up a definition for ‘Accounting’ with reference to all the reading materials provided.
- Guide the each group to reveal the functions of each type of Accounting (Financial, costs & managerial) and reveal the necessity of these functions.
- Get them ready to present the group findings, creatively and collectively to the entire class.

Guidance on subject matter

“Accounting” has been defined under various aspects by various institutions as follows.

- **The American Accounting Association (AAA)**

“Accounting is the process of identifying, measuring and communicating information to permit informed judgments and decisions by the users of the information”.

- Discuss and explain that the output of Accounting is information and this information is used to take various decisions and this information could be identified in relation to each business entity. Explain that, based on the above discussion, a generally acceptable definition up as follows.

“Accounting is the entire process of providing economic information on the business entity to interested parties to make decisions”.

It is possible to understand Accounting by analyzing various terms included in the definition. According to terms such as : Accounting process, Accounting entity, Economic information, Interested parties and the decisions made by these parties can be clarified.

Accounting Entity

A business is an institute an individual, a state or a nation that can be considered as an accounting entity. Various economic activities may take place in an Accounting entity. These economic activities can be described as “transactions” and “events”.

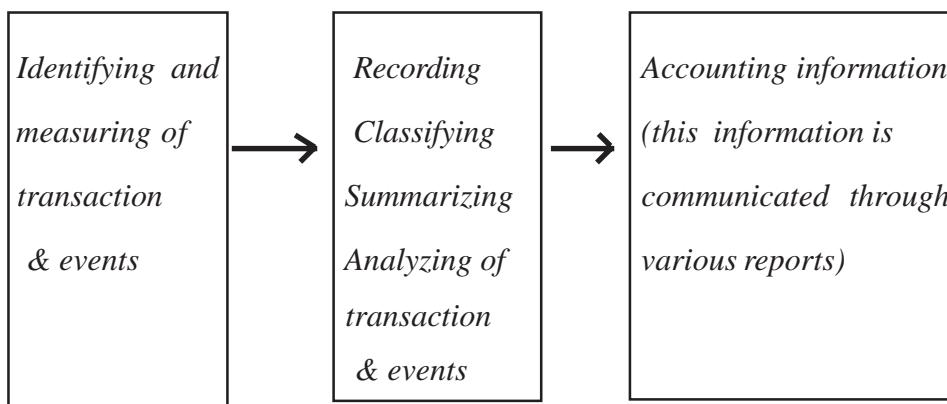
For instance,

- Opening a communication service investing Rs.100,000
- Purchasing a building for Rs.75,000
- Paying a electricity bill of Rs.5,000
- Drawing attention to various patterns of consumer behavior.
- Measuring and analyzing consumer interest regarding the services of a super market

These instances reveal that both monetary and nonmonetary data and information are included within the Accounting process.

Accounting Process

The above mentioned transactions and events can be defined as the economic activities of a business entity. The purpose of every business owner as well as an interested party of the accounting entity is to make one aware about the final outcome after processing these activities. The Accounting process can be presented as follows:



Purpose of Accounting

The basic purpose of Accounting is to provide information to interested parties. In addition, Accounting plays a major role as a social phenomenon. Thus Accounting controls resources. Provides information for allocation of resources for future consumption, increases employment, through economic growth and development uplifts the living condition of the entire society.

Financial Accounting

To prepare financial statements and present the historical transactions and events of a certain Accounting entity to the external parties to enable them to make economic decisions.

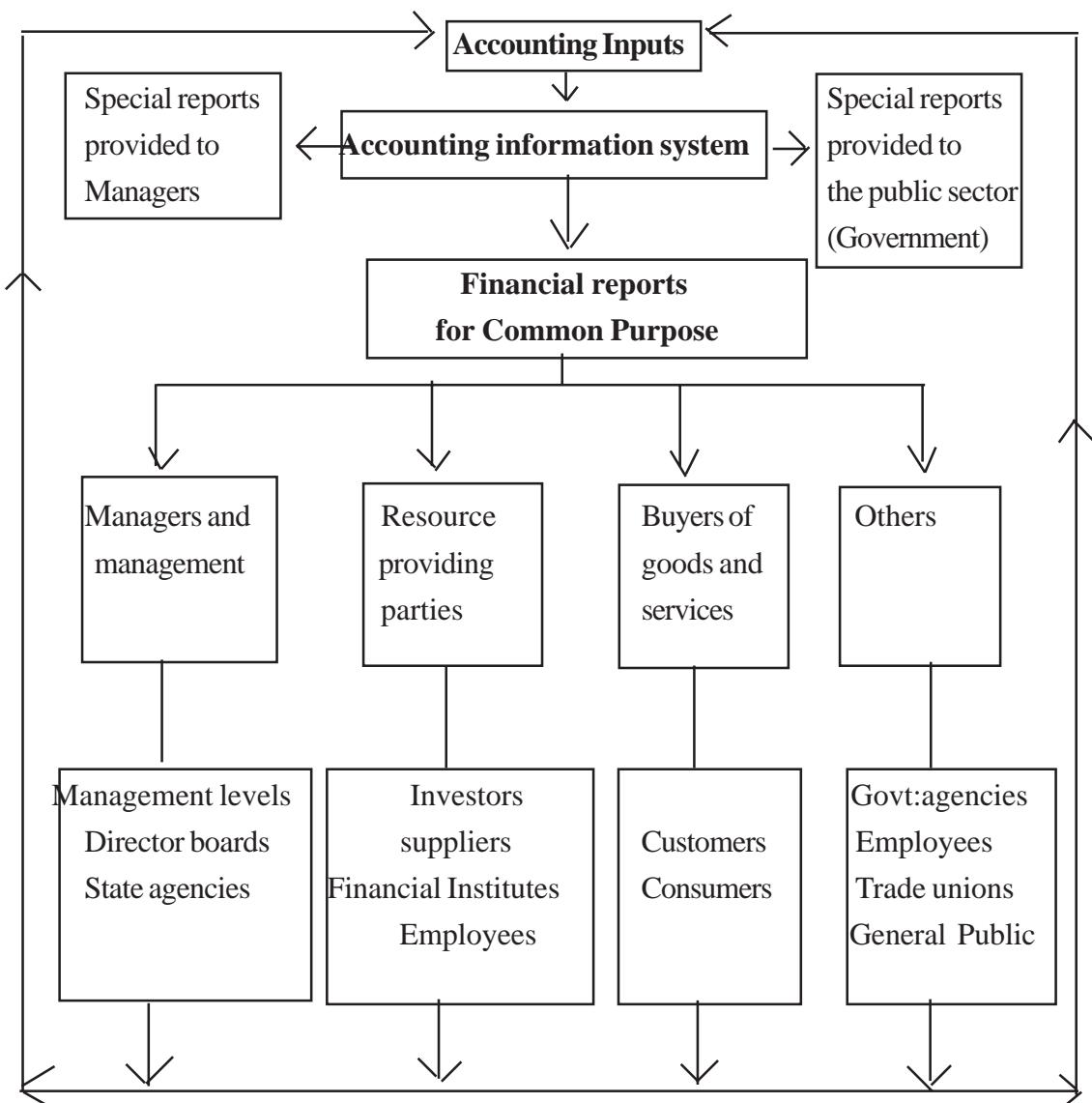
Management Accounting

Provision of financial and non-financial information (on product, operation, process or department) to all levels of management to enable them to act on their responsibility for planning, controlling and decision making, is the scope of Management Accounting.

Cost Accounting

Provision of required information to determine and control the cost of a certain product operation, process or a department is the scope of cost accounting.

USERS OF ACCOUNTING INFORMATION



Characteristics of Accounting information

- Accuracy
- Understandability
- Comparability
- Simplicity
- Reliability
- Completeness
- Relevance
- Consistency
- Others

Competency Level 1.2 : Analyses the changes and trends in accounting based on the changes in accounting environmental factors

Number of periods : 04

Learning outcomes :

- Classifies the Accounting environment.
- Describes the variables of accounting environmental factors.
- Explains how these accounting environmental factors affect Accounting.
- Describes the factors that affect the environment
- Explains how environmental factors affect our own life.

Learning - Teaching process

Engagement

Conduct a discussion highlighting the following that inquire about the factors related to the external and internal environment of the school.

- The Accounting environment is divided into two main divisions as follows.
 - Internal environment
 - External environment
- Changes in these environmental factors affect the accounting of the business
- The factors of internal environment are denoted as follows:
 - Various divisions and departments of the organization
 - Internal control systems
 - Various processes of the organization
 - Physical resources and information technology.
 - Organization culture
- The factors of the external environment are denoted as follows:
 - Economic and political.
 - Social and cultural.
 - Legal.
 - Technological.
 - Technical and professional
 - Natural environment.
- Explains the legal environment related to financial Accounting with suitable examples.

(*Eg:* The companies Act No: 07 of 2007)

Proposed instructions for Learning:

- Pay attention to the topic received by each group out of the following accounting environments
 - Internal environment
 - External environment
- Direct student to study the diagram related to the business environment, properly.
- Conduct a group discussion to identify the topic.
- Direct students to name the environmental factors related to the topic.
- Highlight, through examples, how these environmental factors affect Accounting
- Get ready to present group findings creatively and collectively to the entire class.

Guidance on subject matter

The major environmental factors given below that influence the Accounting of a business entity can be classified as internal environment and external environment

The influence of variables of external environmental factors on Accounting of a business can be shown, with examples, as follows.

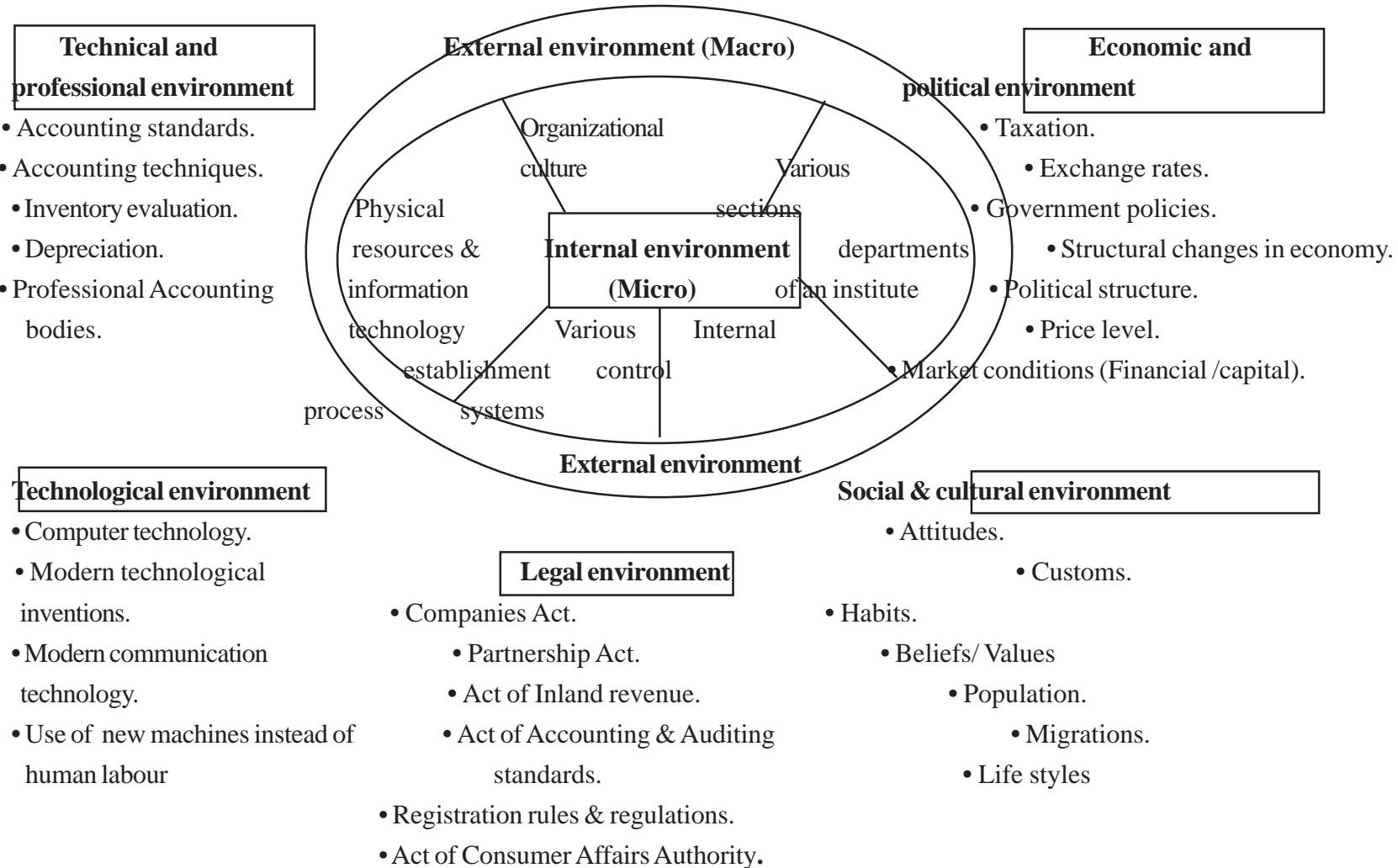
| External Environmental Factors | Variable | Influence |
|---------------------------------------|-----------------|--|
| 1. Economic and political | Taxation | If the tax rate (percentage) for goods and services increased, the profit after tax in financial statements of the firm will decrease. |
| 2. Social and cultural | Migrations | The increase of sales or increase of production of goods and services of the firms in migrating areas will increase the revenues of these proprietors and thereby an increase in profits or increase in revenue from sales is indicated in financial statements. |

| | | |
|-------------------------------|---------------------------------|--|
| 3. Legal | Companies Act No: 07 of 2007 | All the companies should reregister according to the new act and prepare their financial statement accordingly |
| 4. Technical and professional | Measurement of Inventory | If first in-first out (FIFO) method is applied to measure the inventory profit in financial statements is affected |
| | S.L.A.S.-03 | Financial statements should be prepared in accordance with newly introduced formats. |
| 5. Technological environment | Computer technology | Financial statements are prepared using computer programs instead of the manual system followed in the past. |

The influence of variables of the internal environmental factors on Accounting of the business can be shown with examples as follow.

| Internal Environmental Factor | Variable | Influence |
|-------------------------------|--|--|
| 1. Various sections | Purchasing department | Policies and practices followed in connection with the purchasing process (<i>Eg:</i> Tender policy). |
| 2. Internal control systems | Banking of cash | Collecting, reporting and banking of the cash. |
| 3. Process | Manufacture of goods Promotions retirement | <ul style="list-style-type: none"> • Manufacturing products. • Job products. |
| 4. Organizational culture | Attitudes of management and employees | Level of interest in accounting |
| 5. Information technology | Computerized Accounting | Confirm arithmetical accuracy of data and obtaining the required reports using computers. |

Environmental Factors affecting Accounting



| | | |
|--------------------------|------------|--|
| Competency | 2.0 | : Presents the transactions and events of a business through an accounting equation. |
| Competency Level | 2.1 | : Analyses that the equality of total assets to total liabilities plus total equity of the business. |
| Number of periods | | : 05 |
| Learning outcomes | | : |

- Explains that a business is an independent entity that is separate from its owner
- Constructs the accounting equation.
- Explains the impact of the transactions & events on assets, liabilities & equity through accounting equation.
- Points out the relationship between the factors.
- Identifies the impact of a certain event.

Learning - Teaching process:

Engagement

Ask a volunteer student to present the information about the “Murthi Paper Centre” to the class and conduct a discussion highlighting the following facts inquiring opinions about them.

Case Study

After the G.C.E. (Advanced Level) examination Murthi started a business out-let named “Murthi Paper Centre” close to his school investing Rs. 200,000 obtained from his savings account with the purpose of selling stationary and other school items.

Since this amount was not adequate to purchase the different required assets to run the business systematically and successfully he obtained a loan of Rs. 100000 from Bank of Ceylon.

- The amount of Rs: 200,000 invested by the owner are the asset of business.
- This amount of Rs: 200,000 is also considered as the capital of the business and it is equals to the cash asset of Rs. 200,000
- Therefore this can be shown as:

$$\text{Assets} = \text{Capital}$$

- Due to the bank loan of Rs: 100,000 the business has an obligation to an external party.
- Thus a liability of Rs: 100,000 has arisen in the business. At the same time the cash asset of the business have also increased by Rs: 100,000, therefore the total assets of this business becomes Rs: 300,000
- The total assets of the business has been financed from the Capital and Liabilities.
- The relationship between assets, liabilities and capital can be presented in the form of an equation.

$$\text{Assets (Cash)} = \text{Capital} + \text{Liabilities } (\text{Bank loan})$$

$$\text{Rs: 300000} = \text{Rs: 200000} + \text{Rs: 100000}$$

Proposed instructions for Learning

Pay attention of the student to the following equations which will be received by each group.

- Capital + Liabilities = Assets.
- Capital = Assets.
- Guide them to enter the relevant transactions in the accounting equation by studying the case properly.

Case Study

Nimesha started a trading business investing Rs: 100000 from her personal savings. She made a credit purchase of goods for resale for at a cost Rs: 10,000 from her friend Saman.

A building which is suitable to conduct the business was purchased at

A bank loan of Rs: 50,000 was obtained for the purpose of expansion of the business. The building was modified spending Rs: 7500 to enhance its outward appearance. Saman was paid Rs: 5000 to settle a part of his loan. The roof of the building got damaged owing to a cyclone and it was repaired.

With the purpose of expansion of the business, she intends to construct a vehicle park spending around Rs: 50,000. One of her friends has pointed out that by growing beautiful flowers would enhance the beauty of the surroundings.

- Explain each component of the accounting equation and ask the students to give examples as far as possible.
- Show the other ways of the accounting equation could be presented.
- Were all the transactions in the above case recorded in the accounting equation? Reason out the answer.
- Get the students to present group findings creatively and collectively to the entire class.

Guidance on subject matter :

- Financially measurable resources that are available in to a business are known as “Assets” of the business.
- Example of assets are Buildings, machinery, stocks and cash...
- Money invested by the owner on the business is known as “capital” or “equity”.
- Thus the Accounting equation is as follows.

$$\boxed{\text{Assets} = \text{Capital}}$$

- The “capital” of the business is differentiated from the owner is based on “business entity concept”.
 - External parties also invest their resources in the business and they are known as “Liabilities”.
- Then the Accounting equation can be presented as follows.

$$\boxed{\text{Assets} = \text{Capital} + \text{Liabilities}}$$

Transactions related to the above incident have been applied to the Accounting equation as in the table given below:

| Transactions | Capital = Assets | | Capital + Liabilities = Assets | | |
|---------------------|--|---------------------|--|---------------------|------------|
| | Rs: | Rs: | Rs: | Rs: | Rs: |
| 1 | 100,000 | = 100,000 (Cash) | 100,000 | = 100,000 (Cash) | |
| 2 | Transaction can not be completely recorded | | 100,000 + 100,00 (Saman) | = 100,000 (Cash) | |
| 3 | 100,000 = 80,000 (Building) + 20,000 (Cash) | | 100,000 + 10,000 (Saman) = 20,000 (Cash) + 10,000 (Inventories) + 80,000 (Buildings) | | |

| | | |
|----|---|--|
| 4. | Transaction can not be completely recorded. | $\begin{array}{rcl} 100000 + 10000 & = & 70000 \\ & (\text{Saman}) & (\text{Cash}) \\ & + 50000 & +10000 \\ & (\text{Bank loan}) & (\text{Inventories}) \\ & & +80000 \\ & & (\text{Buildings}) \end{array}$ |
| 5. | $100000 + 87500 (\text{Buildings})$ $+12500 (\text{Cash})$ | $\begin{array}{rcl} 100000 + 10000 & = & 62500 \\ & (\text{Saman}) & (\text{Cash}) \\ & + 50000 & = +10000 \\ & (\text{Bank loan}) & (\text{Inventories}) \\ & & +87500 \\ & & (\text{Buildings}) \end{array}$ |
| 6. | Transaction cannot be recorded completely . | $\begin{array}{rcl} 100000 + 5000 & = & 57500 \\ & (\text{Saman}) & (\text{Cash}) \\ & + 50000 & +10000 \\ & (\text{Bank loan}) & (\text{Inventories}) \\ & & +87500 \\ & & (\text{Buildings}) \end{array}$ |
| 7. | An event took place in the business. Financial value has not been stated. | An event took place in the business. Financial value has not been stated. |
| 8. | No transaction occurred, only a view point. | No transaction occurred, only a view point. |

- Construction of a vehicle park at Rs: 50000 is only an idea. Therefore, it is not entered in the equation, due to lack of relevant characteristics of a transaction.
- The effect on the accounting equation from each and every transaction of the incident can be entered separately in the accounting equation.

Competency Level 2.2 : Discloses how the “equity” is changed as a result of transactions and events of a business.

Number of periods : 05

Learning outcomes :

- Describes the affect of the total financial results of a business on its equity.
- Names and Explains the transactions which affect in the equity.
- Applies the transactions that affect the equity in the accounting equation.
- Practices to control of expenditure.
- Searches for methods and practices to increase “equity”.

Learning - Teaching process :

Engagement

Present the following role play to the class.

The Role Play

A dialogue between Buddhika who is running a business and his friend Sagara.

Buddhika : Hi!.... ,After a long time... How are you?

Sagara : Fine, thank you, how about your business. I heard that you have won a lottery of Rs 100,000 recently. Am I correct?

Buddhika : Of course... It was also invested here

Sagara : Then business might be lucrative at the moment.

Buddhika : Not that much. I had to spend a lot of money on my son's treatment recently, so I try my best to control the expenses to a certain extent. Telephone and electricity bills are tightly controlled.

Conduct a discussion highlighting the following

- Investment of additional capital will affect increase in equity.
- The financial value of the business resources withdrawn for personal consumption of the owner is known as “drawings” and “drawings” affect decrease of equity.
- The business has to incur various day to day operating expenses such as electricity charges, telephone charges, transportation expenses etc....

- Due to this the profits of the business decreases, and as a result equity also decreases.
- Income is generated through operating activities of the business. Examples of income - sales income, Rent income.
- Revenue increases profits through which equity increases.

Proposed instructions for Learning:

- Pay attention to the case received by each group out of the cases given below.

Case: 01

A new Accounts clerk was recruited to Charith's firm. Charith submitted the following information which was included in his diary to the clerk in his request.

Monday 01.01.2008

At the moment my business possesses the furniture purchased for Rs: 15000 and the remaining stock Rs.5000, I should receive a debt of Rs: 2000. I should pay another Rs: 4000 for my credit purchases. I have Rs: 5000 cash in my hand.

I have carried out the following transactions during this week.

Tuesday 02.01

Inventory Rs: 2,000 was sold for Rs: 3,000 cash. I have purchased inventories at a cost of Rs: 3,000

Wednesday 03.01

My personal bicycle was sold for Rs: 15000 and that amount was invested in the business.

Thursday 04.01

Paid electricity bill of Rs: 500

Friday 05.01

An inventory Rs: 1,000 was sold for Rs: 1,500 on credit basis.

Saturday 06.01

Withdrew some goods cost Rs: 200/= for the consumption of my family

Case : 02

Ridma Abeywardhana who is running a firm of transport services named “Wega Ridma” exchanges views with his father about the transactions that occurred in his firm during the first week of January 2008.

Ridma : Father, my firm has total assets of Rs: 125,000 as of 01.01.2008 out of which Rs: 100,000/= are mine and the rest, Rs: 25,000 is a bank loan.

Father : So. What's the problem you've got?

Ridma : This week my earnings seem to be decreased. Income received from the business is Rs: 35,000

Father : What about your expenses, my dear.

Ridma : The driver and conductor were paid Rs: 18,000 as their wages for this week on their request. They were asked to take Rs. 2500 for their meals paid Rs. 2000 for printing tickets and Rs. 15000 was paid to replace the tyres

Father : OK. I'll give you Rs: 30,000 to invest in your business and you needn't return it me.

Ridma : Father, “Malli” asked for some money for an urgent matter. I didn't have much, Money at that time but I gave him Rs: 1,000 from the earnings from the bus.

- Let the group study the case- thoroughly.
- Identify the problems involved in the case and enter the affect of this transaction in the following Accounting equation.

| Transaction (1) | $\rightarrow \text{Assets} = \text{Capital} + (\text{Revenue} - \text{Expenditure}) + \text{Liabilities}$ |
|--------------------|---|
|--------------------|---|

- Provide guidance to students on the calculation of the total revenue and total expenditure of the business.
- Inquire the views about the result of the business
- Guide them to present their views on how business result affect equity.
- Make them ready to present the group findings creatively and collectively to the entire class.

Guidance on subject matter.

- A business generates revenue through its operation activities.
- Economic benefit cause for either cash in- flow to the business during a certain Accounting period or enhancing of equity apart from owners' contribution, but in case of inquiring. Asset or decreasing liabilities can be defined as Revenue.
- A businss incurious expenses in its operations. Decrease in economic benefits causes to decrease in equity apart from the allocations made for the owners in terms of either cash outflows during a certain accounting period or depreciation of assets or increases in liabilities or reduction in assets can be defined as **Expenditure**.
- Expenses incurred during the operation of the activities of the business. Expenses reduce economic benefits due to cash outflow from the business or depreciation of assets or decrease of assets or increase of liabilities resulting in the reduction of equity excluding distribution of profits to the owners, during accounting period.
- The revenues exceeding expenditure is known as **the profit** where as the expenditure exceeding the revenue is known as **the loss**.
- Goods, cash or any other properties of the business used for personal consumption of the owner is known as **drawings** and the equity of the owner/s will go down due to drawings.
- Cash or other resources invested in addition to the capital of the ongoing business by the owner/s can be identified as **Additional Capital**

- Answer for the 1st case

| <i>Date</i> | <i>Capital+ (Income - Expenses)</i> | <i>+ Liabilities</i> | <i>= Assets</i> | |
|-------------|-------------------------------------|----------------------------------|--|---|
| | 23,000 | Creditors 4,000 | Furniture 15,000 Inventories 5,000 Cash 5,000 Debtors 2,000 | |
| 01/02 | | 3,000 - 2,000 | Inventories - 2,000 Cash + 3,000 Inventories + 3,000 Cash - 3,000 | |
| 01/03 | + 15,000 Additional Capital | | Cash + 15,000 | |
| 01/04 | | - 500 | Cash - 500 | |
| 01/05 | | 1800 - 1000 | Inventories - 1,000 Debtors + 1,500 | |
| 01/06 | - 200 Drawings | | Stock - 200 | |
| | 37,800 + | (4800 - 3500) Profit 1,300 | + 4000 | Furniture 15,000 Inventories 4,800 Debtors 3,800 Cash 19,500 |
| | | 43,100 | | = 43,100 |

- Answer for the 2nd case

| <i>Transaction</i> | <i>Capital+</i> | <i>(Income - Expenses)</i> | <i>+ Liabilities</i> | = | <i>Assets</i> |
|-----------------------------------|----------------------|----------------------------------|-----------------------|---|-------------------|
| (1) | Capital + 100,000 | | Bank loan + 25,000 | = | Cash + 125,000 |
| (2) Receipt and service income | | Service income + 35,000 | | = | Cash + 35,000 |
| (3) Payment of salaries | | +18,000 Salaries | | = | Cash -18,000 |
| (4) Printing ticket books | | + 2,000 Stationary | | = | Cash -2,000 |
| (5) Maintenance Expenses | | + 15,000 Maintenance expenses | | = | Cash -15,000 |
| (6) Entertainment | | + 2,500 Entertainments | | = | Cash -2,500 |
| (7) Additional Capital | + 30000 | | | = | Cash +30,000 |
| (8) Drawings | - 1000 | | | = | Cash -1,000 |
| | 129,000 | + (35,000 - 37,500) | + 25,000 | = | 151,500 |
| | 129,000 | + (-2,500) | + 25,000 | = | 151,500 |
| | | + 126,500 | + 25,000 | = | 151,500 |
| | | | 151500 | = | 151,500 |

Competency Level 2.3 : Prepares balance sheet and the income statement using the accounting equation.

No: of periods : 05

Learning outcomes :

- Writes the Balance Sheet Equation.
- Compares the Balance Sheet and the Balance Sheet Equation.
- Points out the relationship between Income Statement and the Balance Sheet.
- Summarizes the information.
- Demonstrates pre-preparation to use information through simple presentations.

Learning teaching process

Engagement

- Conduct a discussion recalling previous knowledge and highlighting the following facts.
 - The equation that the Assets = capital + liabilities can be denoted as the balance sheet equation.
 - A balance sheet can be summarized through the accounting equation regardless the complexity of the transactions.

Proposed instructions for learning

- Make the student pay their attention to the accounting equation received by each group out of the following.
 - Assets = Capital + Liabilities
 - Assets - Liabilities = Capital
 - Guide them to study carefully the following two balance sheets of Keerthi's business

Keerthi's business
Balance sheet
as at 31st March 2008

| <u>Equity</u> | <u>Rs:</u> | <u>Assets</u> | <u>Rs:</u> |
|--------------------|---------------|-------------------|---------------|
| Capital | | Land and building | 50,340 |
| | | Equipment | 17,790 |
| | | Computer | 14,610 |
| <u>Liabilities</u> | | | |
| Creditor | 221,760 | Debtors | 110,700 |
| | | Cash | 315,000 |
| | <hr/> 508,440 | | <hr/> 508,440 |
| | <hr/> <hr/> | | <hr/> <hr/> |

Keerthi's business
Balance Sheet
as at 31st March 2008

| | | |
|--------------------|---------|--|
| <u>Assets</u> | | |
| Land and building | 315,000 | |
| Equipment | 110,700 | |
| Computer | 14,610 | |
| Debtors | 17,790 | |
| Cash | 50,340 | |
| Total Assets | | |
| <u>Equity</u> | | |
| Capital | | |
| <u>Liabilities</u> | | |
| Creditors | | |

- Instruct each group to choose the balance sheet applicable to the Accounting equation received by them.
- Guide students to compare the elements in the accounting equations with the key elements in the balance sheet.
- Indicate the total value of the each element.
- Make them to apply these to the components of the balance sheet equation.
- Make them to disclose total asset, total liabilities and the total equity of Keerthi's business.
- Write down the transactions with values affecting in changing the equity other than the additional capital and drawings
- Direct students to calculate the impact of these transactions through a statement.
- Inquire as to which component of the balance sheet equation is affected by that impact.
- Get them ready to present the group findings creatively and collectively to the entire class.

Guidance on subject matter

- The transactions and events that take place in a business are recorded in the balance sheet equation.
- Out of these transaction these which affect change in the equity should be differentiated separately and the transactions which generating revenue and expenditure should be identified separately.
- An income statement for a specific period is prepared using these transactions of revenue and expenditure
- Asset, liabilities and equity of the balance sheet equation can be utilized to prepare a balance sheet at a specific date.
- The financial position of a business on a specific date is presented through the balance sheet.

- The outcome of the income statement is adjusted with the equity in the balance sheet.
- Therefore there is a relationship between the income statement and the balance sheet
- As indicated below, cash inflows and cash outflows of a business can be indicated using the balance sheet equation.

Examples:

- Capital investment Rs.50 000 = (cash inflow Rs.50 000)
- Purchased furniture Rs.20 000 = (cash outflow Rs.20 000)
- Sources of cash are always equal to the application of cash .
- Capital investment Rs.50 000 = (this is a source)
- Purchase of furniture Rs.20 000 = (this is an application)
- Cash in hand Rs.30 000 = (this is an application in the asset named “cash”)
- Accordingly
 - Sources of Cash = Rs.50 000
 - Application of cash = Rs.50 000

Competency level 2.4 : Ascertsains profit or loss by using Net-Assets.

No: of periods : 04

Learning outcomes :

- Explains the difference between total assets and total liabilities.
- Compares the difference between the net assets at the beginning of the year and the net assets at the end of the year.
- Calculates the financial performance of the year adjusting the additional capital and drawings to the net-assets.
- Reveals the terms related to the changes.
- Reaches to relevant matters through a case.

Learning teaching process :

Engagement

- Conduct a discussion having noted down the following equations on the blackboard, highlighting the following facts.

| | |
|--|---|
| $\bullet \text{ Capital + Liabilities} = \text{Assets and}$ $50\ 000 + 10\ 000 = 60\ 000$ | $\bullet \text{Capital + liabilities} = \text{Assets}$ $60\ 000 + 10\ 000 = 70\ 000$ |
|--|---|
- The difference of the total assets and total liabilities of a business is the net-assets.
- Net-assets are also known as “equity”
- The difference between the opening -net-assets and the closing net-assets is the profit / loss of the business.
- In addition to this the net-asset is changed due to additional capital, drawings etc.

Proposed instructions for learning :

- Directed the students to pay their attention to the topic received by each group out of the topics given below.
- Net-impact ; When there is drawing only.
- Net-impact ; when there is additional capital only.
- Direct the students to study the following information sheet carefully.

Vacancy was advertised in a local news paper for an account clerk for the business firm of “Niravul” who has not recorded the transactions properly. Isuru, who came across this advertisement appeared for an interview. In a short discussion Niravul forwarded the following facts.

- Assets and liabilities available at the beginning of the year

Buildings Rs.100 000

Furniture Rs.15 000

Vehicles Rs.50 000

Inventories Rs.20 000

Cash at bank Rs.10 000

Debtors Rs. 6 000

Bank loan Rs.12 000

- Isuru finds that the values of the above items have been changed at the moment.

Buildings Rs.125 000

Furniture Rs.12 000

Vehicle Rs.49 000

Inventories Rs.40 000

Cash at bank Rs.15 000

Debtors Rs.10 000

Bank loan Rs.10 000

By using the information sheet :

- Direct the students to calculate the opening & closing capital of the business
- Let groups to present their opinion about the difference in opening capital and closing capital.
- Considering the topic analyze the above difference further and indicate the result
- Make them ready to present the group findings creatively and collectively to the entire class

Guidance on subject matter :

- The difference of the total assets and total liabilities of a business at a certain date is considered as the “Net-Assets”
- Net-Assets at the beginning and at the end of the given period can be calculated as follows.
Total asset - total liabilities = Net assets
- Net assets are known as “Equity”

- The difference between opening net-assets and closing net-assets is the profit / loss of the business.
- The result of the business related to the net-assets can be shown as follows.
 - Closing net-assets - opening net-assets = profit / loss.
 - Closing capital - opening capital = profit / loss.
- When drawing is made the profit / loss can be calculated as follows.

$$\text{Closing capital} - \text{opening capital} + \text{drawings} = \text{profit / loss.}$$
- Drawing should be added to the profit since the profit has been decreased along with the decrease in ending net-assets, because of drawing.
- The financial outcomes of the Niravul's business in relation to the informations provided, can be calculated as follows.

| Initial total assets | Rupees | Initial total liabilities | Rupees |
|-----------------------------|---------------|----------------------------------|---------------|
| Building | 100000 | Bank loan | 12000 |
| Furniture | 15000 | | |
| Vehicle | 50000 | | |
| Inventries | 20000 | | |
| Cash at bank | 10000 | | |
| Debtors | 6000 | | |
| | 201000 | | |
| | | | 12000 |
| | | | |

• Total asset at the beginning - Total liabilities at the begining = Net asset at the begining

$$201000 - 12000 = 189000$$

- The final net assets are calculated as follow.

| Total assets at the end | Rupees | Total liabilities at the end | Rupees |
|--------------------------------|----------------|-------------------------------------|---------------|
| Building | 125,000 | Bank loan | 10,000 |
| Furniture | 12,000 | | |
| Vehicle | 49,000 | | |
| Inventries | 40,000 | | |
| Cash in bank | 15,000 | | |
| Debtors | 10,000 | | |
| | 251,000 | | |
| | | | 10,000 |
| | | | |

Total asset at the end - Total liabilities at the end = Net assets at the end

$$251\ 000 \quad - \quad 10\ 000 \quad = \quad 241\ 000$$

- When drawings are not made business outcome can be indicated as follows.

Total asset at the end - Total liabilities at the end = Net assets at the end

$$241\ 000 \quad - \quad 189\ 000 \quad = \quad 52\ 000$$

- Change in the business outcome as a result of drawings can be presented through Niravul's firm when drawings are made as follows (It has been assumed that the drawings made by him in the period is Rs.10,000)
 - Closing Net-Assests Rs. - Opening Net-Assests Rs. + drawings = Profit /loss
- $$241\ 000 \quad - \quad 189\ 000 \quad + 10\ 000 \quad = \quad 62\ 000$$
- Net-Assests at the end have increased due to Additional capital, so that the Additional capital should be deducted from profit to calculate the business outcome.
 - The business outcome of the Niravul's firm with Additional capital can be indicated as follows. (Assume that he has invested Rs.72 000 as an additional capital.)

Net Assests at the end - Net-Assets at the beginning - Additional capital = profit / Loss

$$241\ 000 \quad - \quad 189\ 000 \quad - 72\ 000 \quad = \quad (20\ 000) \text{ Loss}$$

- Accordingly Niravul's business has incurred a loss of Rs.20 000/=
- When both the drawings and Additional capital has been made, the business outcome can be calculated as follows.

Net Assets at the end - additional capital - Net Assets at the beginning + Drawings = profit / Loss

$$241\ 000 \quad - 72\ 000 \quad - \quad 189\ 000 \quad + 10\ 000 \quad = \quad (10\ 000) \text{ loss}$$

- Profit / loss of a business can be calculated using the Net-assets.

Competency **3** : Records transactions and events in Accounts according to the double entry system.

Competency level 3.1 : Records business transactions and events in Accounts

No: of periods : 15

Learning outcomes :

- Classifies the ledger Accounts in connection with the transactions occurred in a business firm.
- Reveals that every transaction has a dual effect and it is an increase or a decrease.
- Keeps accounting entries for the dual effect of a transaction based on double entry system.
- Proposes alternative methods to present information.
- Makes decisions based on accurate information.

Learning teaching process :

Engagement

- Conduct a discussion by presenting the transaction obtaining a bank loan of Rs.100 000/- enquiring the dual effect of it and highlighting the following facts.
- Cash asset as well as liabilities; have been increased due to the loan received.
- Liabilities are also increased with the same amount that the assets are increased.
- As a result of this transaction resources of the business have been changed.
- It seems to have assured that this transaction has basic features of a transaction
- There is a dual effect in every transaction and accounting entries are kept for that dual effect.

Proposed instructions for learning :

- Pay attention to the topic received by each group out of the following and guide to reveal the required information.
 - Assets and liabilities
 - Assets and expenditure
 - Capital and assets
 - Assets and revenue
- Instruct students to identify the topic received by the group.
- Direct them to recall five business transactions under the relevant topic through a group discussion.
- Direct them to identify the dual effect of a transaction as increases and decreases.

- Guide them to record the dual effect in accounts as follows.

| (Debit) | Account | (credit) |
|---------------------|---------|-----------------------|
| Assets | | liabilities |
| Expenses } increase | | revenue increase |
| | | equity |

- Get them ready to present their group findings creatively and collectively to the entire class.

Guidance on subject matter:

- There is a dual effect in business transactions
- Recording of this dual effect of a transaction as debit and credit in the ledger accounts is known as the double entry system.
- The double entry system is followed to record the dual effect of a transaction in the ledger accounts accurately.
- When transactions are recorded by using the double entry system each credit entry has a debit entry, while each debit entry has a credit entry.
- The format in which the dual effect of a business transaction are recorded from a certain date to another date is known as the “account”
- Only the monetary transactions are recorded in these Accounts.
- The format of a traditional account takes a T shape and such an account can be shown as follow.

| Account | | | | | | | |
|---------------|-------------|---------|------------|--------|-------------|---------|------------|
| debit | | | | credit | | | |
| Date | Particulars | L E No: | Amount Rs. | Date | particulars | L E No: | Amount Rs. |
| | | | | | | | |

- Basic categories of ledger accounts arising from the business transactions are mentioned below.
 - Assets Accounts
 - Expenditure Accounts
 - Liabilities Accounts
 - Revenue Accounts
 - Equity / capital Accounts
- Decrease and increase of the amount in each account can be stated as follows.
 - *Assets* : increase - debit, decrease - credit
 - *Expenses* : increase - debit, decrease - credit
 - *Capital* : increase - credit, decrease - debit
 - *Revenue* : increase - credit, decrease - debit
 - *Liability* : increase- credit, decrease- debit

Competency level 3.2 : Prepares financial statements using a trial balance.

No: of periods : 15

Learning outcomes :

- Prepares a trial balance by balancing the ledger accounts.
- Prepares income statement and the balance sheet using the trial balance.
- Analyses the cash flows relevant to the period.
- Uses formats to present information.
- Views the whole by collecting the relevant facts.

Learning - Teaching process:

Approach

- Discuss under mentioned facts inquiring into the relationship between ledger accounts and the schedule given below..

| <i>Capital account</i> | | <i>Building account</i> | |
|------------------------|--------|-------------------------|-------|
| Cash | 100000 | Cash | 25000 |

| <i>Cash account</i> | | <i>Salaries account</i> | |
|---------------------|----------------------------------|-------------------------|--|
| Capital 100000 | Buildings 25000 Salaries 5000 | Cash 5000 | |

Trail balance

| | Dr (Rs) | Cr (Rs) |
|-----------|------------|------------|
| Capital | | 100000 |
| Cash | 70000 | |
| Salaries | 5000 | |
| Buildings | 25000 | |
| | 100,000 | 100,000 |

- According to the double entry system accounting entries are kept as “debit” and “credit”.
- The statement prepared from the balancing of each ledger Account is known as the “trial balance.”

Proposed Instructions for Learning:

- Pay the attention of the students for the ledger received to each group out of the following ledgers.

Ledger 01

Cash account

| | | | |
|-----------|---------|-----------------------|--------|
| Capital | 100,000 | Creditors | 20,000 |
| Debtors | 30,000 | Furniture | 10,000 |
| Interest | 5,000 | Fixed deposits | 75,000 |
| Bank loan | 50,000 | Electricity | 5,000 |
| Sales | 50,000 | Salaries of employees | 12,000 |
| | | Purchase | 60,000 |

Capital account

| | | |
|--|------|--------|
| | Cash | 100000 |
|--|------|--------|

Purchase account

| | | |
|-----------|-------|--|
| Cash | 60000 | |
| Creditors | 40000 | |

Debtors account

| | | | |
|-------|--------|------|-------|
| Sales | 160000 | Cash | 30000 |
|-------|--------|------|-------|

Creditors account

| | | | |
|------|-------|----------|-------|
| Cash | 20000 | Purchase | 40000 |
|------|-------|----------|-------|

Interest

| | | |
|--|------|------|
| | Cash | 5000 |
|--|------|------|

Furniture

| | | |
|------|-------|--|
| Cash | 10000 | |
|------|-------|--|

Bank loan

| | | |
|--|------|-------|
| | Cash | 50000 |
|--|------|-------|

Fixed deposit

| | | |
|------|-------|--|
| Cash | 75000 | |
|------|-------|--|

| <i>Sales account</i> | | <i>Electricity account</i> | |
|----------------------|----------------|----------------------------|--|
| | Cash 50000 | Cash 5000 | |
| | Debtors 160000 | | |

| <i>Employee salaries account</i> | |
|----------------------------------|--|
| Cash 12000 | |
| | |

| Ledger 02 | |
|------------------------|------------|
| <i>Capital account</i> | |
| | Cash 50000 |
| | |

| <i>Cash account</i> | | | |
|---------------------|-------|-----------------------|-------|
| Capital | 50000 | Furniture | 20000 |
| Debtors | 10000 | Electricity | 1000 |
| Interest | 5000 | Salaries of employees | 2000 |
| Bank loan | 50000 | Creditors | 6000 |
| Sales | 10000 | Fixed deposits | 10000 |
| | | Purchase | 5000 |

| <i>Interest account</i> | | <i>Debtors account</i> | |
|-------------------------|-----------|------------------------|------------|
| | Cash 5000 | Sales 30000 | Cash 10000 |
| | | | |

| <i>Bank loan account</i> | | <i>Sales account</i> | |
|--------------------------|------------|----------------------|--|
| | Cash 50000 | Debtors 30000 | |
| | | Cash 10000 | |

| <i>Electricity account</i> | |
|-----------------------------------|-------|
| Cash | 1,000 |

| <i>Furniture account</i> | |
|---------------------------------|--------|
| Cash | 20,000 |

| <i>Employees salaries account</i> | |
|--|-------|
| Cash | 2,000 |

| <i>Creditors account</i> | |
|---------------------------------|-------|
| Cash | 6,000 |

| <i>Purchase account</i> | |
|--------------------------------|--------|
| Creditors | 10,000 |
| Cash | 5,000 |

| <i>Fixed deposit account</i> | |
|-------------------------------------|--------|
| Cash | 10,000 |

Ledger 03

| <i>Capital account</i> | | <i>Debtors account</i> | |
|-------------------------------|------|-------------------------------|------|
| | Cash | 75,000 | Sale |

| <i>Interest income account</i> | | <i>Bank loan account</i> | |
|---------------------------------------|------|---------------------------------|------|
| | Cash | 1,000 | Cash |

| <i>Cash account</i> | | <i>Sales account</i> | |
|----------------------------|--------|-----------------------------|--------|
| Capital | 75,000 | Creditors | 15,000 |
| Debtors | 10,000 | Equipment | |
| Interest | 1,000 | Purchase | 3,000 |
| Bank loan | 30,000 | Fixed deposit | 25,000 |
| Sales | 20,000 | Electricity | 1,200 |
| | | Employees salaries | 6,000 |
| | | Purchases | 8,000 |

| <i>Creditors account</i> | | <i>Purchase account</i> | |
|------------------------------|--------|----------------------------|--------|
| Cash | 15,000 | Purchase | 15,000 |
| <i>Fixed deposit account</i> | | <i>Equipment account</i> | |
| Cash | 25,000 | Cash | 3,000 |
| <i>Salaries account</i> | | <i>Electricity account</i> | |
| Cash | 6,000 | Electricity | 1,200 |

- Direct students to examine the Accounts in the ledger received and to balance those accounts.
- Direct them to prepare the trial balance using the balances obtained by balancing the accounts
- Guide them to highlight the balances in revenue and expenditure accounts separately.
- Direct them to prepare the income statement by matching these revenue and expenses.
- Instruct students to highlight the balance of the remaining accounts in the trial balance.
- Guide them on the preparation of a balance sheet by matching them appropriately.
- Give instructions to identify the cash flows of the business.
- Direct them to prepare a cash flow statement by using the cash flows identified above.
- Get them ready to present the group findings creatively and effectively to the entire class

Guidance on subject matter

- Income statement is prepared using the balances of income and expenditure accounts in the trial balance.
- The financial result of the business can be disclosed through the income statement.
- The format of an income statement can be presented as follow.

**Income statement for the year
ended**

| | | |
|--|------|-------|
| Sales | | xxx |
| Less :- Return inwards | | (xx) |
| | | xxx |
| Less :- Cost of goods sold | | |
| Opening stock | xx | |
| Purchase | xx | |
| Less :- Return /outwards | (xx) | |
| | xx | |
| Less :- Closing stock | (xx) | (xxx) |
| Gross profit | | xxx |
| Other income | | xxx |
| <u>Establishment and Administrative expenses</u> | | |
| Salaries | xx | |
| Rent | xx | |
| Rates and Rates | xx | |
| Depreciation of equipments | | xx |
| Electricity | xx | |
| Insurance | xx | (xx) |
| <u>Salses and distribution expenses</u> | | |
| Advertisement | xx | |
| Depreciation - Distribution vehicles | xx | |
| Bad debts | xx | |
| Discount allowed | xx | (xx) |
| <u>Financial expenses</u> | | |
| Interest | xx | (xx) |
| Net Profit for the year | | xxx |

- Balance sheet is prepared to disclose the financial position of the business as at a specific date.
- A format for a balance sheet can be presented as follow.

The balancesheet as at

| | | |
|---------------------------------|---------|-----|
| Assets | | |
| Non current Assets | | xxx |
| Current Assets | | |
| Stock | xx | |
| Debtors | xx | |
| Pre payments | xx | |
| Total current Assets | | xxx |
| Total Assets | | xxx |
| Equity and Liabilities | | |
| Capital | xx | |
| Net profit / loss | xx/(xx) | |
| Less: Drawings | | xx |
| Equity | | (x) |
| Non current liabilities. | | xxx |
| Long term loans. | | xx |
| Current liabilities | | |
| Creditors | xx | |
| Accrued expenses. | xx | |
| Total current liabilities | | xx |
| Total equity and liabilities. | | xxx |

- Cash flows are very important in the decision making process of a business
- The cash inflows and outflows of the business can be analyzed through the cash flow.

Competency **4.0** : Posts the transactions to the ledger using primary books.

Competency level **4.1** : Ensures the importance of maintaining of primary books.

No: of periods : 02

Learning outcomes :

- Names the source documents related to the transactions.
- Tabulates the prime entry books and relevant source documents.
- Writes down the importance of source documents.
- Derives the information easily by collecting similar type data in a separate location.
- Seeks methods and techniques to view overall result.

Learning teaching process :

Engagement

- Elicit students' views about the written evidences given on the following transactions
 - Travelling by bus.
 - Purchasing goods from the co-operative shops.
 - Paying the telephone bills
 - Paying school facilities fees
 - Buying meals from school canteen.
 - Obtaining medical service from a doctor.
- Conduct a discussion highlighting the following facts:
 - Different transactions take place in a business & the documents containing details of these transactions are known as "source documents" or original documents.
 - Different types of source documents are used according to the type of the transaction.
 - Important information about transactions are included in these documents.
 - These source documents are used as evidence of the transactions & to reveal shortcomings, errors, frauds and irregularities that occurred in the accounting process. Further, these documents are important to measure the reliability of the business transactions.

- Businesses maintain the following primary books based on the source documents, according to the nature of the transactions.
 - Cash book or (Receipt cash book and payment cash book.)
 - Petty-cash book.
 - Purchases journal.
 - Sales Journal.
 - Sales return inwards journal.
 - Purchases return outwards journal.
 - General journal

Proposed instructions for learning :

- Pay attention to the statement received by each group out of the following statements
 - “Not only cash purchases, but also credit purchases of goods for resale is very advantageous”.
 - Monthly turnover can be increased by credit sales as well as cash sales.
- Name the types of transactions in the statement received.
- List as many documents as possible that may be used between the firm and the customer/supplier as evidence of transactions
- What should be done to defective goods
- What evidence can be produced as proof for the exchange of defective goods
- Name the source documents used for the transactions with little value that may occur in a business
- Write down some other transactions in addition to those you have already identified above.
- Name the prime entry books related to the source documents identified by you.
- Get them ready to present their group findings creatively and collectively to the entire class.

Guidance on subject matter

- Business obtains the following benefits by maintaining subsidiary books.
 - Minimize errors of omissions.
 - Quick exposize of such errors that have already occurred.
 - Keeping the business affairs under a proper control.
 - Ensuring reliability between customers and suppliers.
 - Maintaining similar transactions in the same journal.
 - Facilitate the accounting process through the maintainence of primary books by a separate staff.

Primary books and Source documents can be shows as follow:

| Transaction | Source document | Primary book |
|--|--|------------------------|
| 1. Cash receipts & Cash payments | Receipt & vouchers | Cash book |
| 2. Transactions of little value | Receipts & Petty cash vouchers | Petty cash book |
| 3. Transactions related to the current account of a businesses | Receipts, Vouchers, Cash/ Cheque deposits slips, Bank statements | Bank account |
| 4. Purchases of goods on credit basis | Purchases invoice | Purchases journal |
| 5. Return outwards | Debit note | Return outward journal |
| 6. Sale of goods on credit basis | Sales invoice | Sales journal |
| 7. Return inwards | Credit note | Return inward journal |
| 8. Transactions which are not recorded in any other primary books. | Journal vouchers, Invoices, copy of management reports | General journal |

- Competency level 4.2** : Records cash receipts and cash payments.
- No : of periods** : 04
- Learning outcomes** :
- Differentiates between cash receipts and cash payments.
 - Chooses the source documents that ensure the reliability of cash receipts and cash payments.
 - Prepares cash account.
 - Facilitates the controlling measures.
 - Facilitates the decision making process by maintaining proper information.

Learning teaching process :

Engagement

- Conduct a discussion on cash receipts and cash payments of the family and procedures to follow and to control them.
- In order to prove the reliability of cash transactions receipts & vouchers are used
- Cash book performs dual Functions

Proposed instructions for Learning :

- Pay attention to the following business entities and guide students to list out the transactions of cash receipts and cash payments with dates, amounts of each assignment of each group
 - A trading business
 - A service providing business
- Name the source documents related to the cash book.
- Direct the group to record the cash transactions systematically and reliably in the following format and to balance the cash account.

Cash account

| Date | Receipt No. | Particulars | L F | Amount Rs. | Date | Payment Voucher No. | Particulars | L F | Amount |
|------|-------------|-------------|-----|------------|------|---------------------|-------------|-----|--------|
| | | | | | | | | | |

- Instruct students to post the entries in the cash account to the ledger
- Make the groups ready to present their finding creatively and collectively to the entire class

Guidance on subject matter:

- In various types of business cash receipts and payments occur and these transactions should be recorded in a systematic and reliable manner.
- The cash book can be used as a primary book as well as a ledger account.
- Cash receipts are recorded on the debit side and cash payments are recorded on the credit side of the cash account.
- Transactions are recorded in ledger accounts, in order to complete the double entry which relates to cash receipts & cash payments
- The cash account should be balanced

Competency level 4.3 : Records transactions performed through the bank account.
No: of periods : 04

Learning outcomes :

- Indicates the types of transactions that could be implemented through a current account and related source documents
- Analyses the effect on the current account due to a dishonored cheque.
- Records the transactions in a bank account and posts them to the ledgers.
- Is convinced that there may be a favorable or unfavorable balance in a bank account

Learning teaching process :

Engagement

- Conduct a discussion highlighting the following facts by inquiring from students about the settling up of transactions other than through the use of coins and notes.
 - Transactions can be made by cheques other than coins and notes.
 - A current account should be maintained in a bank to implement the cheque transactions
- A bank account, similar to the current account in the bank, should be maintained in the business to record transactions.
- Since the money of the business deposited in a current account is an asset of the business it is a liability for the bank.
- A separate bank account is maintained in the business, to maintain records of the bank transactions.

Proposed instructions for learning :

- Pay attention to the following business transactions received by each group
 - Transactions of Kanchana's business.
 - Transactions of Thissara's business.

Transactions of Kanchana's business

| Date | Transaction | Amount Rs. |
|-------------|---|-------------------|
| 1/1 | Cash deposited in the bank. | 10,000 |
| 1/2 | Cheque deposited in the bank. | 2,000 |
| 1/3 | 383 Cheque, issued for wages. | 4,000 |
| 1/4 | 384 Cheque issued for electricity bill | 1,500 |
| 1/5 | Withdraw Cash from the bank Account | 2,000 |
| 1/6 | Dishonored cheque deposited | 2,000 |
| 1/7 | Returned cheque issued for electricity bill | 1,500 |
| 1/8 | Received cheque from 'A' | 5,000 |

Transactions of Thissara's business

| Date | Transactions | Amount Rs. |
|-------------|--|-------------------|
| 1/1 | Deposited cash and cheque | 2,000 |
| 1/2 | Cheque (2823) issued for the purchase of furniture | 15,000 |
| 1/4 | Wages Paid by cheque No. 2824 | 5,000 |
| 1/5 | Insurance premium paid by cheque No. 2825 | 1,000 |
| 1/7 | Cash withdrawals | 2,000 |
| 1/8 | Dishonored cheque deposited | 3,000 |
| 1/9 | Cheque No.2825 was returned | 1,000 |

- Direct students to disclose the following information.
- Name the main source document used to enter the transactions in a bank Account
- Enter the business transactions in the following format and post them to the ledger

Bank Account

| Date No. | Receipt No. | Particulars | Ledger F. | Amount Rs. | Date | Vou: No. | Particulars | Ledger F. | Amount Rs |
|-------------|----------------|-------------|--------------|---------------|------|-------------|-------------|--------------|--------------|
| | | | | | | | | | |

- Balance bank account and carry down balance.
- Present your opinion about that balance.
- Make each group ready for a creative and collective presentation before the entire class with their findings.

Guidance for subject matters :

- Apart from using coins and notes making payments through cheques is more popular at present
- In order to make cheque transactions a current account should be maintained in the bank.
- The following source documents are used to record transaction in the current Account.
 - Cheque counter-foil
 - Bank statement.
 - Bank slips
 - Receipt.
 - Voucher.
- Transactions entered in the bank account can be shown as follows :.
 - Cash and cheque deposit.
 - Issuing cheques for various payments.
 - Dishonored cheques (deposited)
 - Dishonored cheques (issued)
 - Cash withdrawals.
 - Received cheques for settlement of the transactions.
- Transaction records in the bank account should be posted to the relevant ledger accounts (in opposite side) according to double entry principles.
- The balance of the bank account can either be favorable or unfavorable.
- The unfavorable balance of the bank account is known as bank overdraft that emerged as a result of authorization issue cheques beyond the cash balance in the account.
- Transactions of Kanchana's Business can be recorded in a bank account as follows and posted to the ledger accounts

Bank Account

| Date | Receipt No. | Particulars | L P | Amount Rs. | Date | Vou No. | particulars | L P | Amount Rs. |
|------|----------------|---|--------|---------------|------|------------|--------------------|--------|---------------|
| 1/1 | | Cash | | 10,000 | 1/3 | | Salaries | | 4000 |
| 1/2 | | Cash/ Cheque | | 5,000 | 1/4 | | Electricity bill | | 1,500 |
| 1/7 | | Electricity bill (Dishonoured cheque) | | 1,500 | 1/5 | | Cash | | 2,000 |
| | | | | | 1/6 | | Dishonoured cheque | | 2,000 |
| | | | | 16,500 | | | Balance c/d | | 7,000 |
| 2/1 | | Balance b/F | | 7,000 | | | | | 16,500 |

Ledger

| Salaries account. | | Electricity account. | |
|--------------------------|-------|-----------------------------|-------|
| | Rs. | | Rs. |
| 1/3 Bank | 4,000 | 1/4 Bank | 1,500 |

(Dishonored)

Dishonored cheques account

| | Rs. |
|----------|-------|
| 1/6 Bank | 2,000 |

- The value of the dishonored cheques (issued) can be credited to the relevant expense Account or dishonored cheques Account.
- Record Thissara's business transactions in the Bank Account and in the ledger Accounts in the above manner
- There is a bank overdraft in Thisara's bank Account.

Competency level 4.4 : Maintains the bank account/cash account transactions with cash discount.

Number of periods : 04

Learning outcomes :

- Differentiates cash discounts from trade discounts.
- Maintains the cash book and bank account with the discount columns.
- Posts the transactions to the ledger Accounts.
- Categorizes the information.
- Follows favourable index methods

Learning teaching process :

Engagement

- “**Pay back within 30 days and enjoy 5% discount**” Write this down on the blackboard and ask the students, opinion.
- Conduct a discussion highlighting the facts mentioned below.
- As a motivation factor to debtors and creditors for quick resettlement of their debts, the amount deducted from the due payment is known as a “cash discount”.
- Cash discounts are of two types as : “discount allowed” and “discount received”
- Both in cash & Bank transactions, cash discounts are involved, therefore, they should be recorded in the cash & Bank account separately.

Proposed instructions for learning :

- Pay attention to the topic received by each group out of the following.
 - Cash account with discounts.
 - Bank Account with discounts.
- Guide student to study the following business transactions carefully.

| | | |
|-------------|----------------------------------|--------|
| January 1st | capital invested | 50,000 |
| 1/1 | deposited in bank | 3,000 |
| 1/2 | purchased furniture | 2,000 |
| 1/3 | obtained bank loan | 25,000 |
| 1/4 | wages paid | 5,000 |
| 1/5 | paid light bill by cheque | 2,500 |
| 1/6 | cash received from Silva | 2,800 |
| | discount allowed | 200 |
| 1/7 | paid Perera | 7,000 |
| | discount received | 300 |
| 1/8 | cash received from debtors | 8,200 |
| | discount allowed | 300 |
| 1/9 | paid to creditors by cheque | 8,500 |
| | discount received | 500 |
| 1/10 | received cheque from debtors | 2,000 |
| | discount allowed | 200 |
| 1/12 | paid insurance premium by cheque | 1,000 |
| 1/13 | paid to Sunil by cheque | 2,200 |
| | discount received | 200 |
| 1/14 | received cheque for sales | 7,000 |
| 1/15 | banked cheque received on 14th | |

Guide students to disclose the following information :

- Identify the transactions related to the received topic separately.
- Enter these transactions in the ledger accounts related to the topic.
- Close account and explain the balance
- Clarify the discount columns post total value to the ledger
- Get each group ready to present their findings with a creative and collective presentation before the entire class.

Guidance on subject matter :

- Cash transactions and bank transactions with discounts should be recorded separately in the relevant accounts.
- Discount columns are only memorandum columns and only the total amount of those columns are posted to the ledger.
- The given transactions of the business can be entered in the accounts and balanced as follows.

Cash Account

| Date | R. No. | Particulars | L.F. | Discount Rs. | Amount Rs. | Date | V. No. | Particulars | L.F. | Discount Rs. | Amount Rs. |
|------|-----------|-------------|------|-----------------|---------------|------|-----------|-------------|------|-----------------|---------------|
| 1/1 | | Capital | | - | 50,000 | 1/1 | | Bank | | 3,000 | |
| 1/3 | | Bank loan | | - | 25,000 | 1/2 | | Furniture | | 2,000 | |
| 1/6 | | Silva | | 200 | 2,800 | 1/4 | | Salaries | | 5,000 | |
| 1/8 | | Debtors | | 300 | 8,200 | 1/7 | | Perera | | 7,000 | |
| 1/10 | | Debtors | | 200 | 2,000 | 1/15 | | Bank | | 7,000 | |
| 1/14 | | Sale | | | 7,000 | 1/31 | | Balance c/d | | 71,000 | |
| 2/1 | | B/C/F | | 700 | 95,000 | | | | | 300 | 95,000 |
| | | | | | 71,000 | | | | | | |

Bank Account

| Date | R. No. | Particulars | L. F | Discount | Amount | Date | V. No. | Particulars | L. F | Discount Rs. | Amount Rs. |
|------|-----------|-------------|---------|----------|--------|------|-----------|-------------|---------|-----------------|---------------|
| 1/1 | | Cash | | | 3,000 | 1/4 | | Electricity | | 2,500 | |
| 1/15 | | Cash | | | 7,000 | 1/4 | | Creditors | | 500 | 8,500 |
| 1/31 | | Balance C/F | | | 4,200 | 1/12 | | Insurance | | 200 | 1,000 |
| | | | | | | 1/13 | | Sunil | | 700 | 2,200 |
| | | | | | 14,200 | | | | | | |
| | | | | | | | | | | | |
| | | | | | | | | Balance b/d | | | 4,200 |

- The balance in the cash account is favorable and the balance in the bank account is unfavorable.
- An unfavorable balance in the bank account is called a bank over draft.
- Posting the total of discount column to the ledger is as follows.

Discount allowed account

| | | | | |
|------|---------|-----|--|--|
| 1/31 | Debtors | 700 | | |
| | | | | |

Discount received account

| | | | | |
|--|--|------|-----------|-----|
| | | 1/31 | Creditors | 300 |
| | | 1/31 | Creditors | 700 |

- Other transactions in the cash account and bank account should be posted to the relevant ledger Accounts.

Competency level 4.5 : Maintains the cash book with analysis columns.

Number of periods : 04

Learning outcomes :

- Emphasizes the purpose of a cash book with analytical columns.
- Prepares the receipts cash book and the payment cash book with analytical columns.
- Posts the transactions recorded in a analytical cash book to the ledger.

Guidance on subject - matter

- For easy identification of similar transactions a receipts cash book and a payment cash book are maintained with special columns.
- The number of analytical columns are determined, based on the nature of transactions of the business.

Example. Receipts cash book

- (i) Cash sales
- (ii) Receipts from debtors
- (iii) Other income

Payment cash book

- (i) Cash purchases
- (ii) Payments for creditors
- (iii) Others expenses etc.

- The cash book which includes analytical columns & records only the receipts is known as a receipt cash book & the cash book which includes analytical columns & records only payments is known as a payment cash book.
- The transactions in the receipts cash book and the payment cash book should be posted to the ledger accounts.
- In the same way the bank-account with analysis columns also, can be maintained

Competency Level **4.6** : Prepares bank reconciliation statement.
Number Of periods : 06

Learning outcomes :

- Understands “bank account” and “bank statement” clearly.
- Identifies the differences by comparing transactions recorded in the bank account and bank statement.
- Makes the necessary adjustment entries in the bank account with the identified differences.
- Prepares the bank reconciliation statement.
- Compares to identify the differences.
- Corrects the errors.

Learning teaching process :

Engagement

- Conduct a discussion highlighting the following facts.
 - Differences can be recorded by comparing the transactions in the bank statement prepared by the bank, and in the bank account of the business.
 - Information regarding the bank transactions can be derived from the bank statement.
 - Some of the entries in the bank account may not be in the bank statement and some entries in the bank statement may not be in the bank account
- These differences can be identified under two categories.
 - (i) Adjustments to be made in the bank account. (Errors, Omissions and adjustments)
 - (ii) Entries to be made in the bank reconciliation statement
(Timing differences & errors made by the bank)
- Give reasons for the time differences
- Bank reconciliation statement is prepared by adjusting the differences.

Proposed instructions for learning :

- Pay attention to the transaction received by each group out of the following
 - The receiver has not presented the cheques issued by the business and the bank has not collected the cheques to the account, deposited by the business.

- The bank collects the due receivables to the account of the business and makes due payments on behalf of the business from the account
- Direct student to prepare a table as given below to present how the relevant transactions are entered in the bank account and the bank statement.

| Transactions | Recording transactions in the bank account | | Recording transactions in the bank statements | |
|--------------|--|--------|---|--------|
| | Debit | Credit | Debit | Credit |
| | | | | |

- Express views about the reasons for not recording the bank charges in the bank account.
- Obtain suggestions on how to prepare a bank reconciliation statement after making the necessary adjustments to balance in the bank account.
- Get the view of the groups regarding the need to prepare such a statement.
- Get each group ready for a creative and collective presentation before the class, along with their findings.

Guidance on subject matter

- Deposits in the bank current account become an asset of the business and according to the banks point of view it becomes a liability for the bank.
- Accordingly the debit items in the bank account of the business firm are credited to the current account maintained in the bank on behalf of the business and credit entries in the bank account of the business are debited to the current account maintain by the bank.
- The following examples indicate, how transactions are recorded in the bank account.

| Items debited to the bank account of the business | Items credited to the bank account of the business |
|--|---|
| <ul style="list-style-type: none"> • Cash deposits • Cheque deposits • Cash collected to the current account on behalf of the business (remittance) | <ul style="list-style-type: none"> • Issued cheques • Bank charges for cheque book • Interest on overdraft • Payments made by the bank on standing orders of the business |

- The bank provides the following services to the current account holders and charges a fee for providing of these services.

| Collections made by the bank on behalf of the business (remittance) | Payments made by the bank on behalf of the business (eg. Standing orders) |
|---|--|
| <ul style="list-style-type: none"> • Remittances of the debtors • Dividends • Interest received • Rent received | <ul style="list-style-type: none"> • Insurance premium • Loans premium • Rent |

- Bank reconciliation statement can be prepared by starting from the balance of the bank account.
- Possible adjustments to the bank account are as follows.
 - Direct remittance
 - Errors/ mistakes in the bank account
 - Bank -charges.
 - Standing orders
- After making these adjustments in the bank account the bank reconciliation can be prepared.
- An example of the bank reconciliation statement is given below.

| | |
|---|------|
| Balance on the bank account | |
| (Credit) overdraft | (xx) |
| Added: | |
| Cheques issued, but not presented for payment | xx |
| Less: | |
| Cheques deposited, but not realized | (xx) |
| Balance as in the bank statement | xxx |
| | |
| | |

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Competency Level 4.7 : Maintains the petty-cash book to record petty-cash expenses

Number of Periods : 04

Learning Outcomes :

- Writes down the transactions related to petty-cash payments.
- Indicates the necessity of maintaining a petty-cash book.
- Prepares a petty-cash book with analysis columns.
- Classifies the daily transactions based on the quantity and amount.
- Points out the convenience of controlling through reporting procedures.

Learning-Teaching Process:

Engagement

- Present the following leaflet containing transactions to the class in an appropriate manner.
Conduct a discussion highlighting the following.

| Transactions | |
|--------------------------|-----------------|
| | Rs: Cts: |
| Purchased furniture | 50,000.00 |
| Expenses on refreshments | 50.00 |
| Stamp fees | 25.00 |
| Purchases of stock | 15,000.00 |
| Bought a pen | 12.00 |
| Bought carbon paper | 4.50 |
| Paid wages | 8,000.00 |

- Conduct a discussion highlighting the following.
- Among business transactions there are transactions involving small amounts

For example:

- Refreshment expenses (Entertainment).
- Expenses incurred on purchase of pens.
- Purchase of carbon paper.
- Travelling expenses

- Such transactions involving small values are known as “Petty-Cash” expenses.
- A petty-cash book is maintained to record these petty-cash payments.
- The individual / officer in-charge-of the petty-cash book is known as the petty-cashier.
- A pre determined amount of money, for a certain period is given by the main cashier, to the petty cashier
- This lump sum amount left with the petty cashier for making payment is known as the petty cash **imprest** and the method of reimbursement is referred at as “the **imprest** system”.

Proposed Instructions for Learning:

- Pay attention to the business received by each group out of the two businesses given below.

| Nethmini Traders | Rs. |
|--------------------------------------|------------|
| 1. Amount given to the petty-cashier | 1,000 |
| 2. Purchase of rice stock | 50,000 |
| 3. Sales of rice | 100,000 |
| 4. Carriage inwards for rice | 5,000 |
| 5. Refreshments | 50 |
| 6. Purchase of carbon pens | 10 |
| 7. Sugar and tea | 25 |
| 8. Taxi charges | 100 |
| 9. Cleaning expenses | 50 |
| 10. Paid Nimal | 500 |

| Bimsara Traders | Rs. |
|--------------------------------------|------------|
| 1. Amount given to the petty-cashier | 2,000 |
| 2. Purchased furniture | 8,000 |
| 3. Purchase of goods for sale | 10,000 |
| 4. Sale of goods | 25,000 |
| 5. Wages | 125 |
| 6. Pens and paper | 25 |
| 7. Stationery | 40 |
| 8. Sundry expenses | 15 |
| 9. Busfare | 30 |
| 10. Writing paper | 10 |
| 11. Purchase of wooden shelf | 500 |

Guide students to discover the following information :

- Identify separately the transactions with relatively small values.
- Name the source documents used as evidence for those transactions.
- Direct to enter the small value transactions in a format similar to the following.

Petty-Cash Book

| Receipts Rs: | L F | Date | Particulars | Vou: No: | Payments Rs: | Analysis Columns | | | | | |
|-----------------|--------|------|-------------|-------------|-----------------|-------------------|-------------------|--------------|---------------|--------|------|
| | | | | | | Travelling Rs. | Stationery Rs. | Wages Rs. | Sundry Rs. | Ledger | L.F. |
| - | - | - | - | - | - | - | - | - | - | - | - |

- Balance the petty-cash book.
- Post the petty-cash transactions to the ledger.
- Point out the petty-cash imprest of the business and the amount to be reimbursed
- Get each group ready for a creative and collective presentation before the entire class with their findings.

Guidance on subject matter:

- Out of the daily transactions of a business those involving petty amounts should be identified separately and entered in a separate primary book.
- Such primary entry book is known as the petty-cash book.
- The petty cash payment vouchers & receipts are the source document used to record petty cash payment
- At the beginning of a certain period a specific amount given to the petty cashier by the main cashier for petty cash expenses is known as the petty cash imprest.
- Petty-cash payments should be recorded in a petty-cash book with analysis columns.
- The expenses incurred by the petty cashier for the account already opened in the ledger should be recorded in the “ledger” column. Some examples of entries in the ledger columns are given below.
 - Payments to creditors.
 - Purchases of fixed assets.
 - Carriage inwards .

- Transactions should be recorded in the petty-cash book as follows

- Receiving petty-cash imprest.

| | | |
|--------------------|-------|--------|
| Petty-Cash book | Debit | |
| Cash Account/ book | | Credit |

- Reimbursement of the petty cash imprest.

| | | |
|--------------------|-------|--------|
| Petty-Cash book | Debit | |
| Cash Account/ book | | Credit |

- Total of the petty-cash analysis columns / incurring petty-cash expenses.

| | | |
|--------------------------|-------|--------|
| Each Expenditure Account | Debit | |
| Petty-Cash book | | Credit |

The Petty-cash book of Nethmi's business can be prepared as follows.

Petty Cash Book

| Receipt Rs. | LF | Date | Particulars | V No. | Total Payment Rs. | Analysis | | | | Ledger Rs. | L F |
|----------------|----|------|--|----------|------------------------------------|--|--|---|------------------------------------|---------------|--------|
| | | | | | | Staionary Rs. | Hire charges Rs. | Enterta- inment Rs | Miscell- aneous Rs. | | |
| 1,000 | 1 | 1/31 | Cash Entertainment Pens Sugar & Tea Travelling-Hire Cleaning Nimal | | 50 10 25 100 50 500 | 10 | | 50 | | | |
| | | | | | | - | 100 | 25 | | | |
| | | | | | | | - | | 50 | | |
| | | | | | | | | | 500 | 500 | 09 |
| | | | | | | 735 | 10 | 100 | 75 | 50 | 500 |
| | | | | | | 265 | | | | | |
| | | | | | | 1000 | | | | | |
| | | | | | | | | | | | |
| 1,000 | | | Balance c/d | | | Stationary account Debited (L.F.05) | Hire charges account Debited (L.F.06) | Entertainment account Debited (L.F.06) | Miscellaneous Debited (L.F. 08) | | |
| 265 | | 1/31 | Balance b/d | | | | | | | | |
| 735 | | 1/31 | cash | | | | | | | | |

- Posting of petty-cash transactions to the ledger is as follows.

| Stationary Account | LF. 05 |
|--------------------------|---------|
| 1/31 Petty cash 10 | |
| Van hire charges Account | LF.. 06 |
| 1/3 Petty cash 100 | |
| Entertainment Account | LF. 07 |
| 1/30 Petty cash 75 | |
| Miscellaneous Account | LF. 08 |
| 1/31 Petty cash 50 | |
| Nimal Account | LF. 09 |
| 1/9 Petty cash 500 | |

Competency Level 4.8 : Maintains the credit purchases information

Number of Periods : 04

Learning Outcomes :

- Explains the relationship between a purchase invoice and a debit note.
- Develops appropriate formats for purchases journal and returns outwards journal.
- Makes entries related to credit purchases in primary books examining the relevant source documents.
- Derives needed information analyzing the basic information
- Develops formats for presentation of information systematically

Learning - teaching process

Engagement

- Ask two volunteers to present the dialogue before the class and highlight the following points through a discussion.
- A dialogue between a businessman and a sales representative.

Sales rep : Mudalali, would you like to buy some latest sport items.

Mudalali : Fine... But I'm facing a big financial crisis during these days.

Sales rep : No harm mudalali, you may pay next week.

Mudalali : What do I do with defective items, if any?

Sales rep : They can be returned.

- Transactions occur in businesses on cash and credit basis, where purchases also can be made on cash & credit basis.
- Information related to credit purchases should be recorded in a separate prime entry book
- Some of the credit purchases may be returned to the suppliers for various reasons and the returned outwards details too should be entered in a separate prime entry book

Proposed instructions for learning

- Pay attention to the topic received by each group out of the topics mentioned below.
- Set of source documents related to the transactions of Saman's business.
- Set of source documents related to the transactions of Sunil's business.

**Set of source document related to transactions
of Saman's business**

Invoice

**G.D.A.Perera & Company
Pasal Mawatha, Pannipitiya.**

**Saman's Business
Nawala Road,
Nugegoda.**

**Invoice No.: 728
Date : 08.01.2008**

| No. | Details | Quantity | Unit price Rs. | Value Rs. |
|-----|-----------------------------|------------|-------------------|-----------|
| 01 | Dhal | - | - | - |
| 02 | Moldive Fish | - | - | - |
| 03 | Milk powder 400 g | 30 packets | 160 | 4800.00 |
| 04 | Milk powder 250g | 20 packets | 140 | 2800.00 |
| 05 | Soap | - | - | - |
| 06 | Washing powder | - | - | - |
| 07 | Salt | - | - | 2000.00 |
| 08 | Biscuits (small packets) | 50 packets | 22 | 1100.00 |
| 09 | Canned fish (large) | - | - | <hr/> |
| | Deduct discount 10% | | | 10700.00 |
| | | | | <hr/> |
| | | | | 1070.00 |
| | | | | <hr/> |
| | | | | 9630.00 |
| | | | | <hr/> |

N.B. 5% discount offered if payments are made before 08.02. 2008.

.....
**Signed by
Manager.**

Invoice
Samagi Brother's
Samagi Nawatha
Samagipura
Sandalankawa

Samans Business
Nawala Road,
Nugegoda.

Invoice No.: 1007
Date : 10.01.2008

| No. | Details | Quantity | Unit price Rs. | Total Rs. |
|-----|---------------------------|-------------|-------------------|--------------------------|
| 01 | Rice | 100 kg. | 82 | 8,200 |
| 02 | Chilli | 200 kg. | 150 | 30,000 |
| 03 | Milk Powder | | | |
| 04 | Soap | | | |
| 05 | Washing Powder | | | |
| 06 | Dried Fish | | | |
| 07 | Salt | | | |
| 08 | Mary Biscuits Potatoes | Packets 100 | 15 | 1,500 |
| 09 | Deducted Discount 10% | | | 39700 (3970) 35730 |

.....
Signature
Manager

Debit Note

Samans Business
Nawala Road
Nugegoda
2008.01.20

Samagi Brothers
Samagi Mawatha
Samagi Road
Sandalankawa

Debit Note: No: 22
Date : 20.01.2008

Details of Goods Returned as Per Invoice No. 1007

| Serial No. | Quantity | Particulars | Unit price Rs. | Total Rs. |
|-----------------------|-----------------|--|---------------------------|------------------|
| 01 | 10 kg. | Rice | 82 | 820.00 |
| 02 | 20 pkts | Salt | 15 | 300.00 |
| | | (-) Less: 10% discount debited to your Account | | 1120.00 |
| | | | | (112.00) |
| | | | | 1008.00 |
| | | | | ===== |

Goods were returned due to damage & impurity

.....
Signature
Manager

Debit Note

**Samans Entreprise
Nawala Road,
Nugegoda.**

**G.D.A. Perera
Pasal Mawatha
Pannipitiya.
SandaLankawa.**

**Debit Note No.: 23
Date : 21.01.2008**

The goods mentioned below are returned as their expiry date has passed
The total value has been deducted from your account.

Invoice No. 728, Detail of Return Outwards

| No. | Particulars | Quantity | Unit price Rs. | Total Value Rs. |
|-----|--------------------|--------------------------------|-------------------|--------------------|
| 01 | Milk Powder 400 g | Packets 05 | 160 | 800.00 |
| 02 | Biscuits (Small) | Packets 05 | 22 | 110.00 |
| | Less Discounts 10% | | | 910.00 |
| | | | | (91.00) |
| | | Amount debited to your account | | 819.00 |
| | | | | ===== |

.....
**Signature
Manager.**

Invoice

Invoice No. 1178

**Edirisinghe Sales Centre
Negombo Street
Wattala
19.02.2008**

**Sunil Traders
No. 70
High Level Street
Nugegoda.**

| Serial No. | Details of goods | Quantity | Unit price Rs. | Amount |
|-----------------------|-------------------------|-----------------|---------------------------|---------------|
| 01 | Tooth paste 70g | 40 | 37.00 | 1480.00 |
| 02 | Tooth paste 40g | 20 | 23.00 | 460.00 |
| 03 | Tooth paste 125g | 30 | 54.00 | 1620.00 |
| 04 | Mosquito coil packt | 20 | 20.00 | 400.00 |
| 05 | Tooth brush | 40 | 25.00 | 1000.00 |
| | | | | 4960.00 |
| | Less 5% Discount | | | 248.00 |
| | | | | 4712.00 |
| | | | | |
| | | | | |

Payment should be made within 30 days.

.....
**Signature
Manager.**

Invoice

Invoice No. 0750

**Thilakawardana Textiles
No. 127
Habarana Road
Anuradhapura
2008.01.10**

Sunil Treaders

No.70

High Level Road

Nugegoda.

| Serial No. | Details of goods | Quantity | Unit price Rs. | Total Rs. |
|-----------------------|-------------------------------------|-----------------|---------------------------|----------------------|
| 01 | Chintz | 20m | 40.00 | 800.00 |
| 02 | Curtain Meterials | 150m | 100.00 | 15000.00 |
| 03 | Towels - Large | 200 | 75.00 | 15000.00 |
| 04 | Small | 45 | 50.00 | 2250.00 |
| 05 | Trouser Material - White - Black | 150m 200m | 250.00 300.00 | 37500.00 60000.00 |
| | Shirt Material | 500m | 175.00 | 87500.00 |
| | Less- Trade discount 10% | | | 218050.00 |
| | | | | 21805.00 |
| | | | | 196245.00 |
| | | | | |
| | | | | |

(Except E & M)

.....

**Signature
Manager.**

DEBIT NOTE

No. 0713

Date : 03.02.2008

Sunil Traders

No. 70

High Level Road

Nugegoda.

Thilakawardena Textiles

No. 127

Habarana Road

Anduradhapuraya.

**The following amounts were debited to your
Account due to difference in type of goods**

| Serial No. | Goods | Quantity | Unit price Rs. | Amount Rs. |
|------------|------------------|----------|----------------|------------|
| 01 | Towels - Large | 4 | 75 | 300.00 |
| | Small | 6 | 50 | 300.00 |
| 02 | Curtain Material | 10m | 100 | 1000.00 |
| | Shirt Material | 50m | 175 | 8750.00 |
| | | | | 10350.00 |
| | | | | 1035.00 |
| | | | | 9315.00 |
| | | | | ===== |

.....
Manager
Sunil Traders

DEBIT NOTE

**Sunil Traders
No. 70
High Level Road
Nugegoda,
Debit Note No. 0714
DATE : 10.03.2008**

**Edirisinghe Sale Centre
Negombo Road
Wattala.**

**Goods are returned due to damage
as per invoice - No. 1178**

| Serial No. | Goods | Quantity | Unit price Rs. | Total Rs. |
|-----------------------|-------------------------|-----------------|---------------------------|------------------|
| 01 | Tooth paste (70g) | 02 | 37.00 | 74.00 |
| 02 | Tooth brush | 04 | 25.00 | 100.00 |
| 03 | Tooth paste (125) g | 05 | 54.00 | 270.00 |
| | | | | 444.00 |
| | Less- Trade discount 5% | | | 22.00 |
| | | | | 422.00 |
| | | | | |

.....
**Manager
Sunil Traders**

- Direct students to refer to the set of source documents received by each group and to develop a format to calculate the amount of credit purchase at the end of the period.
- Guide them to explain briefly the following details related to credit purchases.
 - Date of credit purchased and document No.
 - Supplier's Name
 - Type of goods purchased
 - Quantity of goods purchased
 - Unit Price
 - Value
 - Discounts
 - Total Value
- Develop an appropriate format to calculate the total amount of return outwards at the end of the period
- Guide them to explain briefly the details mentioned below relevant to the outwards returns.
 - Date returned
 - Document No.
 - Supplier's name
 - Type and quantity of returned goods.
 - Unit Price
 - Value of Amount
 - Discount
 - Total value
 - Reasons for returning
- Ask students to post each transaction to the general ledger.
- Write down the double entries related to total credit purchases and total return outwards.
- Get them posted to the ledger.
- Get each group ready for a creative and collective presentations before the entire class with their findings.

Guidance on subject matter

- The primary book maintained to record the details of credit purchases is the “purchase journal” or “purchases day book” and the source document from which the details are extracted is known as the “purchases invoice”.
- When credit purchases are made a certain percentage of the mark up price of the goods is deducted and that amount is known as trade discount.
- Trade discounts are deducted in the invoice.
- The parties who supply goods on credit basis are the “creditors” of the business and these creditors are considered a liability.
- The format of a purchases journal is shown below

Purchases journal

| Date | Invoice No. | Supplier | Total Amount | L. F. |
|----------------------|-------------|-----------------------------------|--------------|-------|
| 8 th Jan | 412 | Lanka & Company | xxx | |
| 20 th Jan | 22 | Prasad Traders | xxx | |
| 31 st Jan | | Debited to the purchases accounts | xxxx | |

- The net amount of each invoice is posted to the relevant creditor’s account on the very same date and at the end of the period the total amount on the purchases journal is debited to the purchases account in the general ledger.
- When transactions in the purchase journal are posted to the ledger the double entry is as follows.

Purchases Account debit
Relevant creditor’s Acc. Credit.

- Some of the credit purchases have to be returned to the supplier for the following reasons.
 - Expired of date
 - Supply of items different from those on the order
 - Changes in designs
 - Delayed delivery
- The primary book maintained to record return outwards is the return outwards journal or returns outwards day book and the source document from which the details on return outwards are extracted is known as a “debit note”.
- The format of a return outwards journal can be presented as follows.

Return outwards journal

| Date | Debit Note No. | Supplier | Total amount | L.F. |
|----------------------|----------------|--|--------------|------|
| 12 th Jan | 010 | Lanka & Company | xxx | |
| 25 th Jan | 011 | Prasad Traders | xxx | |
| 31 st Jan | | Credited to the return outwards accounts | xxxx | |
| | | | | |

- The net amount of each debit note is posted to the relevant creditor's account on the same day and at the end of the period the total amount of return /outwards journal is transferred to the return outwards account, in the general ledger.
- Ledger postings related to the return outwards journal are as follows.
- Relevant creditors accounts - debit
- Returns outwards accounts - credit.
- Amount of creditors will decrease with the same amount as return outwards.

- Purchases journal and return outwards journal of “Saman’s business as at 31.01.2008 can be shown as follows.

Purchases journal

| Date | invoice No. | supplier | Total amount | L F |
|-------|-------------|---------------------------------|--------------|-----|
| 01/08 | 728 | Perera | 9630 | |
| 01/10 | 1007 | Samagi Brothers | 35730 | |
| 01/31 | | Debited to the purchase account | 45360 | |
| | | | | |

Return outwards journal

| Date | Debit Note | Supplier | Total amount | L F |
|-------|------------|---|--------------|-----|
| 01/20 | 22 | Samagi Brothers | 1008 | |
| 01/21 | 23 | Perera | 819 | |
| | | Credited to the return outwards account | 1827 | |
| | | | | |

Purchase Accounts

| Date | Details | L F | Amount Rs. | Date | Details | L F | Amount Rs. |
|-------|-----------|--------|---------------|------|---------|--------|---------------|
| 01/31 | Creditors | | 45360 | | | | |

Perera

| Date | Details | L F | Amount Rs. | Date | Details | L F | Amount Rs. |
|-------|-----------------|--------|-----------------------------|------|-------------|--------|--------------------|
| 01/23 | Return outwards | | 819 | 1/18 | Purchase | | 9630 |
| 1/31 | Balance c/d | | 8811 <hr/> 9630 <hr/> | 2/1 | Balance b/d | | 9630 <hr/> 8811 |

Samagi Brothers

| Date | Details | L F | Amount Rs. | Date | Details | L F | Amount Rs. |
|-------|-----------------|--------|-------------------------------|------|-------------|--------|----------------------|
| 01/22 | Return outwards | | 1008 | 1/20 | Purchase | | 35730 |
| 1/31 | Balance c/d | | 34722 <hr/> 35730 <hr/> | 2/1 | Balance b/f | | 35730 <hr/> 35722 |

Return outwards

| Date | Details | L F | Amount Rs. | Date | Details | L F | Amount Rs. |
|------|---------|--------|---------------|------|-----------|--------|---------------|
| | | | | 1/31 | Creditors | | 1827 |

Competency level 4.9 : Maintains credit sales information

Number of periods : 04

Learning outcomes :

- Explains the relationship between the sales invoice and the credit note.
- Expresses that the amount of debtors is reduced due to return inwards
- Prepares sales journal and returns inwards journal
- Presents information systematically.
- Uses appropriate formats to submit information.

Learning - Teaching Process

Engagement

- Inquire how items purchased by a business are sold and conduct a discussion highlighting the following.
 - Cash sales as well as credit sales are common in business and credit sales should be recorded in a separate book.
 - The day book used to record credit sales is known as the sales journal.
 - Customers who purchase goods on credit basis are known as “the debtors”.
 - Debtors are regarded as assets of the business since they are liable to the business to settle their dues
- Some of the sold items are returned by customers for various reasons.
- The separate day book maintained to record return inwards is the “return inwards journal.”

Proposed- Instructions for learning

- Pay attention to the source documents files received by each group out of the following.
- Source document file of Sunil’s business.
- Source document file of Saman’s business.

Source document file of Saman's business

**SUNIL BUSINESS ENTERPRISE
NUGEGODA**

INVOICE

**PALITHA SALES CENTRE
DEHIWALA**

**No : 1170
Date : 15.06.2008**

| Serial No. | Types of Goods | Quantity | Unit price Rs. | Total Rs. |
|-----------------------|---------------------------|-----------------|---------------------------|------------------|
| 01 | White poplin | 200m | 100 | 20000 |
| 02 | Shorts materials | 100 | 150 | 15000 |
| | | | | 35000 |
| | Less: Trade discount 10% | | | (3500) |
| | | | | 31500 |
| | | | | |

2% Discount if payment made before 2008.9.20

.....
Sales Manager

**SUNIL BUSINESS ENTERPRISE
NULEGODA**

INVOICE

**PEOPLES TRADERS
PILIYANDALA**

**No : 1171
Date : 20.06.2008**

| Serial No. | Types of Goods | Quantity | Unit price Rs. | Total Rs. |
|-------------------|-------------------------|-----------------|-----------------------|------------------|
| 01 | Children's garments | 40 | 200 | 8000 |
| 02 | Children's T-shirts | 50 | 350 | 15000 |
| | | | | 23000 |
| | Less: Trade discount 5% | | | (1150) |
| | | | | 21850 |
| | | | | |

5% Discount if payment made before 2008.2.25

.....
Sales Manager

source

**BUSINESS ENTERPRISE
NUGEGODA**

CREDIT NOTE

**PALITHA SALES CENTRE
DEHIWALA**

**No : 340
Date : 20.06.2008**

| Serial No. | Types of Goods | Quantity | Unit price Rs. | Amount | Reason |
|-------------------|--|-----------------|-----------------------|---|---------------|
| 01 | White poplin Less: Trade discount 10% | 100m | 100 | 10000.00 1000.00 <hr/> 5000.00 <hr/> | Faded colour |

The amount above has been debited to your account

.....
Sales Manager

SUNIL TRADERS BUSINESS ENTERPRISE
NUGEGODA

CREDIT NOTE

**PEOPLE'S TRADERS
PILIYANDALA**

**No : 341
Date : 20.06.2008**

| Serial No. | Types of Goods | Quantity | Unit price Rs. | Amount | Reason |
|-------------------|-----------------------|-----------------|-----------------------|---------------|---------------|
| 01 | Children's garments | 10 | 200 | 2000.00 | |
| | Children's T-shirts | 12 | 300 | 3600.00 | |
| | | | | 5600.00 | |
| | | | | (280.00) | |
| | | | | 53200.00 | |
| | | | | | |

The amount above has been debited to your account

.....
Sales Manager

Source document file of Saman's business

**SAMAN TRADE CENTRE
HIGHLEVEL ROAD
MAHARAGAMA**

INVOICE

**THILAK PARER CENTRE
HOMAGAMA**

**No : 9415
Date : 10.06.2008**

| Serial No. | Details of Goods | Quantity | Unit price Rs. | Total Rs. |
|-------------------|--------------------------|-----------------|-----------------------|------------------|
| 01 | Radios | 20 | 2000.00 | 40000.00 |
| 02 | Electric Fans | 10 | 3000.00 | 30000.00 |
| | | | | 70000.00 |
| | Less: Trade discount 10% | | | (7000.00) |
| | | | | 63000.00 |
| | | | | |

25% Discount if payment made before 2008.9.31

.....
Sales Manager

**SAMAN TRADE CENTRE
HIGHLEVEL ROAD
MAHARAGAMA**

INVOICE

**RAJARATA TRADERS
MEEGODA**

**No: 9416
Date : 18.06.2008**

| Serial No. | Types of Goods | Quantity | Unit price Rs. | Total Rs. |
|-----------------------|---------------------------|-----------------|---------------------------|------------------|
| 01 | Electric Iron | 20 | 1200.00 | 24000.00 |
| 02 | Wall clock | 25 | 800.00 | 20000.00 |
| | | | | 44000.00 |
| | | | | (2200.00) |
| | | | | 41800.00 |
| | | | | |

25% Discount if payment is made before 2008.7.20

.....
Sales Manager

**SAMAN TRADERS CENTRE
HIGHLEVEL ROAD
MAHARAGAMA**

CREDIT NOTE

**THILAK PAPER CENTRE
HOMAGAMA**

**No : 142
Date : 25.06.2008**

| Serial No. | Types of Goods | Quantity | Unit price Rs. | Amount | Reason |
|-----------------------|---------------------------|-----------------|---------------------------|---------------|----------------------|
| 01 | Radios | 05 | 2000 | 10000.00 | Damaged in transport |
| 02 | Electric Fan | 02 | 3000 | 6000.00 | Out-of-order |
| | Trade discount 10% | | | 16000.00 | |
| | | | | (1600.00) | |
| | | | | 14400.00 | |
| | | | | | |

The amount has been credited to your Account.

.....
Sales Manager

**SAMAN TRADE CENTRE
HIGHLEVEL ROAD
MAHARAGAMA**

CREDIT NOTE

**RAJARATA TRADERS
MEEGODA**

**No: 143
Date : 25.06.2008**

| Serial No. | Goods | Quantity | Unit price Rs. | Amount | Reason |
|-----------------------|-------------------|-----------------|---------------------------|---------------|---------------|
| 01 | Electric Iron | 05 | 1200.00 | 6000.00 | |
| 02 | Wall Clock | 05 | 800.00 | 4000.00 | |
| | Trade discount 5% | | | 10000.00 | |
| | | | | (500.00) | |
| | | | | 9500.00 | |
| | | | | | |
| | | | | | |

The amount has been credited to your Account.

.....
Sales Manager

- Let students express the nature of transactions that occurred in the business after referring to the set of source documents
- Direct groups to list out the details in the sales invoices and credit notes separately through a discussion.
- Lead students to compute the total amount of credit sales and return inwards using appropriate formats.
- Get the transactions in these reports posted to the relevant ledger accounts.
- Get each group ready for a creative and collective presentation of their findings to the entire class.

Guidance on subject-matter

- The source document from which the transactions are extracted to the sales journal is the sales invoice.
- In credit sales a certain percentage of the mark-up price of the items is reduced and that amount is known as trade discounts.
- Trade discounts are shown deducted from the amount of sales in the sales invoice.
- The net sale of each invoice is posted to the sales journal and the relevant debtors account on the same day that the transaction took place and the total amount of sales journal at the end of a specific period of time is credited to the sales account in the ledger.
- The format of a sales journal is given below.

Sales journal

| Date. | Invoice No: | Customer | Total amount | L.F |
|-------|-------------|---------------------------|--------------|-----|
| | | X business Y Business | xx xx | |
| | | Credited to sales Account | xxx ____ | |

- Items sold on credit basis can be returned by the customers for various reasons and they are known as **returns inwards**.
- The day book maintained to make entries related to the returns inwards is the returns inwards journal and the source document from which the details are extracted to the returns inwards journal is known as the “credit note”
- The amount of each credit note is posted to the returns inwards journal and credited to the relevant debtor’s account on the same day.
- At the end of the specific period the total amount of the returns inwards journal is debited to the return inwards account in the general ledger.

- Relevant double entries are as follows.

Return inwards A/C debit
Relevant debtor's account credit.

- The value of debtors is reduced due to the amount of return inwards.

The format of the return inwards journal is given below.

Return inwards journal.

| Date | Credit note No: | customer(debtor) | total amount | L:F: |
|------|-----------------|---|---------------------------|------|
| | | Y Company Debit to the return inwards account | xx xx ===== | |

- Credit sales and returns inwards are entered in the debtors account as follows.

Debtor's Account

| Date | Particulars | L F | Amount | Date | Particulars | L F | Amount |
|------|-------------|--------|--------|------|---------------|--------|----------------|
| 1/10 | Sales | | 10000 | 1/15 | Return inward | | 500 |
| | | | 10000 | 1/31 | Bal./c/d | | 9500 |
| 2/10 | Bal / b/d | | 9500 | | | | 10000 ===== |

Competency level 4.10 : Maintains the general journal.

No: of periods : 04

Learning outcomes :

- Distinguishes between the General journal and the other prime entry books.
- Classifies the transactions recorded in a General journal.
- Records transactions in a General journal and posts to the ledger.

Learning teaching process :

Guidance on subject matter :

- In the absence of a prime entry book to record a certain transaction, the general journal is used to make entries of such transactions.
- The following source documents are used to record transactions to the General journal.
 - Journal voucher.
 - Minutes of management decisions.
- The following transactions are recorded in a General journal.
 - Opening entries.
 - Correction entries
 - Adjustment entries.
 - Closing entries.
 - Entries on credit purchases and credit sales of fixed assets.
 - Entries on disposal and exchange of fixed assets.
- Transactions in General journal are posted to the ledger.

Competency level 4.11 : Prepares financial statements by balancing ledger accounts.
No: of periods :

Learning outcomes :

- Introduces the general ledger briefly.
- Balances ledger accounts.
- Prepares financial statements.

Learning teaching process :

Guidance on subject matter :

- The transactions recorded in prime entry books are posted to the ledger accounts.
- Prepares the trial balance using the balance of the ledger accounts.
- Financial statements are prepared deriving the information from the trial balance.

Competency level 4.12 : Rectifies the errors in recording transactions
Number of periods : 04

Learning outcomes :

- Explains the errors possible errors in recording transactions.
- Describes the errors that may have occurred in the recording of transactions.
- Points out how these errors affect the trial balance.
- Corrects the errors.
- Discloses the conditions after correcting the errors.

Learning teaching process :

Engagement

- Present to the class the ledger in which the transactions of Niya's business have been recorded, in an appropriate manner.

Transactions of Niya's business

| | |
|-----------------------|-----------|
| 1.Cash purchases | Rs.18 000 |
| 2.Cash sales | Rs.25 000 |
| 3.Wages | Rs. 5 000 |
| 4.Cash sales | Rs.10 000 |
| 5.Furniture purchases | Rs.25 000 |

The ledger

| Cash account | | | |
|---------------------|-------|---------------|-------|
| (2) sales | 25000 | (1) purchases | 18000 |
| (4) sales | 1000 | (3) wages | 5000 |
| | | (5) purchases | 12000 |

Purchases Account

| | |
|----------|-------|
| (5) cash | 12000 |
|----------|-------|

Sales Account

| | | |
|--|----------|------|
| | (2) cash | 2500 |
| | (4) cash | 1000 |

Wages account

| | | |
|--|----------|------|
| | (3) cash | 5000 |
|--|----------|------|

- Get the opinions of students about the transactions recorded above.
- Discuss about the accuracy of double entries of the transactions recorded above.
- Conduct a discussion highlighting the following.
 - The following errors have been committed in recording the transactions of Niyas's business.
 - Only one entry is recorded out of a double entry.
 - Recording of the double entry in two different values.
 - Recording of the double entry in the same side of the two accounts.
 - Diminishing the two entries by the same amount.
 - Recording the transactions in irrelevant accounts.
- Inaccuracy of recording transactions may affect the balancing of the trial balance, whereas due to some of the errors, the trial balance will not be affected.
- The errors should be rectified, whatever type they are and the suspense Account prepared in order to rectify the errors leading to a difference in the trial balance.

Proposed Instructions for Learning :

- Pay attention to the topic received by each group out of the topics given below.
 - Errors disclosed by trial balance.
 - Errors not disclosed by trial balance.
- Direct students to lead a group discussion to explain the topic.
- Let them study the following ledger including the monthly details of Kiras business, carefully.

Kira's business

Kira opened a retail business on 01-01-2009. Following the guidance of his friend he agreed to have transactions recorded on the double entry system. Siyalladath, an employee of the business took over this duty and was assigned the documents related to the transactions that occurred in the business on a salary of Rs.5 00.00

1. Amount of money invested to commence the business Rs.75 000.00
2. Purchases of furniture Rs.15 000.00
3. Cash purchases Rs.45 000.00
4. Purchased equipment on cash Rs.6 000.00
5. Credit purchases from Ajith Rs.5 000.00
6. Returned outwards to Ajith Rs.500.00
7. Ajith was paid in cash Rs.2 500.00
8. Cash sales Rs.32 000.00
9. Credit sales to Sugath Rs.7 000.00
10. Returns inwards by Sugath Rs 1000.00
11. Received cash from Sugath Rs.4 000.00
12. Kira's personal expenses were paid Rs.1 500.00

Accounts prepared by "Siyalladath"

| Cash Account | | | |
|---------------------|---------------|--------------|---------------|
| 1. Capital | 75000 | 3. Purchases | 45000 |
| 8. Sales | 32000 | 4. purchases | 6000 |
| 11. Sugath | 4000 | 7. Ajith | 2500 |
| | | 12. Drawings | 1500 |
| | | 12. Drawings | 1500 |
| | | balance | 54500 |
| | <u>111000</u> | | <u>111000</u> |
| balance b/f | 54500 | | |

| Capital Account | Purchases Account | | |
|------------------------|--------------------------|--------------|---------------|
| 1. Cash 75000 | 3. Cash | 45000 | ba. c/d 57000 |
| | 4. Cash | 6000 | |
| | 5. Ajith | 5000 | |
| | | <u>57000</u> | <u>57000</u> |
| b/b/F | 57000 | | |

| Ajith account | | | Sales account | | |
|----------------------|-------------|-------|----------------------|------|----------------|
| 6. Returns outwards | 500 | | 5. Purchase | 5000 | |
| 7. Cash | 2500 | | | | Bal c/d 39000 |
| Bal c/d | 2000 | | | | 8. Cash 32000 |
| | <u>5000</u> | | | | 9. Sugath 7000 |
| | | | | | <u>3900</u> |
| | | | | | <u>39000</u> |
| | | b/c/f | | 2000 | b/b/f |
| | | | | | 39000 |

| Sugath account | | | Return Inwards account | | |
|-----------------------|--------------|--|-------------------------------|-------------|--------------|
| 9. Sales | 7000 | | 10 Return inwards | 1000 | |
| 11. Cash | 4000 | | Bal c/d | 10000 | Bal c/d 1000 |
| | <u>11000</u> | | | <u>1000</u> | |
| | | | | | b/b/f 1000 |
| b/b/f | 10000 | | | | |

| Drawing account | | | Furniture account | | |
|------------------------|-------------|---------|--------------------------|---------------|--|
| 12 Cash | 1500 | Bal c/d | 3000 | | |
| 12 Cash | 1500 | | | 10 Cash 15000 | |
| | <u>3000</u> | | <u>3000</u> | | |
| b/b/f | 3000 | | | | |

| Return Outwards account | | |
|--------------------------------|----------|-----|
| | 6. Ajith | 500 |
| | | |

- Guide students to make out the entries with the amount.
- Let each group tabulate their transaction as follows.

| No. of transaction | Double entries made in Kira's ledger | actual double entries related to the transaction | journal entries correct the error rectifiers |
|--------------------|--------------------------------------|--|--|
| (1) | | | |
| (2) | | | |
| (3) | | | |

- With reasons explain the affect to balancing of the trial balance due to double entry in Kira's ledger.
- Get the views of the groups regarding disagreement the trial balance & inquire about the difference.
- Highlight an instance of compensating an error with another one or several error through the Kira's ledger.
- Guide students to understand the influence of identified errors on the profit of the business related to the topic.
- Direct them to highlight two other accounting errors related to the topic.
- Get each group ready for a creative and collective presentation before the entire class with their findings.

Guidance on subject matter :

- Errors are made in recording transactions for various reasons.
- Errors are also made on various occasions of recording transactions.
- There is an accurate double entry for any transactions.
- The trial balance prepared based on accurate double entries agrees with no difference.
- The errors that occur in recording transactions can be divided into two types.
- Errors disclosed by the trial balance
- Errors not disclosed by the trial balance
- The trial balance agrees even with the errors which do not effect the agreement of trialbalance.
- However correction entries should be made in the general journal.

- The errors that are not revealed by the trial balance can be classified as follows.
 - Errors that over under states an amount of a transaction and are over or understated in the accounts.
 - Errors of omission:- Leaving out a source document related to a certain transaction.
 - Errors of principle :- The transactions committed where a proper distinction between return and capital items is not made.
 - Errors of dual recording:- Recording the same transaction twice in correct accounts.
 - Errors of compensation:- One error that occurs in recording transactions is covered with another one or several errors.
- Having identified the errors that are not revealed in the trial balance, such accounts should be corrected.
- Because the trial balance does not balance due to the errors in the trial balance the difference between the two columns is temporarily transferred to a suspense account.
- The balance in the suspense account disappears once the errors are corrected.
- Disclosable errors from the trial balance (errors that affect the equality of the trial balance) can be mentioned as follows.
 - Recording the amount of a transaction in two different values in the two accounts.
 - Leaving out one entry of the double entry. (Recording only in one account)
 - Recording both entries in the same side of the two accounts.
 - Possible mistake in balancing the accounts.
 - The errors in recording transactions affect the financial result of the business, but with the correction of errors the accurate financial result can be computed.

Competency level 4.13 : Maintains subsidiary ledgers.

Number of periods : 04

Learning outcomes :

- Describes the need of maintaining subsidiary ledgers.
- Prepares subsidiary ledgers.
- Analyses the relationship between the control ledgers and the general ledger.
- Submits correct information as far as possible.
- Follows easy methods and techniques to submit information.

Learning teaching process :

Engagement

- There are 5 000 customers in a business. Conduct a discussion enquiring into the points of view of the students about recording transactions in such a situation and highlighting the points mentioned below
- It would be complex to record transactions with the increase of transactions.
- The business will face the following problems.
 - The general ledger becomes long unnecessarily.
 - The trial balance becomes too long.
 - Chance to make errors increases.
- In order to minimize these problems an appropriate control system should be followed.

Proposed instructions for learning :

- Pay attention to the journal and the set of ledger accounts received by each group of the sales journal with the set of relevant ledger accounts and the purchases journal and the set of relevant ledger accounts.
 - The sales journal with relevant ledger accounts.
 - The purchases journal with relevant ledger accounts.
- Direct students to lead a discussion on the headings stated below to describe the relationship between the subsidiary books and the set of ledger accounts received by each group.
 - Primary books and general ledger.
 - Primary books and subsidiary (control) ledger.
 - Guide the students to explain the relationship between the individual ledger and the control account.
- Get each group ready for a creative and collective presentation before the entire class with their findings.

- Due to numerous problems that arise in a business where numerous transactions take place, subsidiary (control) ledgers can be maintained in addition to the general ledger.
- There are many fields for which such subsidiary ledgers could be maintained.

Ex: Debtors' ledger

Creditors' ledger.

- By balancing the accounts in these subsidiary ledgers the lists of balances can be derived.
- Double entry system is followed in the general ledger.
- In the subsidiary ledger only memorandum entries are made.
- To present individual accounts in the subsidiary ledger a control account is maintained in the general ledger.
- The balance of the control account in the general ledger should agree with the total of the list of balances prepared in the subsidiary ledger.
- If they do not agree, in order to compare these balances, a comparison schedule should be prepared.

Sales Journal

| Date | Invoice No | Customer | Total Amount | L.F. |
|------------|------------|--------------------------|--------------|------|
| 25.02.2008 | 35 | Saman Perera | 12500 | |
| 10.02.2008 | 36 | Ekenayake | 12000 | |
| 15.02.2008 | 37 | Dissanayake | 11000 | |
| 2008.02.28 | | Transferred to Sales A/C | 35500 | |
| | | | | |

General Ledger

| Sales Account | | | Debtors control Account | | |
|----------------------|---------|-------|--------------------------------|-------|-------|
| 2/28 | Debtors | 35500 | 2/28 | Sales | 35500 |

Debtors Ledger

| Saman Perera Account | | | Ekenayake Account | | |
|----------------------------|-------|-------|-------------------|-------|-------|
| 2/5 | Sales | 12500 | 2/10 | Sales | 12000 |
| Dissanayake Account | | | | | |
| 2/15 | Sales | 11000 | | | |

Purchase Day Book

| Date | Invoice No | Supplier | Total Amount | L.F. |
|-----------|------------|------------------------------|-------------------|-------------------|
| 5/1/2008 | 400 | Moorthy & sons | 30,000 | |
| 10/1/2008 | 210 | Amarapala | 50,000 | |
| 25/1/2008 | 501 | Saruka | 35,000 | |
| 26/1/2008 | 600 | Vimal | 10,000 | |
| | | Transferred to purchases A/C | <u>125,000</u> | <u> </u> |
| | | | <u> </u> | <u> </u> |

General Ledger

| Creditor Control Account | | Purchases Account | |
|--------------------------|----------------------|-----------------------|-------------|
| | 1/31 Purchase 125000 | 1/30 creditors 125000 | Control A/C |

Creditore Ledger

| Moorthy & Sons Account | Amarapala Account |
|------------------------|---------------------|
| 1/5 Purchase 30000 | 1/10 Purchase 50000 |
| Saruka Account | Vimal Account |
| 1/25 Purchase 35000 | 1/26 Purchase 10000 |

Competency 5 : Uses the accounting concepts by analysing the base of Financial Accounting.

Competency level 5:1 : Analyses the accounting entity.

No: of periods : 2

Learning outcomes :

- Introduces “the accounting entity” with examples.
- Explains the Accounting entity concepts./Business entity concept.
- Describes the effects of transactions in an accounting entity./ Business entity.

Learning teaching process :

Approach :

- Direct the class for a discussion presenting following questions.
- How does a business operates as an independent entity free of its owner/s and the other parties?
- What are the transactions made by the owners with regard to the business?
- How are these transactions recorded in books

Ex: If the owner/s draw a part of the investment back, how could it be recorded?

Proposed instructions for learning

- Pay attention of the each group to the case given to the group out of the following cases.

Case 01

Sarath was not satisfied with his job because he was a socialized person. So he decided to resign his job and to start a business. He invested Rs. 50 000 from his personal savings and to use the room in front of his house valued around Rs.1,000/= that had been rented out so far. The furniture and equipment of the business and the trading stocks were purchased with the money he invested. He was able to open the business just before between two weeks to the Sinhala New Year succeeding his idea Sarath’s friends did not forget to inquire about him on their way back from the office. He always expressed his view cheerfully about his new business. He obtained the good worth Rs.1000/- per month for his personal use. He observed that there was progress in the business after about first one month time. Sarath’s friends inquired about the following facts.

- How much of assets did you invest in the business?
- It means your own equity of your business isn’t it.
- Now the business has a progress. It means your own equity has been increased isn’t it.

- Is it means that you would be able to earn an amount which is higher than the assets that you have invested, if the business is sold one day?
- What will happen to his business equity? Due to withdrawal of goods for sarath's personal use.

Case 02

Devika had been working in a garment factory. Due to day and night hardworking her health condition was affected. She resigned from the job on medical advice, and considered about a her own business. She started a small scaled business of dress making at her home. Her own sewing machine valued around Rs: 30 000 was used for this task. She carried out her dress making business paralleled to the house hold activities. Cloths, Threads, Buttons etc.. Were purchased for Rs. 10 000/- from her personal savings.

Devika was able to overcome those illnesses and she had a satisfied life. She obtained a bank loan of Rs: 50 000 and rented out a room for Rs: 20,000 per month an the business was expanded. She realized that the business and her self progress day by day. She made a school uniform which the cost was Rs: 500 for her daughter.

- What was the equity at the beginning of her business?
- Was the equity increased, decreased or remains unchanged later? Give reasons for the answer
- Advice each group study properly about the case given to them and ask them to reveal the followings.
 - What was the value of the business at the beginning?
 - How was that value consisted of?
 - What was the owner's equity at the beginning of the business?
 - How do you disclose the relationship between the accounting entity and the owner of the business?
 - What is the situation that the equity could be increased?
 - At the end of the case give your views to the students about the total valued owner's equity.
 - Prepare the students to present their observation to the collectively and creatively.

Guidance for subject matters

- Business and the owners are considered as independent entities as the basic for accounting
- Accounting entity concept provides a basis for this purpose.
- A business is considered as an accounting entity because, developing a meaningful methodology as difficult without such basis
- The entity concept interprets that the business has an independence existence distinct from its owners.
- Any business is considered as an accounting entity.
- Entity concept interprets that any business is an a separate person distinct from other parties
- Since the business is an independent entity, its transactions can be identified separately from other transactions therefore an accounting systems required for the business can be selected and implemented on that basis.

Competency Level 5:2 : Analyses the Conceptual Framework of Financial Accounting.
No: of periods : 04

Learning outcomes :

- Introduces the Conceptual Framework of Accounting.
- Describes the importance of the conceptual Framework of Accounting
- State the components and elements of conceptual framework
- Demonstrates the way of preparing financial statements in accordance with conceptual Framework.
- Demonstrates willingness to correct everything by following the legal requirements

Learning Teaching Process :

Engagement

- Approach to the lesson explaining simply what the conceptual Framework of Accounting is.
- Conceptual Framework can be identified as a descriptive guide in identifying, measuring and presenting the transactions, events and opportunities of the business.
- When financial statements are prepared according to the conceptual framework, consistency and reliability can be assured.
- Thus, the conceptual framework of accounting is a generally accepted document which guides to keep high level of relevance and reliable of economic information revealed when financial statements are prepared and presented.

Proposed instructions for learning

- Pay attention to the elements of conceptual framework to each group followings topics.
 - Qualitative characteristics and objective of financial statements.
 - Elements of financial statements and their definitions.
 - Identification and measuring of the elements of financial statements.
- Conduct a group discussion referring the reading material provided to make a descriptive introduction to the topic.
- Instruct to have a discussion highlighting the significance of accountancy and existences of generally accepted regulatory framework.
- Prepare the students to present the group findings collectively and creatively to the entire class.

Guidance on subject matter

- The conceptual framework of Accounting can be known as a system of principles that would determine the nature, role and the limitations of financial accounting and financial statements.
- Having a such framework it is possible to provide the relevant and reliable information to the interest parties.
- Structure and the elements of the conceptual framework of accounting can be shown as follows:

- Objective of financial statements.
- Qualitative characteristics of financial statements.
- Elements of financial statements.
- Recognition and definitions of the elements of financial statements.
- Accounting for elements of financial statement.
- Measuring the elements of financial statement.

- Increase in economic benefits during the accounting period in the form of inflows or enhancement of asset or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants is known as income.
- Both income and profits are known as revenue.
- Decrease in economic benefits during the accounting period in the form of outflows or depletions of assets or increase of liabilities that result in decrease in equity, other than those relating to distributions to equity participants are known as expense.

- Identification of the elements in financial statements means that recording of summarized data systematically in financial statements.
- Objective of financial statements is to provide economic information about the financial position, financial performance and cash flows of an entity that is useful to wide range of users in making economic decisions.
- The elements directly related to the measurement of financial position in the balance sheet are assets, liabilities and equity.

- The elements directly related to the measurement of performance in the income statement are income and expenses.
- A resource controlled by an entity as a result of past event and from which future economic benefits are expected to flow to the entity is treated as an asset.
- A present obligation of the entity from past event the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits is known as a liability.

- The residual interest in the asset of the entity after deducting all its liabilities.
- To recognize the elements, they should be relevant to the definitions and there should be a possibility to measure the cost or value of the inflows and outflows of the prospective economic benefits in a reliable manner.
- In recording of the data, measuring the value of elements in terms of money is known as measuring and following methods are applied to measure the elements.
 - Fair value
 - Historical cost

Competency Level 5:3 : Applies the going concern concept

No: of periods : 02

Learning outcomes :

- Explains the going concern concept.
- Describes how the going concern concept affects accounting.
- Points out the application of this concepts in practice

Guidance on subject matter.

- Introduction and significance

The Financial Statement of a business is prepared based on the assumption that the business would continue its operations for a foreseeable future.

This assumption reveals that there is no risk of restrictions for the operations of the business or closing down of the business.

- Applications of the concept.

Example:

- Classification of assets.
- Classification of liabilities.
- The assets of a business are not presented at their realizable value

Competency Level 5:4 : Applies the periodic concept.

No: of periods : 02

Learning outcomes :

- Explains the Accounting period of a business.
- Describes a need for the identification of a period to present the Accounting information.
- Makes adjustments related to the period.
- Assures the importance of disclosing accurate and relevant information.

Learning teaching process.

Engagement

- Presents the following flash cards to the class including various transactions for the year ended 31.12.2008 and conduct a discussion to highlight the following .

Sales revenue Rs.50 000/=

The expenses paid during the year Rs.30 000/=

Net profit of the year Rs.20 000/=

Unpaid salary for December is Rs. 2000/-

- There are two bases for determining operating results in a period named known as accrual basis and cash basis.
- Accrual basis is important in practical situations and accordingly more accurate and fair information could be presented.

Proposed instructions for learning

- Pay attention to the transaction received by each group out of the following possible transactions of a business.
 - The cost of the stock purchased during the period ending 30th June 2008 was Rs.50 000/ and of which a stock of Rs 40 000/= has been sold.
 - On 1st January 2009 the management decided the value of a vehicle as Rs.950000 which was purchased for Rs 1 000 000 at 1st January 2008.
 - The electricity bill for the previous month for Rs. 2500 was received on 30th April 2009, one month after the accounting period.
- Write down the Accounting period related to the transaction assuming the length of an Accounting period as 12 months.
- Direct students to study the consequences of the transaction for the business and them advise to write them down .
- Inquire from their the term used in accounting related to the transaction.
- Show the need of adjusting the transaction related to the Accounting period.
- Inquire about the double entries related to the adjustments.
- Prepare the group to present their findings collectively and creatively to the whole class.

Guidance on subject matter

- The periodic concept provides the basis for dividing the life time of the business into periods and prepare the financial statement for each period.
- The Income statement and the Balance sheet are the financial statements prepared based on the periodic concept.
- The periodic concept should be followed in incorporating the elements to financial statements.
- According to the companies Act No. 07 of 2007, the accounting period of a business ends on 31st march, each year.

Competency Level 5.5: Applies the money measurement concept.

No: of periods : 02

Learning outcomes

- Interprets the money measurement concept.
 - Explains the need for money measurement concept.
 - Points out the impact of money measurement concept in presenting financial statements

Learning teaching process.

Engagement

- Conduct a discussion where you elicit the students' views on the given income statement and highlight the following.

Income Statement.

| | Rs. |
|----------------|-----------------|
| Sales. | 50 000 |
| Cost of sales. | <u>(20 000)</u> |
| Gross profit. | 30 000 |
| Electricity. | (4 000) |
| Insurance. | (3 000) |
| Wages. | (2 000) |
| Net profit. | <u>21 000</u> |

Notes

- Identify the transactions and events that can be measured in terms of money.
 - Identify the transactions and events that cannot be measured in terms of money.
 - There is a value for each and every item in the income statement.
 - There is a value for each and every item in the balance sheet.

01. Hopes to recruit a skilled manager.

02. Intends to attract customers by decorating the business premises.

Proposed instructions for learning

- Pay attention to the following topic received by each group.
 - Transactions that can be measured in terms of money

- Advice them to study the following transactions
 - Owner invests Rs.100 000 as capital
 - The business is located in beautiful surroundings
 - Cash sales Rs.25 000
 - Payment of salaries to employees Rs.15 000
 - Purchased a block of land Rs.50 000
 - Bad debts written off Rs.5 000
 - Liabilities of the business is Rs.5 000
 - The business premises air conditioned.
 - Employees satisfy consumers needs in a friendly.
 - There are 25 branches of the business.
 - Raw material costing Rs.7 500 are converted into finished goods through the manufacturing process.
 - A new building is being constructed.
 - The manager is an efficient person.
 - 100m of cloth purchased.
 - Purchased 5 trousers.
- Advice students to define the topic.
- Guide them to highlight the transactions related to the topic.
- Present some other transactions and events by using examples related to each topic.
- Inquire from them about the relevant transactions to be included in the financial statement related to the above topics.
- Explain how these transactions and events are important to the business.
- Prepare the student to present group findings creatively and collectively to the entire class.

Guidance on subject matters

- Only business transactions and events that can be measured in terms of money are recognized and recorded.
- The business transaction and events that can be measured in monetary terms are important to make decision.
- Transactions are measured in terms of a currency unit of a particular country.

Competency Level 5.6 : Applies the accrual concept.

No: of periods : 04

Learning outcomes :

- Explains the accrual concept.
- Points out the importance of the accrual concept in accounting.
- Makes adjustments with regard to the accrual concept.

Guidance on subject matter:

- According to the accrual concept, the relevant income and expenditure for the period should be recognized irrespective of their receipts and payments in cash.
- To disclose the accurate financial result for an accounting period the accrual concept is important.
- **Recognizing accrued expenses.**

Adjusting the unpaid expenses relevant to a certain accounting period.

| | | |
|---------------------|-----|----|
| Expenditure account | a/c | xx |
| Accrued expenditure | a/c | xx |

- **Recognizing the prepaid expenses.**

The excess of payments made during an accounting period will be deducted from the expense and treated as pre payments for the next accounting periods.

| | | |
|----------------------|-----|----|
| Pre paid expenditure | a/c | xx |
| Relevant expenditure | a/c | xx |

- **Recognizing the accrued revenues.**

Adjusting the revenues to be earned for the accounting period, but not received yet .

| | | |
|--------------------|-----|----|
| Revenue receivable | a/c | xx |
| Revenue | a/c | xx |

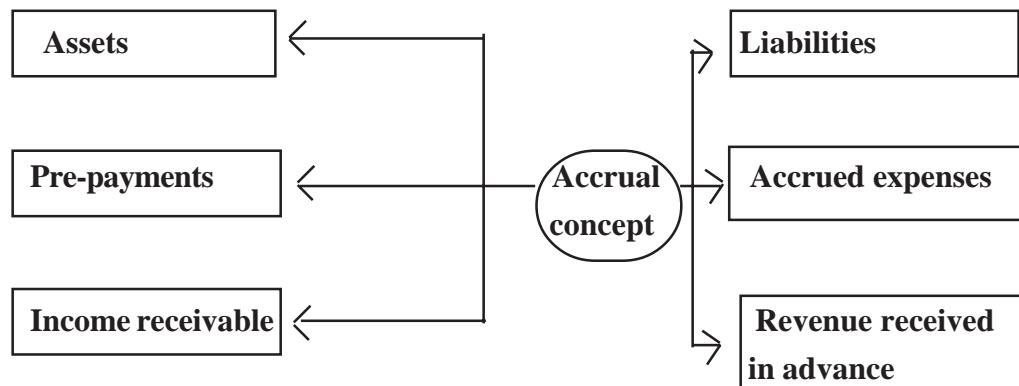
- **Recognizing the income received in advance .**

Deduct the excess income received during the Accounting period from the total revenue received, in order to reveal financial results for a particular period.

| | | |
|----------------------------|------|----|
| Revenue | a/c. | xx |
| Income received in advance | a/c | xx |

- **Arising assets and liabilities**

Assets and liabilities, that arise after adjusting the income and expenditure on accrual basis, should be recognized. Thus prepayments and income receivable are identified as assets whilst accrued expenses and income received in advance are identified as liabilities.



Competency Level 5.7 : Applies the substance over form concept.

Number of Periods : 04

Learning Outcomes :

- Explains the substance over form concept.
- Describes how the substance over form concept influences Accounting.
- Analyses how the transactions are identified based on the substance over form concept.

Guidance on subject matter:

- Application of the concept.
 - Assets obtained on finance lease is treated as an asset on lessee's books and is recognized as an asset.
 - Even though a property which is acquired through a finance lease is not an asset for legal purposes, it is identified as an asset, since the business bears the risk and rewards of the asset.
- It is not allowed to set-off income against expenses and assets against liabilities, unless otherwise permitted in any specific SLSA.
- **Take care to study the definitions of assets and liabilities.**

Competency Level 5.8 : Applies the matching concept.

Number of Periods : 02

Learning Outcomes :

- Introduces the “Matching Concept”
- Points out the influence of the matching concept on accounting.
- Makes adjustments in accordance with the matching concept.

Guidance on subject matter:

Introduction and importance

- In determining the financial result for an accounting period the total expenses incurred during the period should be matched against the total revenue recognized in that period.

Application of the concept

- Provision for doubtful debts:

| | | |
|------------------------------|-----|----|
| doubtful debts | a/c | xx |
| Provision for doubtful debts | a/c | xx |

- Adjusting the closing inventory

| | | |
|------------------|-----|----|
| Inventory Stocks | a/c | xx |
| Trading | a/c | xx |

- Provisions in accordance with the Sri Lanka Accounting Standard 03.

- The expenses that would not generate future economic benefits are considered as expenses of the relevant period.
i.e. Stock damages

- Provision for depreciation:

| | | |
|-----------------------------|-----|----|
| Depreciation | a/c | xx |
| Provisions for depreciation | a/c | xx |

Competency Level 5.9 : Applies the consistency concept.

Number of Periods : 04

Learning Outcomes :

- Introduces the consistency concept.
- Points out the applications of the consistency concept.
- Describes the importance of the consistency concept.

Guidance on subject matter:

Introduction and importance

- This concept emphasises that the bases, conventions and principles on which financial Statements are prepared and presented should be followed consistently without frequent changes.
- The conformity to this concept assures the possibility of comparing the information of the business with several accounting periods in the same business as well as with the financial information of some other business.
- An accounting principle that has been followed consistently, for a considerable period can be changed, if and only if that change reflects more accurate and fair condition in the financial statements ands also required by any specific Sri Lanka Accounting Standards.

Application of the concept

Example

- Follows the same depreciation policy which was adapted by the business in the past accounting years.

Competency Level **5.10** : Applies the realization concept.

Number of Periods : 04

Learning Outcomes :

- Introduces the realization concept.
- Describes the influence of the realization concept on Accounting.
- Analyses the recognition of transactions based on the realization concept.

Guidance on subject matter:

Introduction and importance

The date or the occasion when the economic risks & rewards of a certain transaction is transferred to the relevant customer, is regarded as realization.

Application of the concept.

Generally in exchange of goods, it is treated as realized at the point at which the goods are being handed over to the customer. According to the realization concept sales are treated as realized at the point at which the invoice is issued to the customer.

In case of goods transactions the income is treated as realized when the goods passed to the customer or when cash is paid by the customer, but not, when the customer agrees to buy the goods.

- Engage students to study the exercises giving example.

Competency Level 5.11 : Applies the prudence concept.

Number of Periods : 04.

Learning Outcomes :

- Describes the prudence concept.
- Analyses, with suitable examples, how the prudence concept is used in Accounting.
- Makes necessary adjustments in accordance with the prudence concept.
- Financial statements prepared in accordance with the concepts can be treated as qualitative reports.
- Concerns about security

Learning-Teaching Process :

Engagement

- Conduct a discussion highlighting the consequences of the application and non application of the following accounting practices.

Accounting procedures

- Potential revenues and profits are not accounted for
- Profits are recognized only after realization .Realization of profits can be in the form of either the cash or any other asset and also it should be able to be measured reliably.
- Potential losses should be recognized and relevant provisions should be made.
- Provision should be made for the known liabilities. For this purpose estimates can be made on the available information. (In this regard S.L.A.S. 36 can be referred).
- Stocks should be valued at lower cost and net realisable value, whichever is lowest.

Proposed instructions for Learning :

- Pay attention to the adjustment received by each group out of the following.
 - Provision for doubtful debts.
 - Provision for depreciation of fixed assets.(Non current assets)
 - Stocks should be valued at lower cost or net releasable value, whichever is lowest
 - By referring to reading materials
 - Write a brief note explaining the importance of the prudence concept.
 - Give instructions to explain the given adjustment.
 - Instruct students to select the case related to the given adjustment.
 - Answer the questions included in the particular case.
- Prepare each group to present their findings creatively and collectively to the whole class .

Case- (1)

The brought forward balance in the debtors' account of Asitha's business as at 31.03.2008 is Rs: 48000. At the end of the year provision for doubtful debts is 5% from the debtors. Record the adjustments to be made to the provision for doubtful debts account for the following stations where each situation should be taken indepently.

| Situation | Effect on provision for doubtful debts account | Effect on profit |
|--|---|-----------------------------|
| <ul style="list-style-type: none">• Provision for doubtful debts for the first time.• If the balance of the P.D.D. Account as at 01.04.2007 was Rs: 2000/=• If the balance of the provision for doubtful debt account as at 01.04.2007 is Rs:3000• If the balance of the provision for doubtful debt account as at 01.04.2007 is Rs: 2400 | | |

- (i) Complete the above table.
- (ii) Write down the journal entries needed to record the above inclusions in ledger accounts.
- (iii) Describe the impact of provision for doubtful debts on asset
- (iv) Describe the accounting entries for the bad debts written off during the current year.

Case- (2)

The details with regards to the assets of Sumith's business as at 01.04.2007 are given in the table below.

| Assets | Cost Rs: | Percentage for depreciation per annum | The balance of the provision for depreciation account as at 01.04.2007 |
|----------------|-------------|---|---|
| Buildings. | 250000 | 5% | 50000 |
| Motor vehicles | 100000 | 20% | 40000 |
| Computers | 80000 | 25% | 10000 |
| Furniture | 40000 | 10% | 12000 |

- (i) Compute the annual depreciation for each asset.
- (ii) Write down the journal entries related to annual depreciations.
- (iii) What is the objective of making provisions for depreciation ?

Case- (3)

- The cost of closing inventories of Susith's business as at 31.03.2008 is Rs: 80000
 - If the net realizable value was estimated as Rs: 65000 as at that date.
 - If the realizable value was estimated as Rs: 90000 as at that date.
- What is the value of the closing inventories as at 31.03.2008 under each of the situations given above.
 - (a) On which occasion should the adjustments made to the inventories? Write the journal entries related these adjustments.
 - (b) Give reasons for presenting the value of inventories at lowests value.

Guidance on subject matter

- The prudence concept is used in the process of Accounting.
- This concept contributes in presenting the optional level of information about the operational performance, financial position and the cash flows of a business entity.
- Under this concept the following provisions should be for the future losses.
 - Provision for doubtful debts.
 - Provision for depreciation of fixed assets.
 - Value the stocks of lower of cost or net realisable value.
- The entries relevant to the adjustments should be made in both the main journal and in the ledger accounts.
- The balance of each account arisen after the adjustments, should be presented in financial statements accurately.
- There are other concepts and standards related the adjustments made with the prudence concept.

Competency Level 5.12 : Applies the materiality concept

Number of periods : 02

Learning Outcomes :

- Explains the materiality concept.
- States the influence of the materiality concept on Accounting.
- Shows how the materiality concept is used in Accounting.

Guidance for subject matters:

Introduction and importance

- In Accounting materiality is determined by the extent to which information affects the decisions of the users of accounting. Accordingly, in the case of capitalizing asset, charging as an expenditure, recording as separate asset, including with another asset, is determined with reference to materiality concepts. Materiality means the importance of the item. This importance depends on the quantity and type of the item related to the business activity.

Application of the concept

- (1) The cost of a stapler of a firm is debited to the profit and loss Account considering it as an expense.
- (2) The assets which are similar in their nature & function can be presented in the financial statements together, even if the value of these assets are large.
- (3) A loan provided to a company director must be disclosed regardless of its value.

Example: A loan of Rs, 100 given to a director must be disclosed . Here the materiality would be decided on legal conditions.

Competency Level 5.13 : Applies the concept of historical cost

Number of Periods : 04

Learning Outcomes :

- Introduces the historical cost concept.
- Describes the importance of the historical cost concept.
- Analyses how the historical cost concept is used in Accounting.

Guidance on subject matter:

- Introduction and importance

Resources of a business as well as the expenses incurred ought to be recorded at their actual cost. The value of the assets can be measured easily and reliably since they have been recorded at their cost values. The managers also find it easy to use information in their decision making process.

Application of the concept

Example: The property-plant and equipment are recorded in books at cost, at first.

Exceptions to the concept

- Shortcomings arise as a result of applying this concept.

They are.....

- The present value of the resources of the business is not reflected in books.
- The actual performance of the business is not presented
- Irrelevance of the information presented in financial statements.

- To overcome these shortcomings, alternative methods are applied to value the assets.

Example: Revaluation of property-plant and equipment.

Competency Level 5.14 : Analyses the relationship between the accounting concepts.

Number of Periods : 04

Learning Outcomes :

- Explains the preliminary basis of using Accounting concepts.
- Analyses the relationship between concepts.
- Uses different types of relevant concepts in recording one transaction.

Guidance on subject matter:

- There is a relationship between various concepts used in recording transactions and presenting financial statements.
- According to the going concern concept the financial result of a business would be computed only at the last date of the so called “Continuous Period”, but this is impractical. So the continuous period is divided into definite short periods and the financial performance is Computed.
- This is known as the periodic concept.
- All the revenue and expenses related to a certain period, whether they were received or not, or paid or not should to be recognized with regard to that particular period.

Examples of related concepts in accounting of stocks.

- (i) Going concern - Stocks are included under current assets since it is expected to be sold in the forthcoming year/ period.
- (ii) Accrual concept - Only the cost of goods sold is included in the income statement.
- (iii) Matching concept - Cost of sales is an revenue expense that directly contributes to the generation of sales. Accordingly sales revenue needs to be reconciled against cost of sales.
- (iv) Prudence concept - Stocks should be valued at lower price between cost and net realisable value.
- (v) Consistency concept- The policies followed in previous years for inventory valuation ought to be continued in the present and future Accounting Policies periods can be changed in accordance with the provisions in Sri Lanka Accounting Standard 10.

Competency **06** : Keeps accounts of inventories.

Competency Level 6.1 : Analyses the basic concept of relating the inventory.

Number of Periods : 05

Learning Outcomes :

- Defines “inventory”.
- Categorizes inventory .
- Analyses the concepts relating to the S.L.A.S. 05

Guidance on subject matter:

- The inventories can be defined according to the S.L.A.S. 05 as follow.
 - Inventory held for resales in the ordinary course of business.
 - Inventory in the process of production for such sale.
 - Inventory in the form of materials or supplies to be consumed in the production process or in the rendering of services.
- According to the above definition stocks can be categorized as follows.
 - Finished goods
 - Work in progress
 - Raw materials.
- Cost of the inventory can be defined as follows.“The cost of inventories should comprise all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.”
(Provide examples for this)
- Expenses which should not be included in the cost of the inventory.
- The net realisable value of the inventory can be defined as follows.
Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost completion and the estimated costs necessary to make sale.

- In accordance with the matching concept the expenditure of the period should be matched with the revenue of that period. Accordingly when calculating expenditure for the period it is required to identify cost of goods sold as an expenses and loss arisen when bringing down the cost of inventory to its net realizable value should be written off against the revenue.
- According to SLAS 05 following facts relating to inventory are important.
 - Inventory valuation.
 - Accounting for inventory
 - Presentation in the financial statements.

Competency Level **6.2** : Considers about accounting for inventories & other related matters.

Number of Periods : 05

Learning Outcomes :

- Explains measuring of inventory.
- Uses the cost formula to value the inventory.
- Shows instances where the inventory is to be recognized as an expense.
- Fullfills the disclosure requirements intersect of inventories

Guidance on subject matter

- Explains the measuring of inventory.
- Need of inventory measurement.
- Techniques for measurement of cost
 - Standard cost method.
 - Retail cost method. (This method can be used when pricing is made by keeping a fixed percentage of profit.)
- FIFO and Weighted Average Methods will be used by large scale manufacturing originations in a situation where they cannot identity cost of each item separately.
- The cost of the inventory manufactured for a special project should be separately recognized
- Situations where the inventories are recognized as an expense, should be stated clearly
- Disclosure requirements should be made in the financial statements.

Competency **07** : Maintains accounts of Property, Plant and Equipment.

Competency Level 7.1 : Analyses the basic concepts related to Property, Plant and Equipment.

Number of Periods : 05

Learning Outcomes :

- Introduces the Property, Plant and Equipments.
- Explains how the S.L.A.S. 18 affects Property, Plant and Equipment.
- Displays awareness of the objectives of S.L.A.S. 18 and its importance.
- Analyses the practical importance of the definitions of Property, Plant and Equipment.
- Teacher to the information needed by referring reading resources.
- Motivate to apply theoretical matters in practice.

Learning-Teaching Process :

Engagement

- Present the following conversation between two friends to the class in a suitable manner.

Indu : I wish to buy a vehicle to start a school transport service. M...m..m.. I'm thinking of a reliable place.

Bindu : Oh... One of my friends is running a car sale. Let's go there and see.

- Conduct a discussion highlighting the following facts.
 - It was intended to buy a vehicle in order to provide a service.
 - The assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purpose and that are expected to be used during more than one period are known as **Property, Plant and Equipment**.
 - The following terms should be recognized with regard to the standard
 - Cost.
 - Depreciation.
 - Depreciable amount

- Carrying amount.
- Fair value.
- Residual value
- Recoverable amount
- Impairment losses
- Useful economic life

Proposed instructions for Learning:

- Draw the attention of the students to the topic received by each group in connection with Property, Plant and Equipment.
 - Cost, depreciation, depreciable amount
 - Carrying amount, fair value, residual value.
 - Recoverable amount, impairment losses useful economic life.
- Study the following cases carefully

Case

Mr.: Sampath Rathnayake, who is a retired teacher, intends to purchase a vehicle for their family. He had informed this to one of his friend Kanchana, a garage owner.

Meanwhile Charith Perera, an owner of a goods distributing agency who makes frequent visits to Kanchana's garage stated that there were three vans in his company to be sold. Kanchana got the following details regarding the vehicles.

First vehicle : Purchased in year 2005 at a cost of Rs: 1,200,000 It had been used for 03 years for the distribution work.

Second Vehicle : Purchased in year 2003 at a value Rs: 800,000 and had been used for five years.

Third vehicle : Purchased in year 1998 at a value of Rs: 500000 and Charith stated that after using for 10 years, it can be disposed for Rs: 10000 as old iron rods.

Though the company had bought the first and second vehicles with the intention of using for 10 years from the date of purchase, with the expansion of the business they had now decided that it is suitable to purchase two lorries by disposing of these two vans. They further mention that the residual value of these could be regarded as zero.

After examining the books he stated that he is willing to sell those two vans at Rs: 840000/= and Rs: 400000/= respectively without keeping profit.

Having careful examination by Kanchana stated that those Vehicle are the need of a friend, they would come and purchase them on the following day. Further Kanchana stated that the first one would not worth more than Rs: 830000/= due to technical error.

On the following day Mr.Sampath was accompanied by Kanchana to meet Charith by Kanchana to purchase the first vehicle, on that day sampath and charith recognized each other. At that moment, Charith who identified Mr.: Sampath, who had been his A/L Accounting teacher, agreed to sell the van at Rs: 800000/=.

At the same time a young gentleman, who came to purchase the second vehicle agreed to purchase it at Rs: 500000/= by paying an advance. Mr.: Charith expressed that particular person is unaware of vehicles even if he is having money and agreed to purchase it at the same price that he mentioned.

- Lead to a discussion to examine the Property, Plant and Equipments, by giving them reading materials.
- Direct to recognize the Accounting standard with regard to the Property, Plant and Equipment and its objectives.
- Guide them to present definition related to the topic.
- Direct to make the calculations relevant to each topic from the case study.
- Prepare the students for a creative and collective presentation before the entire class With the findings of the group.

Guidance on subject matter:

- Property, Plant and Equipment are used in the business and they should be recognized.
- Guide the students to identify the Accounting standard and its objective relating to property plant and equipment.
- The following terms are important in relation to Accounting standard - 18.
 - Cost, depreciation, depreciable amount, carrying amount, Fair value, recoverable amount, residual value, impairment, effective economic life.
- The importance and need of each term mentioned above ought to be emphasized.
- In accordance with the case.

- The cost.

The first vehicle Rs: 1200000/=

Second vehicle Rs: 800000/=

Third vehicle Rs: 500000/=

- Depreciable value as at the purchased date.

Rs:

$$\begin{array}{ll} 1. 1200000 - 0 & = 1200000/= \\ 2. 800000 - 0 & = 800000/= \\ 3. 500000 - 10000 & = 490000/= \end{array}$$

- Effective economic life time.

(1) 10 years (2) 10 years (3) 10 years

- Depreciation.

$$(1) \frac{1200000}{10} = \text{Rs: } 120000/= \quad (2) \frac{800000}{10} = \text{Rs: } 80000/=$$

$$(3) \frac{490000}{10} = \text{Rs: } 49000/=$$

- Carrying amount as at the date of sale

$$(1) 1200000 - 360000 = \text{Rs: } 840000/=$$

$$(2) 800000 - 400000 = \text{Rs: } 400000/=$$

$$(3) 500000 - 490000 = \text{Rs: } 10000/=$$

- Fair value to the date of sale
 - (1) Rs: 830000/=
 - (2) Rs: 400000/=
- On the assumption that the recoverable value is equal to the fair value the impairment loss can be calculated.

Impairment loss = Carrying amount - recoverable amount

$$\begin{aligned} \text{01st vehicle} &= 840000 - 830000 \\ &= \text{Rs: 10000} \end{aligned}$$

$$\begin{aligned} \text{02nd vehicle} &= 400000 - 400000 \\ &= \text{Rs: 0/=} \end{aligned}$$

N.B: It's not necessary to discuss in the classroom how to calculate the recoverable value.
Further accounting for the impairment loss is not expected here.

Competency Level 7.2 : Keeps accounts and makes disclosures relating to the Property, Plant and Equipments.

Number of Periods : 05

Learning Outcomes :

- Explains the need of acquisition of the Property, Plant and Equipments.
- Keeps accounts for Property, Plant and Equipments.
- Makes necessary disclosures relating the Property, Plant and Equipments.

Guidance for subject matter:

- Acquisition of Property, Plant and Equipments is needed for a business to carry out its operations and related transactions should be recorded in ledger Accounts.
- Use following costs should be taken into account when accounts are kept for property plants and equipment.
 - Initial cost (Cost incurred at the beginning).
 - Subsequent costs
- In Accounting for Property, Plant and Equipments following elements should be considered.
 - Purchase price
 - Cost incurred for bringing the asst to the present condition.
 - The cost of site preparation.
(Cost incurred to arrange the place where the property is located/ fixed).
- The cost of Property, Plant and Equipments should be measured.
- After initial recognition of property plant and equipment, the amount to be presented can be determined using the following models.
 - Cost model
 - Revaluation model
- According to those above models Property, Plant and Equipments can be presented at their cost or revalued amount.
- When the accounts are kept under the revaluation model the following method can be used.

- Bringing the net value of the asset to the revalued amount by eliminating the accumulated depreciation against the gross carrying amount.
- The profit / loss arisen from revaluation of the Property, Plant and Equipment should be accounted.
- Straight-line method and diminishing balance method can be adopted in depreciating the Property, Plant and Equipment.
- Need of disposing of the Property, Plant and Equipment can also arise.
- Should consider disclosure requirements for property plant and equipment in accordance with S.L.A.S. 18.

- Competency** **08** : Prepares Financial Statements of a Sole Proprietorship.
- Competency Level** **8.1** : Prepares the income statement, balance sheet and cash flow statement of a Sole Proprietorship.
- Number of Periods** **: 06**
- Learning Outcomes** **:**
- Rearranges the items in a trial balance with necessary adjustments.
 - Computes the financial results for the period by preparing income statement.
 - Prepares the balance sheet for the closing date of the accounting period.
 - Analyses and calculates the cash inflows and cash outflows throughout the period.
 - Agrees with concepts, standards, conventions and principles.
 - Approaches expected competencies through relevant references.

Learning- Teaching Process :

Engagement

- Conduct a discussion by presenting the trial balance as at 31.03.2009 and the adjustments
This business has been established on 01.04.2008

Trial balance as at 31.03.2009

| Name of Account | Debit Rs: | Credit Rs: |
|------------------------|------------------|-------------------|
| Capital | | 100000 |
| Bank loan | | 50000 |
| Fixed deposits | 60000 | |
| Cash | 85000 | |
| Electricity bills | 5000 | |
| Insurance | 4000 | |
| Sales | | 30000 |
| Cost of sales | 18000 | |
| Furniture | 8000 | |
| | 180000 | 180000 |
| | | |

- Accrued and pre-paid expenses as at 31.03.2009

| | |
|---------------------|------------|
| Accrued electricity | Rs: 1000/= |
| Pre-paid insurance | Rs: 2000/= |

- Financial result financial position and the cash flow of a business can be computed using the adjusted trial balance.

- In order to compute the operational results of the firm the revenue income and the revenue expenditure for the period should be recognised.

- Cash flow can be recognised in connection with cash-inflows and cash-outflows during the period.

- In order to fulfill the requirement of communicating the operational results, financial position and the cash flows, an income statement, the balance sheet and the cash flow statement can be prepared.

- The following financial statements have been prepared using the trial balance above.

Income Statement for the year end of 31.03.2009

| | Rs: | Rs: |
|------------------|---------|--------|
| Sales | 30000 | |
| Cost of sales | (18000) | |
| Gross profit b/d | | 12000 |
| Electricity | 6000 | |
| Insurance | 2000 | (8000) |
| Net profit | | 4000 |

Balance Sheet as at 31.03.2009

| | Rs: | Rs: |
|-------------------------------------|------------|---------------|
| Assets | | |
| Non current assets: | | |
| Furniture | 8000 | |
| Fixed deposits | 60000 | 68000 |
| Current assets: | | |
| Cash | 85000 | |
| Pre-paid insurance | 2000 | 87000 |
| Total assets | | 155000 |
| Equity and liabilities | | |
| Equity | | |
| Capital | 100000 | |
| Net profit | 4000 | 104000 |
| Non current liabilities: | | |
| Bank loan | | 50000 |
| Current liabilities: | | |
| Accrued electricity bills | | 1000 |
| Total equity and liabilities | | 155000 |

Cash Flow Statement for the year end of 31.03.2009

| | Rs: | Rs: |
|-------------------------|------------|---------------|
| Cash inflows | | |
| 01.04.2008 cash balance | - | |
| Capital | 100000 | |
| Sales | 30000 | |
| Bank loan | 50000 | |
| Total cash-inflows | | 180000 |
| Cash outflows | | |
| Deposits | 60000 | |
| Purchases of furniture | 8000 | |
| Electricity | 5000 | |
| Insurance | 4000 | |
| Cost of sales | 18000 | |
| 31.03.2009 cash balance | 85000 | |
| Total cash-outflows | | 180000 |

Proposed instructions for learning:

- Pay attention to the financial statements received by each group out of the following.
 - Income statement
 - Balance sheet
 - Cash flow statement
- Instruct students to study the following trial balance and the additional data given below.

Trial Balance of Anande Perera's Business for the year ended 31.03.2009

| Name of the Account | Debit Rs: | Credit Rs: |
|----------------------|-----------|------------|
| Purchases | 28000 | |
| Stock at 01.04.2008 | 3500 | |
| Sales | | 54000 |
| Debtors | 3200 | |
| Creditors | | 10700 |
| Return inwards | 1200 | |
| Return outwards | | 800 |
| Carriage inwards | 1600 | |
| Advertising expenses | 2550 | |
| Telephone charges | 1300 | |
| Electricity | 2200 | |
| Selling expenses | 3000 | |
| 10% bank loan | | 25000 |
| Furniture | 6400 | |
| Machinery | 12000 | |
| Land & buildings | 265000 | |
| Bank charges | 300 | |
| Discount allowed | 200 | |
| Discount received | | 300 |
| Rent & Rate | 650 | |
| Wages and salaries | 4200 | |
| Balance at bank | 5000 | |
| Cash in hand | 6500 | |
| Capital | | 256000 |
| | 346800 | 346800 |

Additional details.

Guidance on subject matter:

- The operational result for the accounting period should be calculated and in order to compute that result accurately, necessary adjustments should be made.
- The balance sheet is prepared to show the financial position as of a definite date.
- Various accounting concepts, standards and conventions ought to be considered in the preparation of the financial statements of a business.
- Cash outflow of the business are as follows.
 - Cash purchases.
 - Cash payments made to settle down the loan.
 - Cash payments made for creditors.
 - Expenses paid in cash for miscellaneous purposes.
- Cash-inflows occur in a business in the following ways.
 - Cash sales.
 - Revenues received in cash from various purposes.
 - Obtaining loans.
 - Cash receipts from debtors
- The difference between cash-inflows and cash-outflows should be clearly identified.

- The financial statements of Ananda Perera's business are mentioned below.

Ananda Perera's Business
Income Statement
for the year ended at 31.03.2009

| | Rs: | Rs: | | Rs: |
|--|--------|-------|-------------------------|--------|
| 01.04.2008 Stock | 3500 | | Sales | 54000 |
| Purchases | 28000 | | Returns inwards | (1200) |
| | 31500 | | | 52800 |
| Carriage inwards | 1600 | | | |
| | 33100 | | | |
| Return outwards | (800) | | | |
| | 32300 | | | |
| Stock at 31.03.2009 | (6500) | | | |
| Cost of sales | 25800 | | | |
| Gross profit b/d | 27000 | | | |
| | 52800 | | | 52800 |
| Establishment & Adminis- trative expenses | | | Gross profit b/f | 27000 |
| Telephone charges | 1050 | | Discount received | 300 |
| Light bills | 2850 | | | |
| Rate & taxes | 650 | | | |
| Wages & salaries | 4200 | | | |
| Depreciations: Furniture | 320 | | | |
| Machinery | 1200 | 10270 | | |
| Sales & Distribution Expenses | | | | |
| Advertising | 4050 | | | |
| Sales expenses | 3000 | | | |
| Discount allowed | 200 | | | |
| Provisions for bad debt & doubtful debts | 350 | 7600 | | |
| Financial & Other Expenses | | | | |
| Bank charges | 300 | | | |
| Loan interest | 2500 | 2800 | | |
| Net profit brought to the Capital Account | | 6630 | | |
| | | 27300 | | 27300 |

Ananda Perera's Business
Balance Sheet
as at 31.03.2009

| | <i>Rs:</i> | | Cost | Cum:dep | Net value |
|---------------------------------|------------|------------------------------|-------------|----------------|------------------|
| Equity | Rs: | Non-Current Assets | Rs: | Rs: | Rs: |
| Capital | 256000 | Land & buildings | 265000 | - | 265000 |
| Net Profit | 6630 | Furniture | 6400 | 320 | 6080 |
| | 262630 | Machinery | 12000 | 1200 | 10800 |
| | | | 283400 | 1520 | 281880 |
| Non-Current Liabilities: | | | | | |
| 10% bank loan | 25000 | Current Assets | | | |
| | | Year ended stock | | 6500 | |
| Current Liabilities | | Debtors | 3000 | | |
| Creditors | 10700 | Provision for doubtful debts | (150) | 2850 | |
| Accrued expenses: | | Pre-paid tele: exp: | | 250 | |
| Advertising | 1500 | Balance at bank | | 5000 | |
| Electricity bills | 650 | Cash in hand | | 6500 | 21100 |
| Loan interest | 2500 | | | | |
| | 302980 | | | | 302980 |
| | | | | | |

- Direct the students to prepare the cash flow statement.

Cash outflows of the business

| | Rs. | | |
|----------------------|----------------------|--|----------|
| Advertisements | 2550 | Total cash inflows | = 332400 |
| Electricity | 2200 | Total cash out flows | = 334000 |
| T.P. charges | 1300 | | (1000) |
| Payment to creditors | 17500 | + Cash and bank at the beginning of the year | = 12500 |
| Cash purchases | 16700 | Cash and bank at the end of the year | 11,500 |
| Carriage inwards | 1600 | | |
| Selling expenses | 3000 | | |
| Furniture | 6400 | | |
| Machinery | 12000 | | |
| Land | 265000 | | |
| Bank charges | 300 | | |
| Rate | 650 | | |
| Wages | 4200 | | |
| | <u><u>333400</u></u> | | |

Creditors Control Account

| | | | Rs. |
|-------------------|---------------------|------------------|---------------------|
| Return outwards | 800 | 4/1 Balance | 18000 |
| Cash | 17500 | | |
| Discount received | 500 | Purchases | 11300 |
| 3/31 Balance | 10700 | | |
| | <u><u>29300</u></u> | | <u><u>29300</u></u> |

Debtors Control Account

| | | | Rs. |
|--------------|---------------------|------------------|---------------------|
| 4/1 Balance | 2000 | Return inwards | 1200 |
| Sales | 8600 | Cash | 6000 |
| | | Discount allowed | 200 |
| | <u><u>10600</u></u> | | <u><u>10600</u></u> |

Competency Level 8.2 : Prepares the manufacturing account in a manufacturing Business.

Number of Periods : 07

Learning Outcomes :

- Describes the importance of a manufacturing account and its objectives.
- Analyses the elements of the manufacturing cost.
- Explains how the information of an account is important for managers in decision making and cost controlling.
- Get used to controlling the expenses.
- Makes decisions using information.

Learning-Teaching Process:

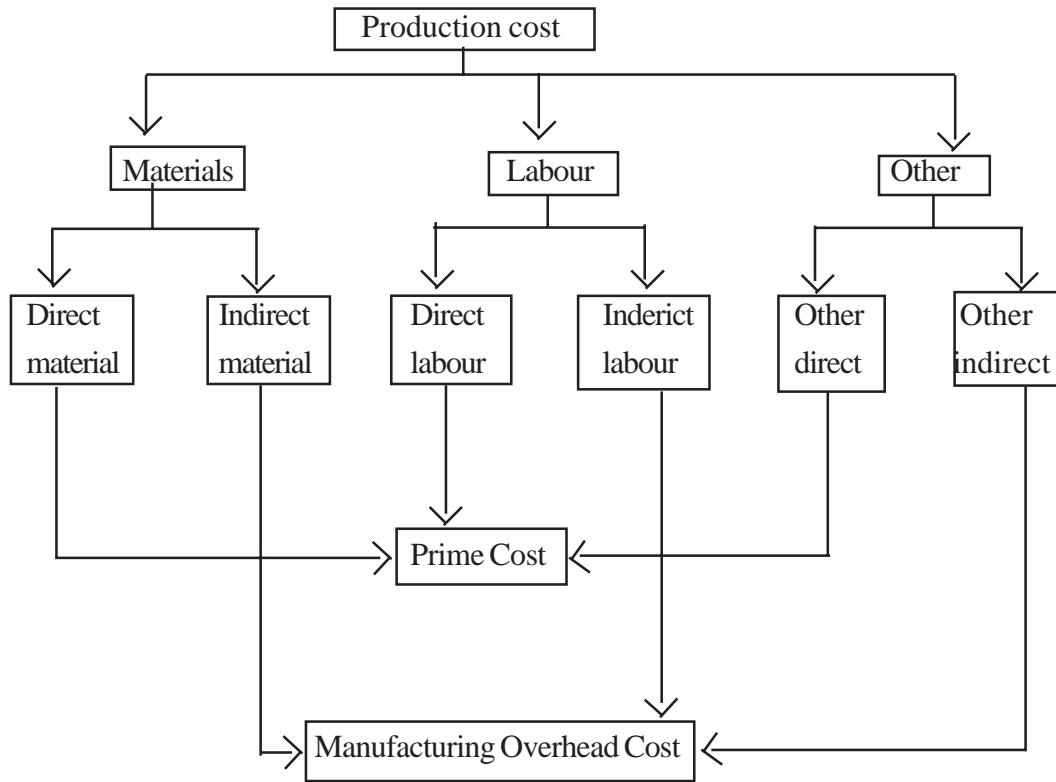
Engagement

Present the following list and the flow chart to the class and get the view points of the students.

The list of items related to a furniture manufacturing business firm.

- Purchasing raw materials.
- Wages of the machine operators.
- Carriage expenses of raw materials.
- Raw materials-return outwards.
- Carpenters' salary.
- Delivery expenses.
- Factory insurance.
- Storage expenses.
- Factory light bills.
- Office rent.
- Factory wages.
- Administrative expenses.
- Depreciation of machinery & plants.
- Repairing cost of machines.
- Opening-works in progress.
- Closing-works in progress.
- Closing-stock of finished goods.
- Number of units manufactured.

Flow chart



- Conduct a discussion highlighting the following.
 - This list carries the details related to a manufacturing business.
 - Out of these details only the relevant items can be placed in the flow chart.

Proposed instructions for Learning:

- Pay attention to the business, received by each group out of the following.
 - Manufacturing almirahs in a carpentry workshop.
 - Manufacturing shirts in a garment factory.
- Instruct students to recognize the daily transactions that take place in the business.
- Let them show the importance of these transactions for the production.
- Make them compute the total manufacturing cost using the details recognized in the business.
- Get each group ready for a co-operative and creative presentation before the entire class, with their findings.

Guidance on subject matter:

- The need for preparing a manufacturing account can be stated as follows.
 - Finding the total manufacturing cost.
 - Controlling the manufacturing cost.
 - Decision making related to the manufacturing process.
- The elements of manufacturing cost are mentioned below.
 - Prime cost (Direct materials, direct labour, direct expenses).
 - Manufacturing over-head costs.
- The following stocks can be seen in a manufacturing business.
 - Materials, work in process & finished goods.
- Details related to a manufacturing process can be presented in a systematic format.
- Manufacturing costs should be transferred to the income statement.

Competency Level 8.3 : Prepares the income statement of a manufacturing account.

Number of Periods : 07

Learning Outcomes :

- Describes the need of a manufacturing account.
- Prepares a manufacturing account.
- Prepares the income statement of a manufacturing account.

Guidance on subject matter:

- For in any kind of manufacturing business, the manufacturing account should be prepared.
- At the end of the period, the manufacturing cost should be transferred to the trading account.
- The manufacturing, trading, profit & loss Account can be prepared including the details related to the manufacturing and trade affairs of a business.

N.B: When the manufacturing cost is transferred to the income statement no surplus of profit is added, so that the adjustments for non-realized profit is not included here.

Competency **9.0** : Reveals the financial performance and the financial position of a business using incomplete records.

Competency Level 9.1 : Computes the operational performance using net assets

Number of Periods **:** 05

Learning Outcomes **:**

- Explains the importance of recording transactions systematically.
- Describes how to use the double-entry system to record business transactions accurately and systematically.
- Computes the operational outcome using the net assets.
- Persuades student not to follow easy methods and techniques **contrary** to regulations.
- Assure them of the importance of following recommended and appropriate methods and techniques.

Learning-Teaching Process:

Engagement

- Present the following business description to the class.

Kasthuri mudalali who is running a retail business outlet, met the bank manager to obtain a loan with the purpose of expanding his business. The manager informed him that financial reports also should be attached with the relevant documents. He stated that the financial reports hadn't been prepared in his business and he was unaware of such statements.

- Conduct a discussion highlighting the following facts from the view point of the students.
- Because of the failure to maintain a formal recording system of business transactions, various problems can arise.
- Double entry is very important to keep records of transactions formally and accurately.
- Failure to follow a double-entry system and failure to maintain records of transactions formally is an incomplete entry system.
- Decision makers have to face various problems and difficulties because of such an informal entry system.

Proposed instructions for learning:

- Pay attention to the business received by each group out of the following.
 - Hiru's Business

| | 31.03.2009 | 01.04.2008 |
|------------------------------|-------------------|-------------------|
| | Rs: | Rs: |
| Property, plant & equipments | 150000 | 80000 |
| Debtors | 15000 | 12000 |
| Creditors | 10000 | 8000 |
| Closing stocks of goods | 9000 | 6000 |
| Cash balance | 5000 | 6000 |
| Bank balance | 2000 | 5000 |
| Bank loan | 5000 | 9000 |

- Sandu's Business

| | 31.03.2009 | 01.04.2008 |
|------------------------------|-------------------|-------------------|
| | Rs: | Rs: |
| Property, plant & equipments | 100000 | 90000 |
| Debtors | 15000 | 15000 |
| Creditors | 11000 | 7000 |
| Closing stocks of goods | 12000 | 8000 |
| Cash balance | 4000 | 7000 |
| Bank balance | 2000 | 2000 |
| Bank loan | 15000 | 5000 |

- Conduct a discussion regarding the following details of the business.
 - How much is the net assets / capital as at 01.04.2008?
 - How much is the net assets / capital as at 31.03.2009?
 - Compute the profit / loss for year ended 31.03.2009?
 - Assuming that the owner has invested an additional capital of Rs: 150000/= in the business during the period, calculate the profit / loss.
 - If the owner has made a drawing of Rs: 8000/= inspite of the additional capital during the period calculate the profit / loss.
 - Discuss the disadvantages to a business due to keeping incomplete records.
 - Get each group ready for a co-operative and creative presentation before the entire class with their findings.

Guidance on subject matter:

- An accounting system contrary to double entry system is incomplete records.
- Keeping only one of the double entries of a transaction is known as “The single entry system”.
- Some business firms keep incomplete records due to one or a few of the following reasons.
 - Unawareness of the double entry system.
 - Keeping double entries is too expensive.
 - Double entry accounting system has not been made compulsory.
 - Intention of deception.
 - Negligence.
- A business has to face the following disadvantages due to maintaining incomplete records.
 - Impossibility of knowing the accurate operational outcome.
 - Impossibility of being accurately aware of the financial position.
 - Inability of accurate decision making due to lack of correct information.
- There are two methods of computing the financial outcomes using incomplete records.
 - Calculate the financial outcomes by comparing the net assets.
 - Preparing the financial statements by converting the details available into double entries.
- Solutions for the questions related to the proposed activity are given below.
 - Net assets of the Hiru’s Business as at 01.04.2008 are given below.

Hiru’s Business
Statement of affairs as at
01.04.2008

| | Rs: | | Rs: |
|-----------|--------|--------------------------|--------|
| Capital | 92000 | Property, plant & equip: | 80000 |
| Creditors | 8000 | Debtors | 12000 |
| Bank loan | 9000 | Stock of goods | 6000 |
| | | Bank | 5000 |
| | | Cash | 6000 |
| | 109000 | | 109000 |

- Net assets of the Sandu's Business as at 01.04.2008 = Rs. 110000/-

Sandu's Business
Statement of Affairs as at
01.04.2008

| | Rs: | | Rs: |
|-----------|---------------|--------------------------|--------|
| Capital | 110000 | Property, plant & equip: | 90000 |
| Bank loan | 5000 | Debtors | 15000 |
| Creditors | 7000 | Stock of goods | 8000 |
| | | Bank | 2000 |
| | | Cash | 7000 |
| | 122000 | | 122000 |

- Net assets of Hiru's Business as at 31.03.2009 is Rs: 166000/=

Hiru's Business
Statement of Affairs as at
31.03.2008

| | Rs: | | Rs: |
|-----------|---------------|--------------------------|--------|
| Capital | 166000 | Property, plant & equip: | 150000 |
| Bank loan | 5000 | Debtors | 15000 |
| Creditors | 10000 | Stock of goods | 9000 |
| | | Bank | 2000 |
| | | Cash | 5000 |
| | 181000 | | 181000 |

- Net assets of Sandun's Business as at 31.03.2009 is Rs: 107000/=

Sandu's Business
Statement of Affairs as at
31.03.2009

| | Rs: | | Rs: |
|-----------|--------|--------------------------|--------|
| Capital | 107000 | Property, plant & equip: | 100000 |
| Bank loan | 15000 | Debtors | 15000 |
| Creditors | 11000 | Stock of goods | 12000 |
| | 133000 | Bank | 2000 |
| | | Cash | 4000 |
| | 133000 | | 133000 |

- Owner's equity as at a particular date is the net assets of the business.
- Net assets can be computed as follows.
 - Total assets - Total liabilities
- In order to compute the net assets a statement of affairs can be used.
- The profit in connection with the net assets can be calculated as follows.
 - **In the absence of drawing an additional capital.**

$$\boxed{\text{Net assets at the end of the year} - \text{Net assets at the beginning of the year} = \text{Profit / Loss}}$$

- **In the presence of drawings and additional capital.**

$$\boxed{\begin{array}{l} \text{Net assets at the end of the year} - \text{Net assets at the beginning of the year} \\ + \text{Drawings} - \text{Additional capital} \end{array} = \text{Profit / Loss}}$$

$$\boxed{\text{NAE} - \text{NAB} + \text{D} - \text{AC} = \text{P/L}}$$

$$\begin{aligned} \bullet \text{Profit in the Hiru's Business} &= \text{NAE} & - & \text{NAB} \\ &= \text{Rs: } 166000 & - & \text{Rs: } 92000 \\ &= \underline{\underline{\text{Rs: } 74000}} \end{aligned}$$

- With an additional capital of Rs: 15000 and drawing of

Rs: 8000/- the profit from Hiru's Business

$$\begin{aligned}
 &= (\text{NAE}) + \text{D} \quad - \quad (\text{NAB} + \text{AC}) \\
 &= (\text{Rs: } 166000 + 8000) - (\text{Rs: } 92000 + 15000) \\
 &= \text{Rs: } 174000 \quad - \quad \text{Rs: } 107000 \\
 &= \underline{\underline{\text{Rs: } 67000}}
 \end{aligned}$$

三

- With an additional capital of Rs: 15000/- and drawings of

Rs: 8000- the profit from Sandun's Business

| | | | |
|------|----------------------------|--------------------|---------------------|
| = | (NAE) | - | (NAB) |
| = | <u>(RS: 107000 + 8000)</u> | - | (Rs: 11000 + 15000) |
| = | Rs: 115000 | - | Rs: 125000 |
| Loss | = | Rs: <u>(10000)</u> | |

Competency Level 9.2 : Prepares the financial statements converting the incomplete records into double entries.

Number of Periods : 05

Learning Outcomes :

- Describes how to organize the accounting of a business systematically.
- Names the steps in systematically recording transactions.
- Prepares the books and accounts related to systematic recording of transactions.
- Motivate one to perform any activity systematically regardless of its difficulty.
- Experience the advantages of systematic performance.

Learning-Teaching Process:

Engagement

- Present the following transactions to the class. Inquire about the way they have been reported, direct students to compute the cash balance and the profit of the business.
- Murthi, who opened a new retail business, intended to note down monthly transactions in his diary. The diary entries for the first month are given below.
 - Initial investments Rs: 100000/=
 - Purchased furniture paying Rs: 20000/=
 - Paid the building rent Rs: 1000/=
 - Cash purchases Rs: 15000/=
 - Rs: 4000/= to be collected from debtors.
 - Paid Rs: 4000/= for the owner's personal telephone bill.
 - Cash sales Rs: 9000/=
 - Remaining stock of goods Rs: 6000/=

- Conduct a discussion highlighting the following facts inquiring into the views of the students.
 - Incomplete entries of business transactions can be re-arranged following the double entry principles.
 - The double entry system may be vital in the systematic and accurate recording of business transactions.
 - Through this information could be communicated easily.
 - In order to prepare the financial statements the following accounts and journals should have been maintained.
 - Subsidiary books
 - Ledger accounts.
 - Statement of affairs.
 - Control accounts.

Proposed instructions for Learning:

- Pay attention to the topic received by each group out of the following.
 - Capital
 - Bank balance
 - Control accounts
- Direct students to study the detail of Vimukthi's Business and highlight the transactions related to the topic through a group discussion.

Vimukthi's Business

(1) Assets and liabilities of the business

| | 31.03.2008 | 01.04.2007 |
|------------------------------|-------------------|-------------------|
| Property, plant & equipment | 38000 | 30000 |
| Remaining stock of goods | 16000 | 12000 |
| Trade debtors | 15000 | 8000 |
| Trade creditors | 18000 | 14000 |
| Cash in hand | - | 6000 |
| Bank balance | - | 4000 |
| Accrued operational expenses | 2500 | 1000 |

- (2) The business has purchased a machine costing Rs: 12000/= during the year.
- (3) According to the expenditure reports for the year, the cost of business operations is Rs:17500/
- (4) Additional capital invested during the period was Rs: 6000/= and an amount of Rs: 4000/= has been used for the personal consumption of the owner.
- (5) Collected Rs: 95100/= from debtors and paid Rs: 70600/= to the creditors.
- (6) Discount allowed Rs: 2000/=, discount received Rs: 1500/= and the bad debts written off during the year was Rs: 900/=
- (7) At the end of every month the owner deposits all the money retaining Rs: 6000/= in hand.
- (8) All the business payments have been made by cheque.

- Direct students to disclose the balance related to the topic making related adjustments.
- Direct them to study the facts disclosed by the other small groups.
- Guide them to prepare the trading, profit & loss account and the balance sheet the facts revealed by groups.
- Get each group ready for a co-operative and creative presentation before the whole class, with their findings.

Guidance on subject matter:

When incomplete records are converted to double entries, the following accounts and statements should have been prepared. The following facts can be disclosed through these accounts and statements.

- Statement of affairs - Opening capital
- Cash book - Cash sales
 - Receipts from debtors
 - Cash purchases
 - Payments to creditors
 - Drawings in cash
 - Cash balance
 - Non-recorded revenue or expenses
 - Cash shortages
- Debtors-control account - Credit sales
 - Receipts from debtors
 - Opening / ending debtors balance

- Creditor-control account
 - Credit purchases
 - Payments to creditors
 - Opening / ending creditors balance
- Trading account
 - Stocks
 - Purchases / sales
 - Cost of the goods sold
 - Gross profit
- Adjusting the related revenue and expenses net profit can be disclosed.
- The financial position of the business as at the balance sheet date can be disclosed.
- Awareness can be gained about the assets, liabilities and equity as at the balance sheet date.

Vimukthi's Business

- Finding the opening capital

The statement of Affairs as at 01.04.2007

| | Rs: | | Rs: |
|------------------|--------------|--------------------------|--------------|
| Capital | 45000 | Property, plant & equip: | 30000 |
| Creditors | 14000 | Stock of remaining goods | 12000 |
| Accrued expenses | 1000 | Debtors | 8000 |
| | <hr/> | Bank | 4000 |
| | <hr/> | Cash | 6000 |
| | <hr/> | | <hr/> |
| | 60000 | | 60000 |
| | <hr/> | | <hr/> |

- Finding the cash amount deposited in bank.

Cash Book

| | Rs: | | Rs: |
|-------------------|--------|---------------|---------------|
| 01/04 Balance b/f | 6000 | Bank deposits | 101100 |
| Capital | 6000 | Balance b/b | 6000 |
| Debtors | 95100 | | |
| | <hr/> | | |
| | 107100 | | 107100 |
| | <hr/> | | |

Operational Expenditure Account

| | | | |
|-------------|-------|-----------------------|-------|
| Bank | 17000 | 01/04 Balance | 1000 |
| Balance b/d | 2500 | Profit & Loss Account | 19000 |
| | 20000 | | 20000 |
| | | 01/04/08 Balance b/f | 2500 |
| | | | |

- Finding purchases and sales

Debtors Control Account

| | | | |
|------------------------|---------------|----------------------|--------|
| 01.04.2007 Balance b/f | 8000 | Cash | 95100 |
| Sales | 105000 | Discount allowed | 2000 |
| | | Bad debts | 900 |
| | 113000 | 31.03.08 Balance b/d | 15000 |
| 01.04.2008 Balance b/f | 15000 | | 113000 |
| | | | |

Creditor Control Account

| | | | |
|----------------------|-------|----------------------|--------------|
| Cash | 70600 | 01/04/07 Balance b/f | 14000 |
| Discounts received | 1500 | Purchases | 76100 |
| 31/03/08 Balance b/d | 18000 | | 90100 |
| | 90100 | | |
| | | 01/04/08 Balance b/f | 18000 |
| | | | |

- Finding the balance at bank

Bank Account

| | | | |
|------------------------|--------|------------------------|-------------|
| 01/04/2007 Balance b/f | 4000 | Machinery | 12000 |
| Cash | 101100 | Operational expenses | 17500 |
| | | Drawings | 4000 |
| | 105100 | Creditors | 70600 |
| | | 31/03/2008 Balance b/d | 1000 |
| 01/04/2008 Balance b/f | 1000 | | 105100 |
| | | | |

Vimukthi's Business
Trading, Profit & Loss Account
for the year ended at 31.03.2008

| | | | |
|--------------------|---------|-------------------|--------|
| Opening stock | 12000 | Sales | 105000 |
| Purchases | 76100 | | |
| | 88100 | | |
| Closing stock | (16000) | | |
| Cost of goods sold | 72100 | | |
| Gross profit b/d | 32900 | | |
| | 105000 | | 105000 |
| | | | ===== |
| Operational expen: | 19000 | Gross profit b/f | 32900 |
| Discount allowed | 2000 | Discount received | 1500 |
| Bad debts | 900 | | |
| Depreciation | 4000 | | |
| Net profit | 8500 | | |
| | 34400 | | 34400 |
| | | | ===== |

Vimukthi's Business

Balance Sheet

as at 31.03.2008

| | | | | |
|----------------------------|--------|-------|-----------------------|-------|
| Initial capital | 45000 | | Non current assets | 38000 |
| Additional capital | 6000 | | | |
| | 51000 | | | |
| Added the net profit | 8500 | | | |
| | 59500 | | | |
| Drawings | (4000) | 55500 | Current Assets | |
| | | | Closing stock | 16000 |
| Current liabilities | | | Debtors | 15000 |
| Creditors | 18000 | | Bank | 1000 |
| Accrued expenses | 2500 | 20500 | Cash | 6000 |
| | | 76000 | | 76000 |
| | | | | ===== |

| | | |
|------------------------------|-----------|---|
| Competency | 10 | : Prepares the financial statements of a not for -profit making organization. |
| Competency Level 10.1 | | : Concerns the cash receipts and cash payments of a not for - profit making organization. |
| No: of periods | | : 06 |

Learning outcomes :

- Names the not for -profit making organizations.
- Differentiates between the cash receipts and cash payments of a not for -profit making organization.
- Prepares receipt & payment account.

Guidance on subject matter:

- Explains what not for -profit making organizations are
- The cash receipt and payments of not for -profit making organization should be recorded separately.
- The receipts & payments account should be differentiated from the cash book of a business.

Competency Level 10.2 : Concerns the operational performance and the financial position of a not for -profit making organization.

No: of periods : 04

Learning outcomes :

- Names the financial statements prepared in a not for -profit making organization.
- Calculates the membership fees related to the period.
- Reveals the financial outcome and the financial position of a not for -profit making organization.

Guidance on subject matter:

- The financial statements and records prepared in a not for -profit making organization are mentioned below.
 - Receipts and payment account.
 - Income and expenditure account
 - Balance sheet
- In order to compute the membership fees related to the period, the membership fees account should be prepared.
- There is a slight difference between the financial statements and records prepared in a not for -profit making organization and those of a normal business firm.
- Special attention should be paid to the following.
 - Donations received.
 - Life-membership fees
 - Functions which generate additional income
 - Admission fees

Competency **11** : Prepares the income statement, balance sheet and the cash-flow statement in order to reveal the financial performance and the financial position of a partnership.

Competency Level 11.1 : Uses the source of accounting of a partnership

No: of periods **:** 05

Learning outcomes :

- Defines partnership
- Explains the importance of a mutual agreement, when carrying a partnership business.
- Analyses the importance of various regulations available in connection with partnerships.
- Demonstrates willingness to follow rules and regulations.
- Assures the importance of written evidence to overcome future problems.

Learning - teaching process

Engagement

- Let any volunteer student present the following problem to the class and elicit the views of the students.

Business problem

- Amal and Kamal purchased a passenger transport bus and deployed it in the provision of transport services investing Rs: 1 000 000/= and Rs: 900 000/= respectively. One day the bus met with an accident and the compensation received was divided equally between the two of them, but Amal's wife who did not agree with this sought the assistance of the law.
- Lead a discussion to highlight the following facts.
 - Two or more persons can carry on a business in common with the view of profits.
 - Making pre-arrangements to solve potential issues is very necessary to continue business affairs successfully.
 - However, there are legal regulations to solve problems, these may arise in partnership business affairs.

Proposed instructions for learning.

- Pay attention to the topic received by each group out of the following.
 - Legal regulations of a partnership.
 - Common agreement between partners.
- Lead a brain-storming discussion to understand what a partnership is.
- Instruct students to build up a definition of a partnership with reference to the reading material.
- Instruct them to explain how the topic received is relevant to the business issue presented.
- Guide them to describe with instances how the affairs related to the topic affect the functions and existence of the partnership.
- Get each group to present their group findings to the class.

Guidance on subject matter:

- A partnership can be defined as “the relationship which obtains between persons carrying on a business in common with the view of profit.
- The elements of a partnership are mentioned as follows.
 - Individuals.
 - Profit making objective
 - Common agreement.
 - Business affairs.
- Some of the legal regulations relevant to partnerships are mentioned below.
 - The partnership ordinance of 1890.
 - Section No: 519 of the Companies Act No: 07 of 2007.
- A partnership agreement is an essential document in conducting a partnership business and the following matters ought to be included in such an agreement.
 - Contribution for capital and interest on capital.
 - Wages to partners for their contribution in management.
 - Interest for drawings etc....
- In the absence of a partnership agreement, the above matters of a partnership are subject to section 24 of the partnership Ordinance of 1890.

- Section No: 24 of the Partnership Ordinance is applied in case of inadequate provisions in the partnership agreement available.
- Several regulations in section No: 24 of the Partnership Ordinance related to Accounting are mentioned below.
 - Equal distribution of the profit / loss.
 - Interest on capital not allowed.
 - No partner is entitled to salaries.
 - Any additional capitals is entitled to an interest of 5%
- In the case of the retirement or decease of a partner, if his/her rights are transferred to a credit account an interest of 5% should be offered for that balance as per provisions in article No: 42 of the Partnership Ordinance.
- According to section No: 519 of the Companies Act No: 07 of 2007 the minimum number of members in a partnership is 2 whereas the maximum is 20.

Competency Level 11.2 : Analyses the basic features of a partnership from the accounting aspect.

No: of periods : 15

Learning outcomes:

- Analyses the differences in participation of the partners towards the partnership.
 - Points out the advantages enjoyed by a partnership due to these differences in participation.
 - Analyses how partners who have contributed to the benefit of the business earn more.
 - Highlight the importance of recognizing the individual differences for effectiveness of an institution.
 - Demonstrates willingness to compute financial values based on specific abilities.

Learning teaching process:

Engagement

- Lead a discussion to highlight the following facts inquiring into how the partners contribute in the partnership affairs.
 - The parties with various financial entrepreneurship and specific managerial skills will join the partnership.
 - Accordingly, the response of the business towards each partner being different, is reasonable.
 - This reasonable responses will lead to the enhancement of the contribution of the partners to the business affairs.

Proposed instructions for learning.

- Pay attention to the condition received by each group out of the conditions of a partnership agreement given below.
 - Paying salary only to a partner, who is also working as the sales manager in a partnership which consists of three partners.
 - Equal distribution of profit / loss in a partnership with three partners, in spite of their capital investments which are Rs: 200 000/= , Rs: 300 000/= and Rs: 200 000/= respectively.
 - Direct students study the partners' contribution to the partnership and the reaction of the partnership to that contribution.
 - Direct students to analyse the possible advantages / disadvantages arising for the partners following the conditions received as the topic.

- Instruct students to make a brief introduction of the benefits gained by any investor of a partnership for bearing a risk.
- Get each group ready for a cooperative and creative presentation before the entire class with their findings.

Guidance on subject matter:

- There are three ways through which a partnership can receive the contribution of its partners.
 - Contribution in management.
 - Provision of capital resources.
 - Bearing risk.
- The partners should gain the following special benefits from the partnership in accordance with their contribution.
 - Salaries for special contribution in management.
 - Interest on capital investment.
 - Shares of profits for bearing a risk.
- Agreement to these benefits should be assured by partnership agreement.

Competency Level 11.3 : Discloses the rights of the partners

No: of periods : 15

Learning outcomes :

- Introduces the types of accounts that should be prepared to show the rights of the partners.
- States the transactions that affect increase / decrease of the rights of the partners.
- Records the transactions related to the rights of the partners and discloses these rights.
- Determines that more benefits could be gained the more dedication and honest contribution is invested in a certain task.
- Ensures that a fixed stable unit could be constructed with the co-operation of individual skills and capabilities.

Learning Teaching Process :

Engagement :

- Presents the following questions to the class and examines the opinion of the students, then highlight the facts below.
 - Is cash investment essential to be a partner in a business?
 - What are the benefits offered for the contribution of each partner?
 - How does the partnership respond regarding the business resources used for the personal consumption of the partners?
- Deployment of business resources such as cash, stock of goods and any other properties in personal consumption of the partners is known as “drawings” and interest has to be paid to the business in accordance with the agreement.
- Anyone can be a partner of a partnership with the contribution of either cash or property or knowledge or goodwill or something else that could be evaluated in terms of money.
- Wages, capital interest and shares of the profit can be gained as benefits by partners for their contribution in either from mentioned above.

Proposed instructions for learning

- Pay attention to the condition received by each group out of the conditions contained in the agreement of the ABC partnership.
 - An interest of 10% every partner is entitled to for the capital invested and a monthly salary of Rs.12 000/= for B who is also the manager of the business.
 - 5% interest is charged on the drawings of the partners and profit / loss should be shared in the ratio of 5:3:2 among A B and C respectively.
- Instruct students to use the assumed values for the capital balances, drawings and profit / loss as relevant to the topic of each group in order to work according to the conditions of the partnership agreement.

- Guide students to describe how each condition affects the equity.
- Direct them to propose how these effects can be presented using double entry principles.
- Guide them to enter these effects in a current account opened in the ledger.
- Enquire how to maintain the capital accounts of the partnership.
- Get each group ready for a co-operative and creative presentation before the entire class with their findings.

Guidance on subject matter:

- There is a clear difference in the preparation of the accounts of a partnership compared to a sole trader business.
- Accounts should be maintained with separate columns for each and every partner.
- The Capital Account reflects the changes in capital throughout the year.
- The current account reveals the partners rights in the business.
- Annual drawings of the partners are revealed by the drawings account.
- The loans provided by the partners to the business can be revalued through the partner Loan Account.
- The liabilities of both parties will be assured in this manner.
- Accordingly the rights (equity) of the partners are revalued through the accounts above

Competency Level 11.4 : Prepares the income statement of the partnership and appropriates the profit / loss among the partners.

No: of periods : 15

Learning outcomes :

- Explains the need of an appropriation account.
- Describes the various ways in which the profits of a partnership is allocated among its partners.
- Prepares the income statement and the approximation account.
- Points out that the benefits gained from a co-operative activity ought to be fairly distributed among the companions of that activity.
- Demonstrates willingness to respect the others' opinions and to respect to the others' in co-operative activities.

Learning Teaching Process :

Engagement

- Lead a discussion to highlight the following facts regarding the need for a systematic procedure of allocating profit / loss of a partnership.
- Payment of capital interest and salaries as well as charging an interest for drawings should have been adjusted if adequate provisions are available in the partnership deed.
- In the absence of a partnership deed the partnership ordinance of 1890 should be followed in connection with the affairs of the partners.
- The profit / loss allocated should be entered in the profit & loss appropriation account.

Proposed instructions for learning

- Pay attention to the factor received by each group out of the factors that cause the rights of the partners given below to be changed.
 - Capital interest.
 - Salaries.
 - Drawings interest.
- Lead a group discussion to compare the topics and present how they would affect changing of the rights of the partners.
- Make necessary adjustments to the topic using the information on the following partnership of Amal, Kamal and Nimal.

| | Capital Rs. | Current Account Rs. | Drawings Account Rs. |
|-------|------------------------|--------------------------------|---------------------------------|
| Amal | 100,000 | 10,000 (Cr) | 5,000 |
| Kamal | 75,000 | 5,000 (Cr) | 3,000 |
| Nimal | 50,000 | 2,000 (Dr) | - |

- The partnership has earned a net profit of Rs:25 000/= prior to payment of interest on the loan.
- Nimal has received Rs:5 000/= from the business as a loan.
- Amal and Kamal are paid a monthly salary of Rs:400/- each.
- 5% interest is entitled on the capital.
- An interest of 4% is charged on the drawings.
- An interest of 2% on the balance of the current account should be computed.
- An interest of 4% for Nimal's loan is charged by the business.
- Give two other instances affecting change of the rights of the partners, apart from the factors you received.
- Guide them to describe briefly how these factors affect changes of the rights of the partners.
- Guide them to prepare an account including the information adjusted relevant to the topic and the information related to the instances presented .
- Get each group ready for a co-operative and creative presentation before the entire class with their findings.

Guidance on subject matter:

- Trading, profit & loss account is prepared in order to compute the operational outcome of a partnership.
- Since the equity of a partnership is owned by several parties the profit should have been allocated.
- The amount receivable from the partnership in the capacity of a partner and the amount to be received from the partners to the partnership is included in the profit and loss appropriation account.
- In order to complete the double entry relevant to the items entered in the appropriation account (to show the influence on rights) the current account is used.
- Assurance of the agreed revenue of the partners if any, also should be adjusted in the appropriation account.

Competency Level 11.5 : Prepares the balance sheet and the cash flow statement of the partnership.
No: of periods : 15

Learning outcomes:

- Explains the presentation of the partner's equity in the balance sheet.
- Explains that the separate computing and presentation of each partner's equity is an essential requirement.
- Prepares the balance sheet of a partnership.
- Gets used to performing a co-operative business with transparency and high accuracy.
- Depicts the financial position using a proper structure

Learning - Teaching Process.

Engagement

- Lead a discussion to highlight the following facts raising these questions. Recalling the previous lesson.
 - What are the remaining balances in a trial balance after the net profit for the period is computed?
 - What is the statement, in which these balances are presented?
 - Is there any difference in the information presented in a balance sheet of a partnership even though the organization structure is different?
 - What are the accounts you have recognized so far as used to show the rights of the partners?
 - Name the items of cash inflows and outflows of a partnership?
- The remaining account balances in the trial balance after the net profit of a partnership has been computed, represent the assets, liabilities and equity.
- The balance sheet as at the final date of the accounting period is prepared considering these account balances.
- The balances of capital accounts and current accounts in which rights of the partners revealed are separately shown in the balance sheet.

Proposed instructions for learning

- Pay attention to the partnership received by each group out of the partnerships given below.

| Partnership of A.B.C | Partnership of Kalu & Sudu. | Partnership of Ravi, Buda, Guru, Sani |
|--|--|--|
| <ul style="list-style-type: none"> • A partnership with three partners. • Opening balances of capital accounts. • Opening balances of the current accounts. (all are credit) • Interest on capital • Shares of profit. • All the partners have invested additional capital. • Two fixed assets. • Two current assets. • Two current liabilities. | <ul style="list-style-type: none"> • A partnership with two partners. • Opening balances of capital accounts. • Opening balances of the current accounts (one is a debit balance) • Interest on capital • Shares of profit • One partner has provided a loan to the business, no interest has been received or agreed. • Two fixed assets. • Two current assets. • Two current liabilities | <ul style="list-style-type: none"> • A partnership with four partners. • Opening balances of capital accounts. • Opening balances of the current accounts (two are debit balances) • Shares of profit. • Two partners have provided loans to the business. Annual interest 10%. • Two fixed assets. • Two current assets. • Two current liabilities. |

- Direct students to mention the value of each item in the business. (Assumed the values)
- Direct them to prepare the following accounts using these values to get the balance of each.
 - Capital account.
 - Current account.
- Lead them to prepare the balance sheet as at an imagined date using the balances of the capital accounts, current accounts, and other accounts of assets and liabilities.
- Guide them to present the instances with the values of cash inflows and outflows of the business and to enter them in an appropriate model.
- Get each group ready for a co-operative and creative presentation before the entire class with their findings.

Guidance on subject matter:

- Fixed rights and variable rights of the partners ought to separately present in the balance sheet.
- The loans provided by the partners to the business is not a portion of their equity and ought to be presented as a separate item in the balance sheet.
- If there is a debit balance in any partner's current account it should be presented in the balance sheet as a deduction from the credit balances of the others.
- Presentation of the other assets and liabilities should be on the liquidity base as per in sole trader business firms.
- Instances for cash inflows and outflows of a partnership can be shown as follows.
 - Capital investment.
 - Debtors
 - Payment of loan installments.
 - Cash receipts for the partners' rights.
 - Receipt of sales revenue.
 - Payment of cost of sales.
 - Other receipts and payments.

Competency level 11.6 : Records the transactions relevant to the changes in the profit sharing ratio

No: of periods : 15

Learning outcomes :

- Presents the occasions where the profit / loss sharing ratio among the partners is changed.
- Explains how the unrecorded assets of a partnership affects the changing of the rights of the partners.
- Prepares the financial statements with the required adjustments on the occasion of change of profit / loss sharing ratio among the partners.
- Reveals the changes that take place in equity using appropriate models and formats.
- Uses the previous and present positions comparatively.

Learning teaching process.

Engagement

- Get three volunteers to present the conversation to the class and lead a discussion highlighting the following facts.

Conversation.

Roles : 1. Malith. 2. Lalith. 3. Thiekshana.

Malith : Lalith shall we get our mallie Thiekshana to join our business?

Lalith : Why do you say so?

Malith : He asked me about this. In the sense he is a skillful person who is maintains relations with many efficient business institutes.

Lalith : How come? Our business was brought to this stage by ourselves, wasn't it?

Malith : That's right, Let's see a way of getting him to join us and get the advantage of his connections to our business.

Thiekshana : Malith aiye, how is my proposal? What about the opinion of Lalith ayya?

Lalith : No objection from me.

Thiekshana : Fine, Thanks a lot Lalith ayya.

Lalith : Of course, Thiekshana your brother and myself have carried on the business so far without any problems, so that there should be a fair value for the business built by us. In the sense the book value of our assets should have been updated.

Thiekshana : That's O.K.. I agree with you.

Malith : Then lets add a value for the goodwill of the business built by ourselves and update the assets.

- Non-current assets owned by the business have been recorded on their historical cost.
- When the ownership of a partnership is changed, the actual value (the updated value) of those assets should be recorded in the books.

Proposed instructions for learning

- Pay attention to the occasion received by each group out of the following occasions.
 - 01.01.2008- Joins the partnership.
 - 31.12.2008- Joins the partnership.
 - 30.06.2008- Joins the partnership.
 - 30.06.2008- Leaves the partnership.
- Direct students to study the following information regarding the partnership of A, B and C.
 - Profit / loss sharing ratio is 3: 2: 1 respectively.
 - Annual salary respectively.
A - Rs: 24 000/=
B - Rs: 12 000/=
C - Rs: 36 000/=
 - Interest on capital - 10%
 - Interest on capital - 10%
- Here is some of the information extracted for the year ended 31.12.2008.
 - Annual turnover Rs: 600 000/=
 - Cost of goods sold Rs: 400 000/=
 - Establishment expenses Rs: 16 000/=
 - Administrative expenses Rs: 24 000/=
 - Sales & delivery expenses Rs: 18 000/=
 - Financial expenses Rs: 12 000/=
 - Loan interest paid to A Rs: 4 000/=
 - Bad debts written off Rs: 2 000/=

- Capital
 - A Rs: 300 000/=
 - B Rs: 250 000/=
 - C Rs: 200 000/=
 - Drawings.
 - A Rs: 10 000/=
 - B Rs: 5 000/=
 - The goodwill as at the date of changing the ownership has been estimated as - Rs: 60 000/=
 - The profit has been raised by 50% after the changing of the ownership took place.
 - Bad debts written off is related to the period after 30. 06.2008.
 - A has provided the loan on 01.07.2008. The semi-annual interest for that period has been paid.
 - The changes in assets and liabilities as at the date of changing ownership.
 - Buildings - increased in Rs: 9 000/=
 - Furniture - decreased in Rs: 2 000/=
 - Revaluation expenses incurred Rs: 1 000/=
 - Direct students to use an account of the following type to compute the impact of the changes in assets and liabilities.

Revaluation Account

| | |
|--|-------------------|
| Decrease in value Expenses incurred | Increase in value |
|--|-------------------|

- Instruct students to transfer the outcome of the revaluation account to the capital accounts.
 - Make the goodwill adjustment in capital accounts as the date of changing equity.
 - Guide them to prepare the time -based income statement of the partnership using the relevant information. (Trade profit & loss account and the profit & loss appropriate account.)
 - Get the small groups ready for a co-operative and creative presentation before the entire class, with their findings.

Guidance on subject matter:

- The profit & loss sharing ratio of a partnership is changed due to,
 - Admission of a partner
 - Retirement of a partner
 - Because of the change of ownership of the partnership the business is converted to a new business.
 - The conversion of the value of former assets and liabilities to the current market value is justified.

- The value of goodwill should be adjusted to the capital accounts of the old partners.
- On the occasion of change of ownership of a partnership during the accounting period the income statement should be prepared on the time basis.
- If the change in ownership takes place at the beginning or end of the accounting period preparation of time based income statement is irrelevant.
- Definite revenues and expenditures should be separately recognized according to each period, very clearly.
- The following financial statements should be prepared for the accounting period of a partnership.
 - Trading profit & loss account.
 - Profit & loss appropriation account.
 - Current accounts.
 - Capital accounts.
- No partner shall face any kind of injustice in gaining profit / loss on the occasion the ownership changes.