G.C.E Advanced Level

ACCOUNTING

Teachers' Guide

Grade 12

(To be implemented from 2017)

Draft

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Learning Outcomes and Model Activities

Competency 1.0 : Analyses accounting and its need

Competency Level 1.1 : Evaluates the importance of providing accounting information to the parties who are interested in making decisions.

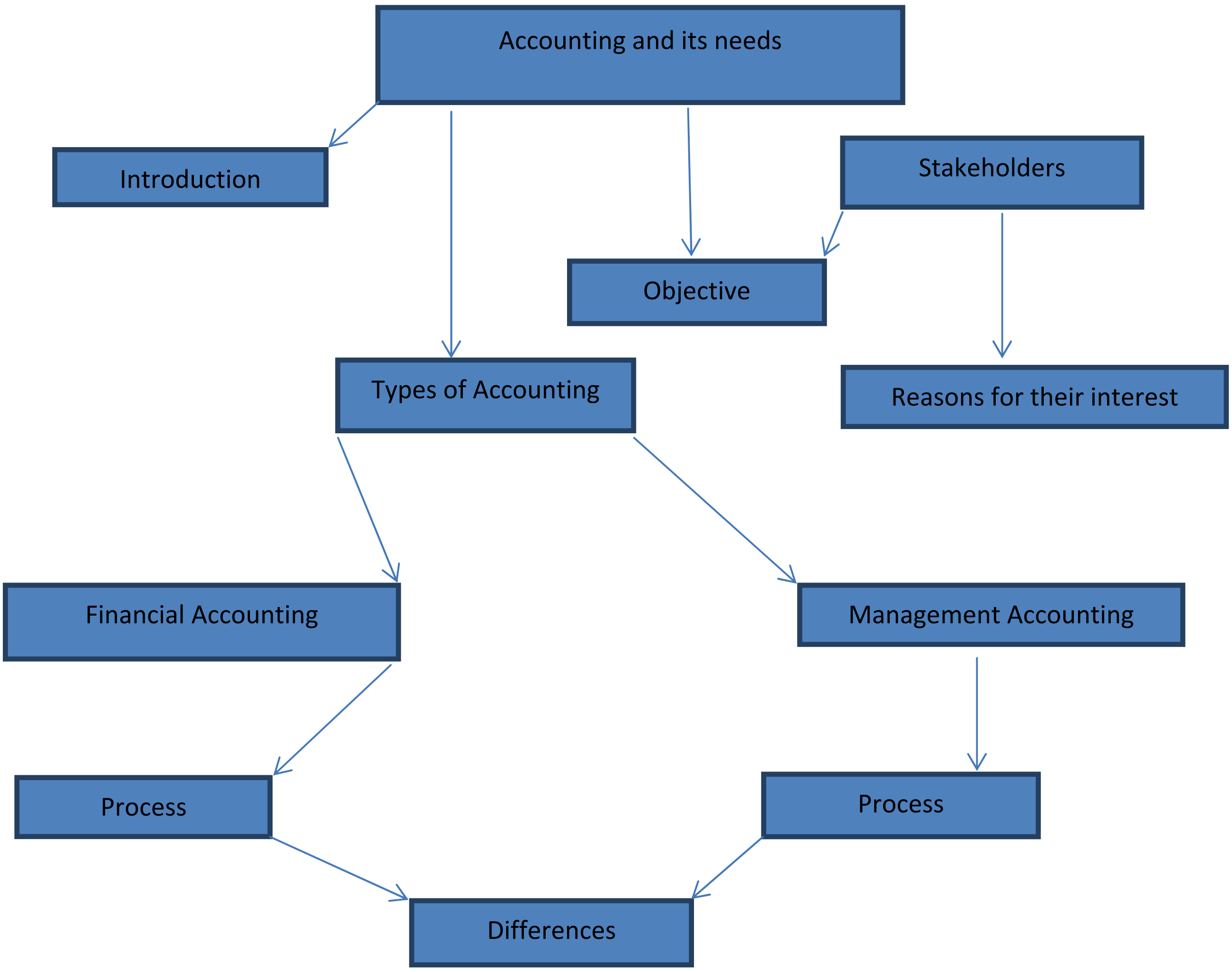
No. of periods : 02

Learning outcomes :

- Explain 'what is Accounting'
- Explain the objective of Accounting.
- Names the stakeholders of a business.
- Analyses the information requirements of the stakeholders of an organization on a grid.
- Explains the classifications of Accounting.

Basic Terms and Concepts

Concept Map



Learning – Teaching process

Engagement

- Introduce the business of "Milinda.com" to the students in a suitable manner. Milinda commenced a service organization in media and communication having made an initial investment of Rs.200,000. All transactions relating to this business have been recorded as given below.
    1. Loan transactions – recorded in a Loan register
    2. Cash transactions – recorded in a rough Cash Book
    3. Personal information about customers is recorded in a separate book.

  Two years later, based on the responsiveness of customers to its services Milinda decided to expand his business. For this purpose a further capital input of Rs.150,000 was the estimated requirement which was proposed to be met with a Bank loan. The bank has informed that they require financial statements of the past two years in order to provide this sum as a loan.

- Based on the information in this situation lead a discussion with the students that will cover the following areas:
    1. That the transactions in an organization include financial and non financialevents.
    2. That there are several stakeholders in an organization while considering the reasons for their interest.
    3. That the types of accounting can be differentiated as Financial Accounting and Management Accounting.
    4. That there are distinct procedures in Financial and Management Accounting methods.
    5. That there are differences in Financial and Management Accounting.
    6. Thatthe **objective of accounting is to provide information to relevant persons to enable them to make decisions.**
    7. That this provides a simple explanation of what accounting entails.

Proposed instructions to assist learning:

- Divide the students to two groups.
- Prepare a questionnaire that includes the following:
    1. State briefly what is meant by 'accounting'.
    2. What is the objective of accounting?.
    3. State 4 stakeholders of a business enterprise.
    4. State 1 reason each for the interest of each of the following stakeholders.
       a) Owner / owners
       b) Bank
    5. Name the different types of accounting

6. What is Financial Accounting?
7. State the process in Financial Accounting
8. What is Management Accounting?.
9. Identify the process in Management Accounting.
10. Name 4 financial events.
11. Present two events that are non- financial
12. Suggest two differences between Financial Accounting and Management Accounting.

- Allow the groups to select questions at random. (Instruct the students to state the question no. when requesting a question).
- Request the same group (in public) to suggest an answer to the question.
- If the correct answer is given credit them with 1 point and if the answer is incorrect, give the question to the next group.
- Give points to the two groups in this manner whenever a correct answer is provided.
- If the students are unable to provide the correct answer, the teacher should give them the correct answer.

Guidance on subject matter

- Different organizations have identified the definition of accounting as follows:

  American Accountancy Association (AAA)
  "Accounting is the **process**of identifying, measuring and communicating economic information to permit informed judgements and decisions by the users of the information".

  American Institute of Certified Public Accountants (AICPA)
  "Accounting is the **art** of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are in part at least, of a financial character, and interpreting the results thereof".

  If we consider the first definition of accounting we see that it is a general definition, while the second definition focuses attention on the process of financial accounting. Once we have studied these two definitions it is possible to arrive at a general definition as follows:
  "Accounting is the process of providing relevant economic information to the concerned stakeholders to enable them to make appropriate decisions."

  This definition covers the economic information, accounting unit, accounting process, the stakeholders and their decision making.

Objectives of accounting:
The main objective of accounting is the "communicating of economic information about the entity that will enable interested stakeholders to take decisions based on such information." The accounting entity can be an individual, an organization, the government, a business or any other unit. Here, what we consider as economic factors is the basic financial information. Examples:

- The profit of the business during the financial year is Rs.200,000.
- The total assets of the business is Rs.2,000,000.
- The gross profit of the business is Rs.500,000.

There is also information that is not of a financial nature but still important for the decision making of stakeholders.

- The workforce of the organization is 500.
- The business has a good reputation for its marketing of goods of high quality and in good condition.
- The business organization has good procedures for employee motivation.

The stakeholders of the organization and the information needs for their interest are indicated in the following table.

Interested Stakeholders	**The information requirements of the stakeholders**
1. Owner / Owners	• Has a satisfactory profit been made in accordance with the investment?. • Should further investments be made?.
2. Management	• Are plans being implemented appropriately? • What are the necessary plans/decisions for future development.?
3. Employees	• Is there stability of employment? • Is the business able to increase wages/salaries?
4. Government institution Eg: Tax department	• Are taxes being received on the due dates? • Are relevant reports submitted to appropriate entities.?
5. Customers	• Are goods of good quality provided at reasonable prices? • Does the organisation have a reputation and ability to honouring their commitments?
6. Creditors and lending Institutions	• Can the monies lent be recovered?. • Is it feasible to extend further credit/loans?

Types of Accounting
According to the different users of accounting information, accounting has two important divisions.

Accounting

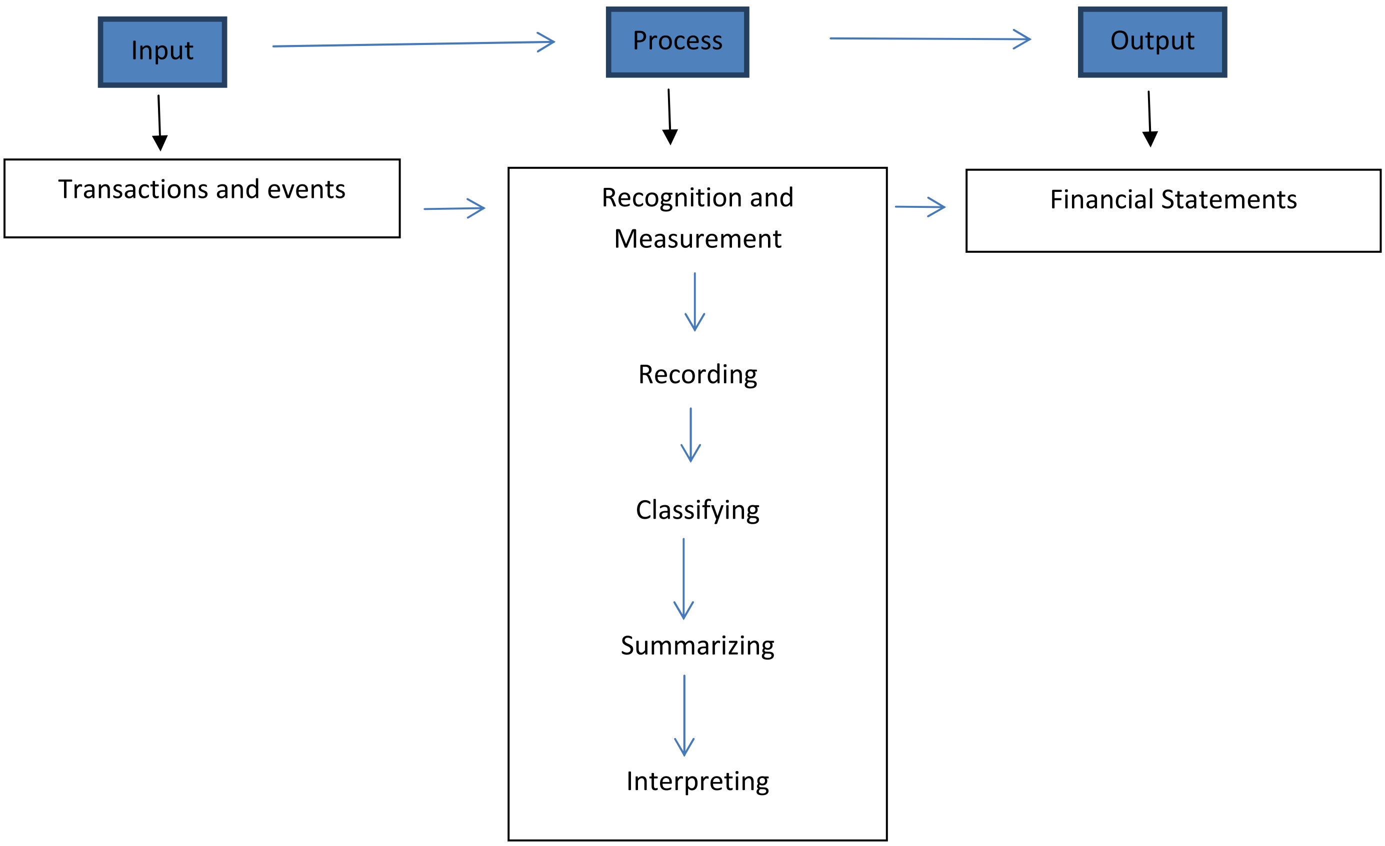
Financial Accounting

Preparation of information about the past transactions of an entity in a manner that will enable external persons to make economic decisions is Financial Accounting.

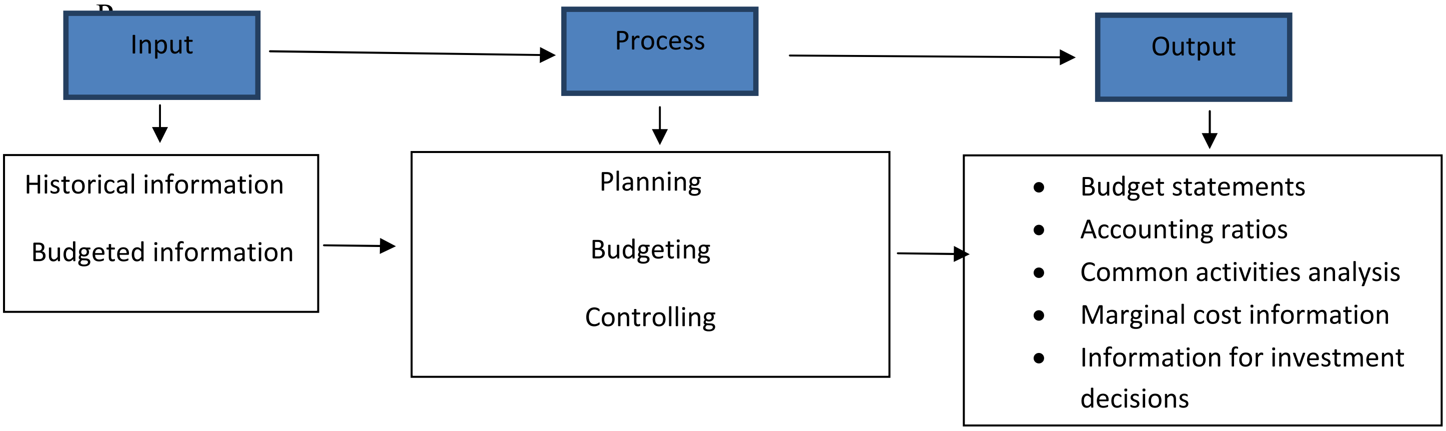
Management Accounting

The provision of relevant information that will assist and support all levels of management to plan, control, make decisions in order to fulfil their responsibilities is Management Accounting.

Financial Accounting Process



Management Accounting Process



Differences between Financial Accounting and Management Accounting

Financial Accounting	Management Accounting
1. Uses historical information only	1. Uses historical and budgeted information
2. Provides information for internal and external users	2. Information is provided only for internal Users
3. Information is provided for a specific period of time	3. Provides information as and when Required by management.
4. Follows accounting concepts, rules and Regulations	4. Accounting concepts, rules and regulations and standards are not relevant

Assessment and Evaluation Criteria

- Explaining accounting clearly
- Stating the objectives of Accounting
- Naming the stakeholders of the business and noting their information requirements
- Identifying given transactions and events as ‘financial’ and ‘non-financial’.
- Stating the differences between financial accounting and management accounting.

KEY TERMS

මූලික පද gpujhd gjq;fs; **Key terms**

- ඇල්මැති පාර්ශ්වයන් - அக்கறையுள்ள தரப்பினர் - Interested Stake holders
- මූල්‍ය ගිණුම්කරණය - நிதிக் கணக்கீடு - Financial Accounting
- කළමනාකරණ ගිණුම්කරණය - முகாமைக் கணக்கீடு - Management Accounting
- ගිණුම්කරණයේ අරමුණ - கணகீட்டின் நோக்கம் - Objective of Accounting
- ගිණුම්කරණයේ ප්‍රභේද - கணக்கீட்டின் வகைகள் - Types of Accounting
- ගිණුම්කරණයෙදවුම් - கணக்கீட்டு உள்ளீடுகள் - Accounting Inputs
- ගිණුම්කරණ නිමවුම් - கணக்கீட்டு வெளியீடுகள் - Accounting Outputs
- ගිණුම්කරණ ක්‍රියාවලිය - கணக்கீட்டுச் செயன்முறை - Accounting Process

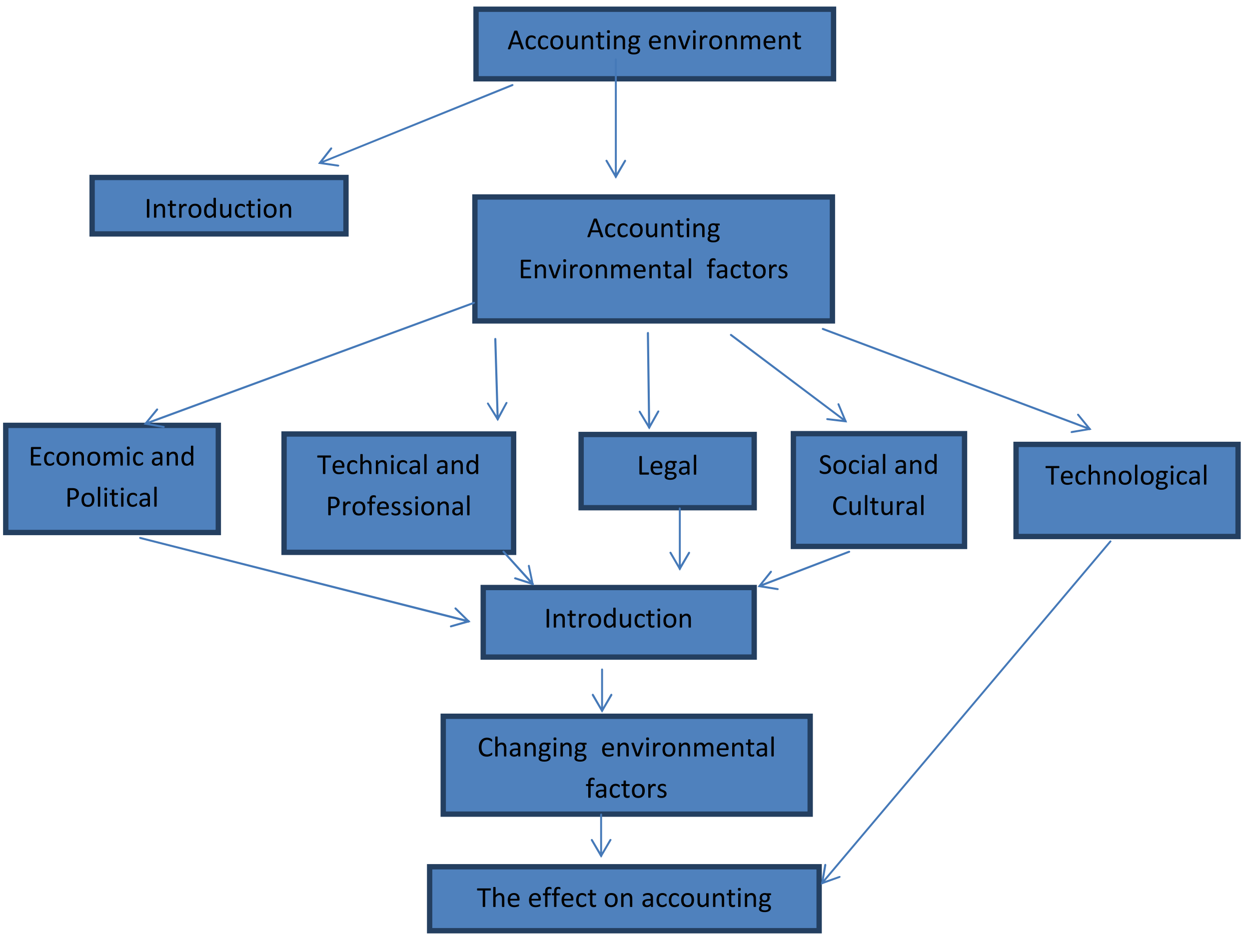
Competency 1.0	:	Analyses accounting and its purpose
Competency Level 1.2	:	Analyses the changes and trends in accounting based on changes in accounting environmental factors.
No. of periods	:	02

Learning outcomes :

- Explains the Accounting Environment
- Names and explains environment factors
- Discloses how changes in environmental factors influences the Accounting process.

Basic Terms and Concepts

Concept Map



Learning and Teaching Process

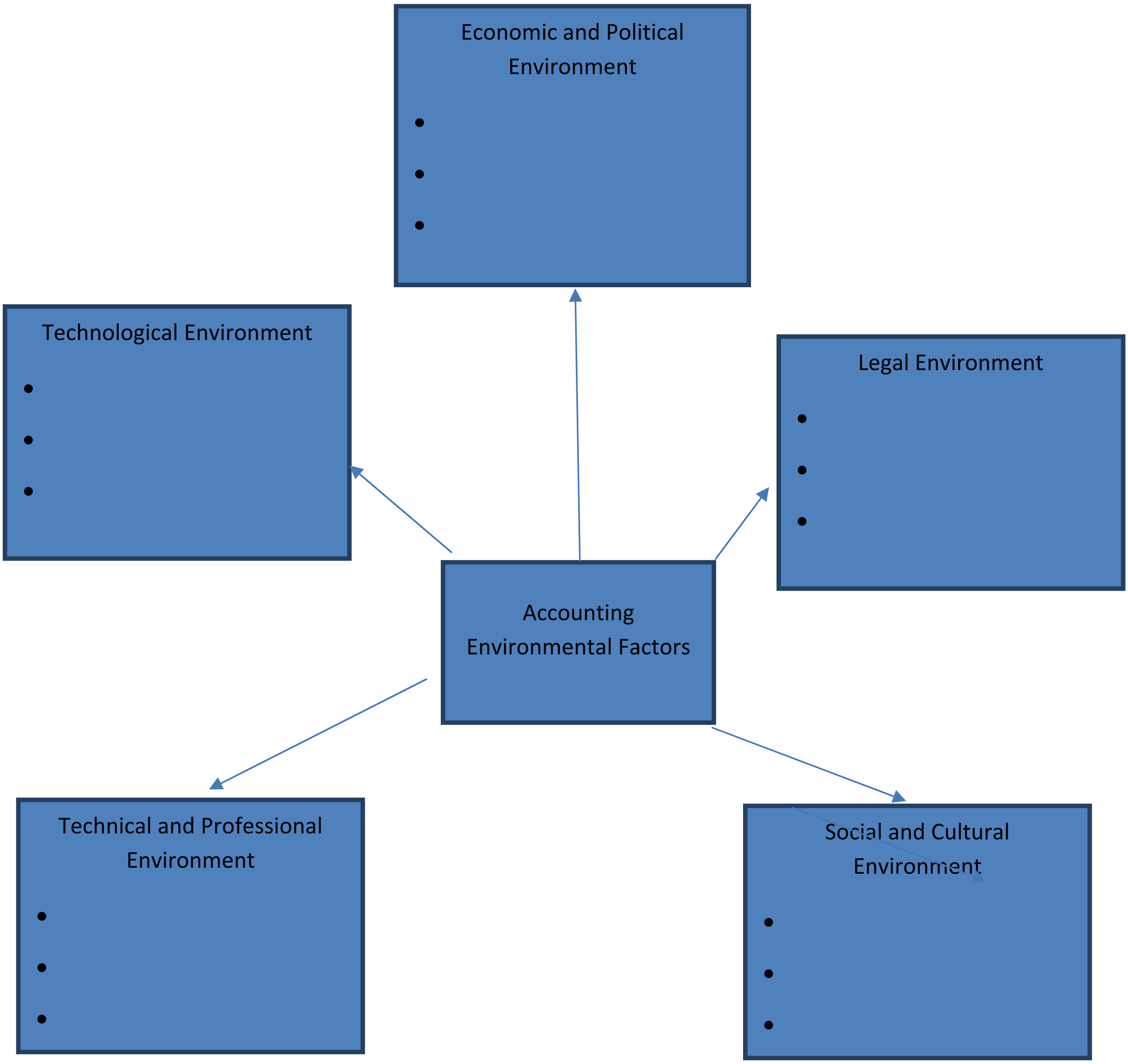
Engagement :

- While inquiring about the environment of the school conduct a discussion that develops the following:
- Businesses too have an accounting environment
- The following factors have an impact on business accounting:
  - Economic and political environment
  - Technical and professional environment
  - Legal environment
  - Social and Cultural environment
  - Technological environment

Proposed Instructions for Learning:

- Give each student a copy of Annexure 1.2.1 which contains the diagram of the variable environmental factors affecting accounting.
- Direct students to make a careful study of the diagram containing the accounting environmental factor variables.
- Direct students to write down the environment factor variables against each of the environment factors.
- Give an opportunity for the students to present their completed tables to the entire class.
- If there are any errors in the students' classifications assist them to make the necessary corrections.
- Select several of the environment factor variables and explain how each of them affect accounting.

Annexure 1.2.1



Environment factor variables

1. Exchange ratios
2. Accounting standards
3. Modern Technical instruments
4. Tax principles
5. Computer technology
6. Companies' Act
7. Price levels
8. Communication technology
9. Partnership Ordinance Act
10. Migration
11. Professional accounting firms
12. Personal life style patterns

Guidance on subject matter

Accounting environment : The environment that has an influence on the accounting process of a business is the accounting environment.

The influence of the main environment factor variables on Accounting of a business can be classified as in the following table.

Environmental factor	Introduction	Variables
01. Economic and Political environment	The decisions taken to prepare and the implementation of economic policies of a government is known as the **Economic & Political Environment.**	• Taxation policy • Exchange ratios • Price levels • Government policies (interest rates, wages decisions) • State of the market (financial / capital)
02. Legal Environment	The necessity to observe the laws relating to accounting in the accounting process is known as the **Legal Environment**	• Companies Act No.07 of 2007 • Partnership Ordinance Act 1890 • Inland Revenue Act • Accounting and Auditing Standards Act • Court judgements relevant to Accounting
03.Social & Cultural Environment	The hopes, customs, aspirations and attitudes of the persons in the society and its environs is known as the **Social & Cultural Environment**	• Attitudes • Hopes and customs • Habits • Beliefs • Population • Migration • Personal life style patterns
04. Technological Environment	The use of various technical equipment to assist the accounting process is known as the **Technological Environment**	• Computer technology • Use of modern technical equipment • Communication technology
05. Technical and Professional Environment	The use of numerous techniques to measure and make financial evaluations of the assets of a business is known as the **Technical and Professional Environment**	• Accounting standards • Techniques in accounting • Professional accounting bodies

How changes in accounting environment factors affect Accounting

Environmental factor	Variables in environment factors	Effect on Accounting
1. Economic and Political Environment	• Interest rates	• A reduction in interest rates encourages obtaining loan finance. Profits increase. • The increase in additional loans result in business development and increased income.
2. Legal Environment	• Partnership Ordinance Act 1890 • Companies' Act No.07 of 2007	• Where there is no written agreement to the contrary, the profits in a partnership must be shared equally. • As per the Companies' Act All companies must prepare Financial Statements
3. Social & Cultural Environment	• Personal life style patterns	• The consumption of locally produced food encourages more businesses to engage in local food production and sale thus increasing profits.
4. Technological Environment	• Use of modern technological equipment	• In the marketing of gold a 'Densimetre' is used which helps to prevent fraud thus increasing profits.
5. Technical & Professional Environment	Depreciation of Property, Plant and Equipment according to the standards	• The use of the 'Straight Line method of depreciation' from among many methods protects the uniformity in the information.

Assessment and Evaluation Criteria

- Name the Accounting environmental factors
- A decision taken by the government resulted in an increase in the income of businesses. Under which environmental factor can this be classified?
    1. Economic environment
    2. Legal environment
    3. Technological environment
    4. Social & Cultural environment
    5. Technical & Professional environment

- Name two variables in the Social & Cultural environmental factors and taking one of them explain its effect on Accounting.
- ‘Accounting can be carried out outside the Legal Environment”. Explain whether this statement is true or false.

KEY TERMS

මූලික පද	gpujhd gjq;fs;	**Key terms**
• ගිණුම්කරණ පරිසරය	- கணக்கீட்டுச் சூழல்	- Accounting Environment
• ආර්ථික හා දේශපාලන පරිසරය	- பொருளாதார மற்றும் அரசியல் சூழல்	- Economic and political environment
• ශිල්පීය හා වෘත්තීය පරිසරය	- நுட்ப மற்றும் தொழில்சார் நுட்பச் சூழல்	- Technical and professional environment
• නෛතික පරිසරය	- சட்டச் சூழல்	- Legal environment
• සමාජ හා සංස්කෘතික පරිසරය	- சமூக கலாசாரச் சூழல்	- Social and cultural environment
• තාක්ෂණික පරිසරය	- தொழிநுட்பச் சூழல்	- Technological environment

Competency 1.0 : Analyses accounting and its purpose

Competency Level 1.3 : Analyses accounting as a process

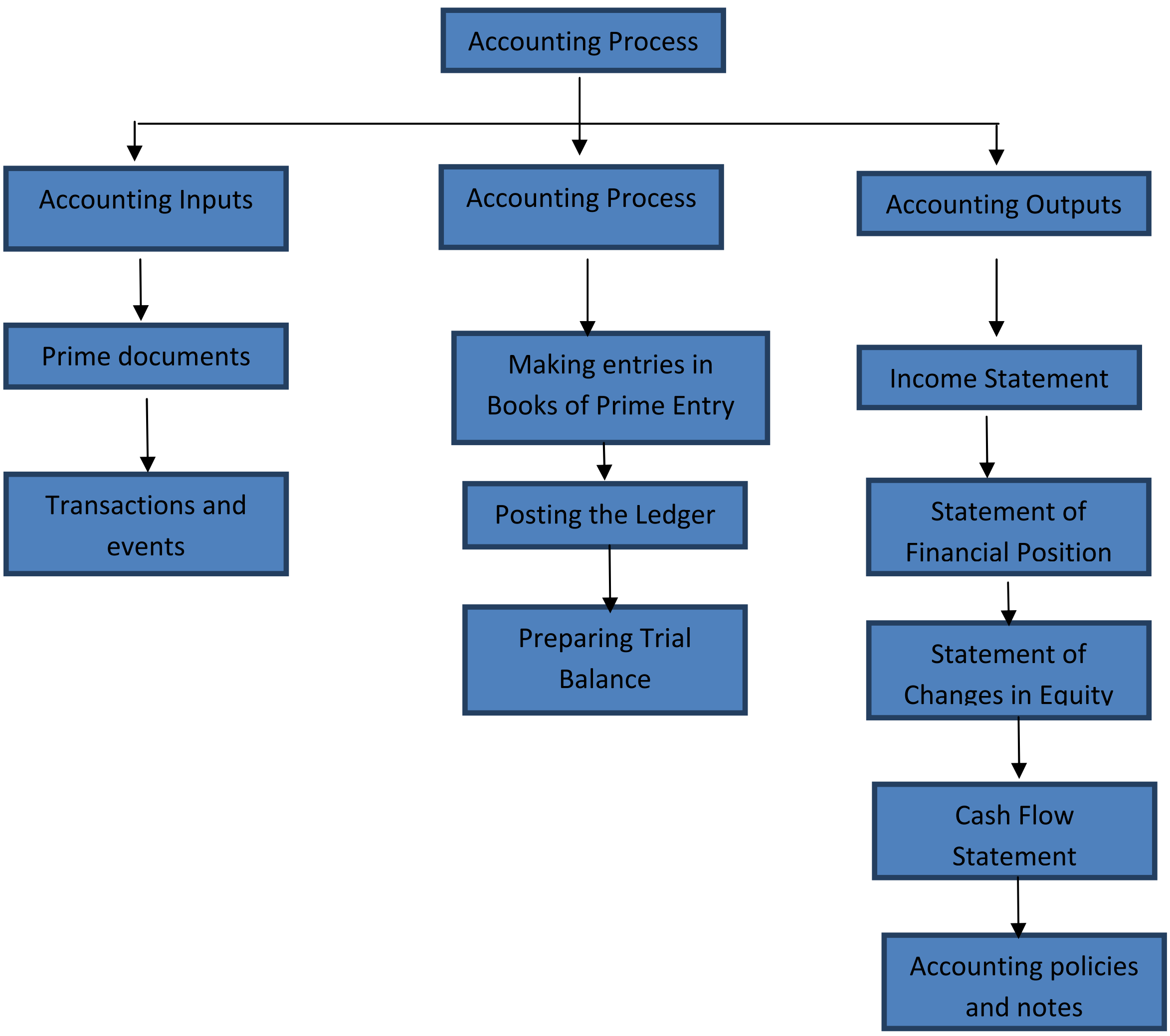
No. of periods : 01

Learning outcomes :

- Explains Accounting Process
- Presents steps in the Accounting Process.

Basic Terms and Concepts

Concept Map



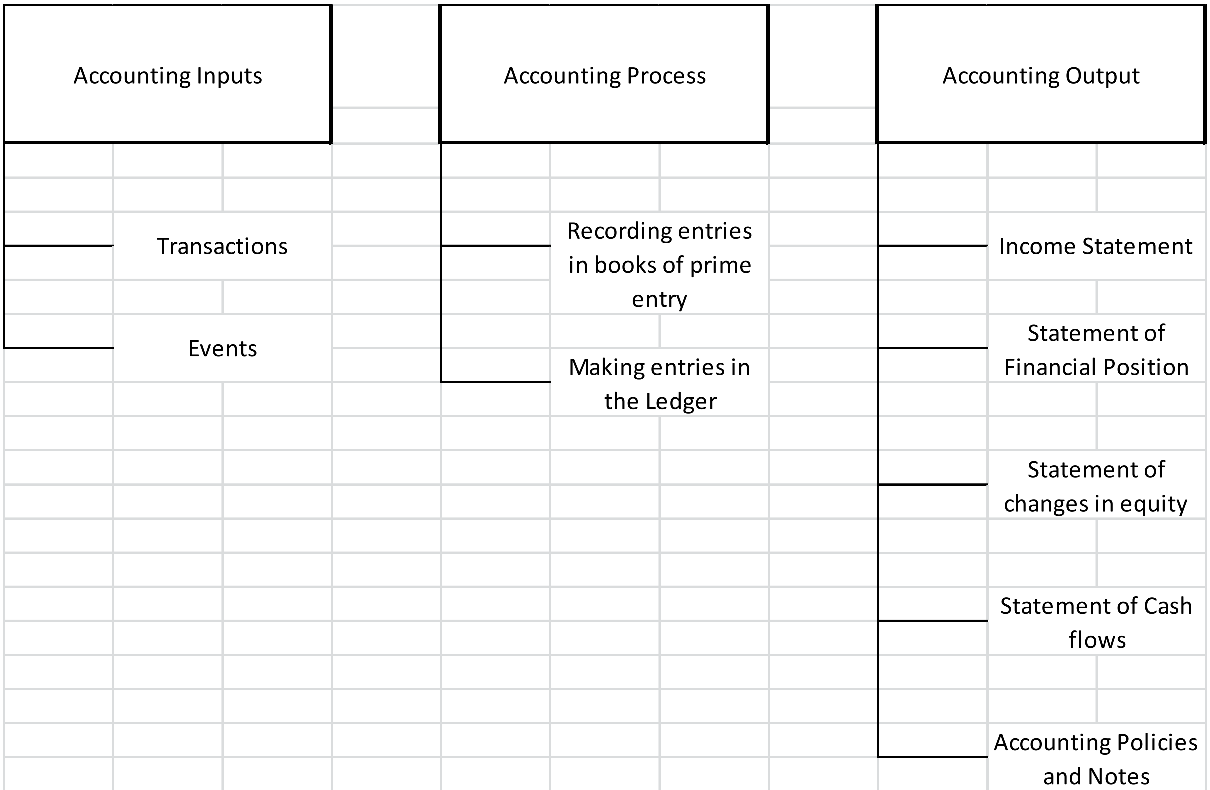
Learning and teaching process

Engagement

- Discuss the following with the students while directing them to the subject matter.
    - That the bread used for consumption is the result of a production process.
    - The ingredients used in the production of bread are 'inputs'. Name them.
    - There is a process that is followed in the production of bread. What are the different parts of this process?
    - Finally the bread is produced as the end product.

Discuss with students that Accounting is also a process.

Guidance on subject matter



- What is used as the basic information for the preparation of financial statements are known as the accounting inputs. These are the transactions and events.
    - There are prime documents that record the relevant information for the accounting inputs. We should first consider these.

      Eg: When money is received - Receipt
      When money is paid out - Payment Voucher

- A transaction takes place when an exchange that is measurable in money terms is made between two parties.

  Eg: Purchasing a stock of goods worth Rs.30,000 for trading purposes.
  Obtaining a bank loan of Rs.50,000.
  Payment of wages of Rs.10,000.

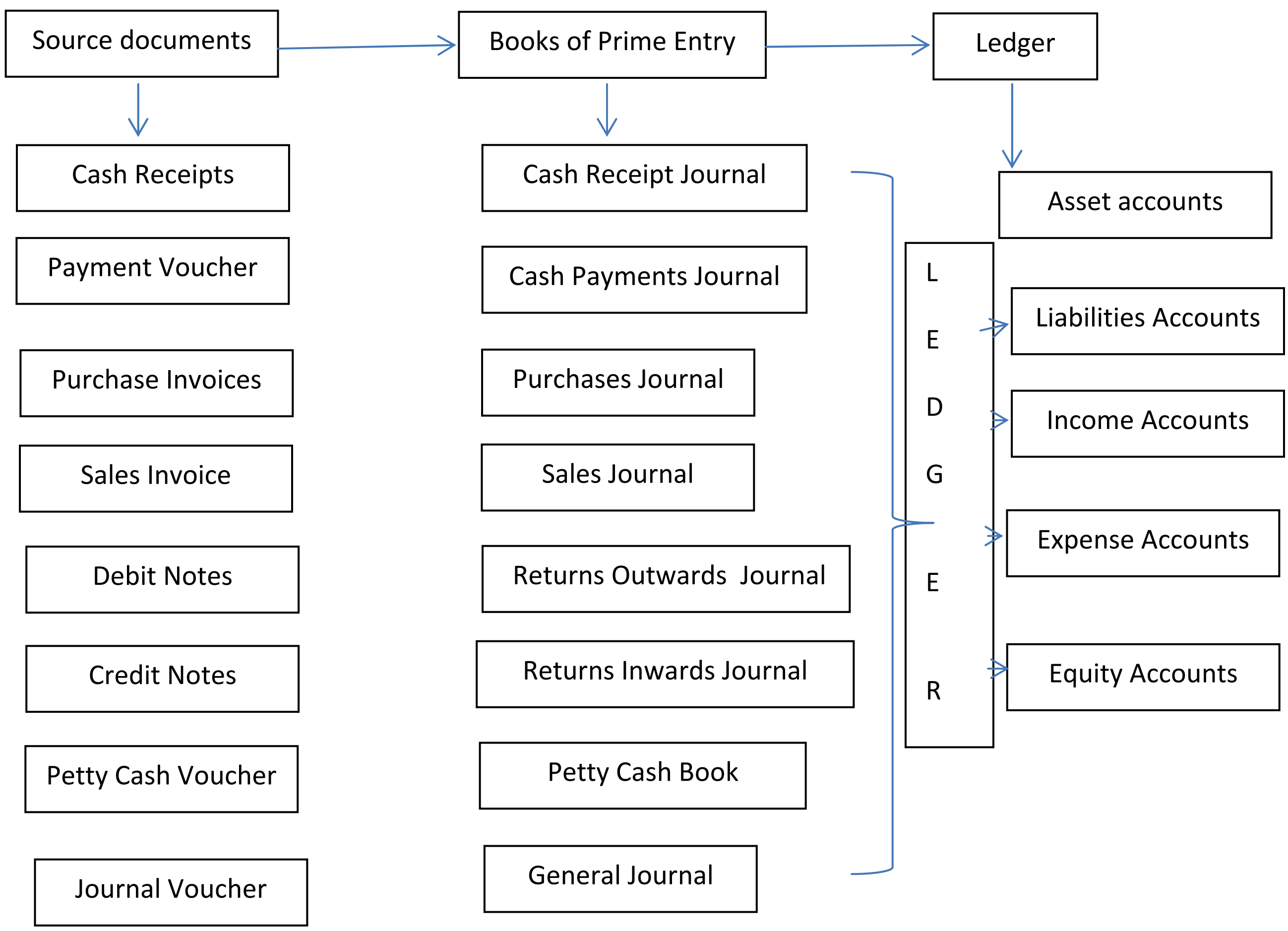
  These transactions will result in changes in the financial positionof the assets, liabilities and equity of the business.

  Even where an exchange does not take place between two parties while still changes that are measurable in money terms that affect the assets, liabilities and equity take place, these are identified as 'events'.

  Eg: (1) Assets such as Plant, Furniture & Fittings depreciate as a result of usage (reduction in value).
  (2) A stock of goods getting destroyed.

We can identify the different stages of the Accounting Process as follows:

1. Measuring the 'transactions' and 'events' of the business in money terms.
2. Recording in the Books of Prime Entry from Source Documents.
3. Transferring information from the Books of Prime Entry to the Ledgers.
4. Balancing the ledger accounts and preparing a Trial Balance.



- Accounting output means the preparation of the basic accounting statements that will allow economic decisions to be taken. Included here are,
    - Income Statement for the period / Statement of Profit or Loss
    - Statement of Financial Position as at a given date that shows the position of the assets, liabilities and equity.
    - Statement of changes in Equity that shows how the owners' equity has changed during the period.
    - Cash Flow Statement that shows the cash inwards and outwards and changes in cash flows during the period.

Assessment and Evaluation Criteria

(1) Stating the Source Documents where the following is recorded?
   i. Cash Sales of Rs.25,000.
   ii. Payment of Insurance charges Rs.4,000.
   iii. Receiving goods for trading valued at Rs.45,000 from Amal's company.
   iv. Return of goods valued at Rs.2,000 to Amal's company as they did not conform to the order.

(2) Naming the Prime Books of Account where item (1) above is recorded.

(3) Stating the stages in the Accounting Process in the correct order.

(4) Naming the primary statements that are prepared to obtain the following information?
   i. Profit for the period
   ii. Status of the Assets, Liabilities and Equity
   iii. Changes in Equity

KEY TERMS

මූලික පද gpujhd gjq;fs; **Key terms**

- ව්‍යාපාර ඒකක සංකල්පය - வணிக அலகு எண்ணக்கரு - Business entity concept
- මූල්‍ය මිණුම් සංකල්පය - பண அளவு எண்ணக்கரு - Money measurement concept
- වත්කම් - சொத்துக்கள் - Assets
- වගකීම් - பொறுப்புக்கள் - Liabilities
- හිමිකම් - உரிமையாண்மை - Equity
- ගිණුම්කරණ සමීකරණය - கணக்கீட்டுச் சமன்பாடு - Accounting equation

Competency 2.0 : Presents transactions and events of a business through an accounting equation.

Competency Level 2.1 : Evaluates how the total assets of a business agree with it total of liabilities and equity.

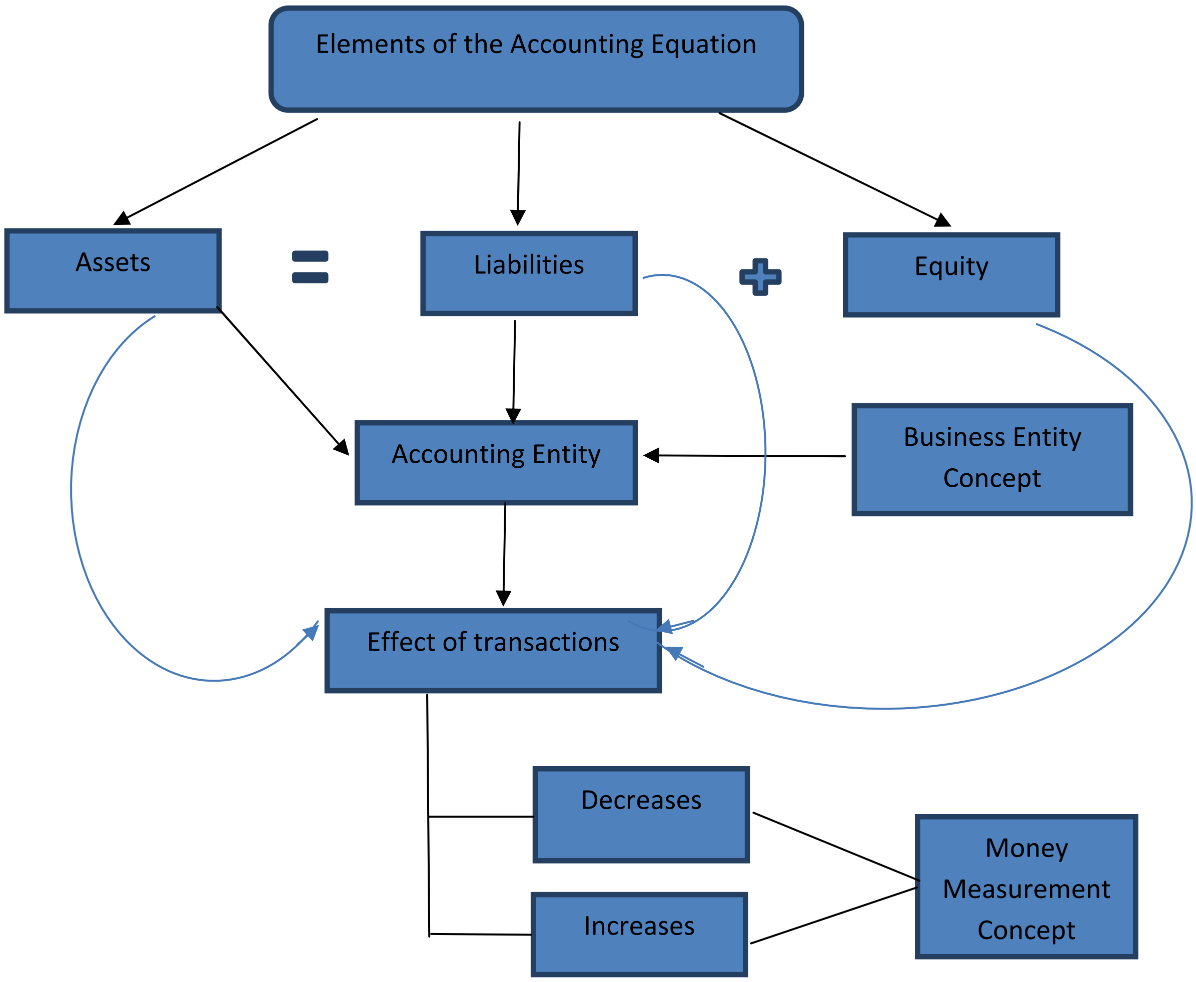
No. of periods : 10

Learning outcomes :

- Explains Business entity concept.
- Explains "transactions" of a business entity
- Explains money measurement concept.
- Develops the Accounting equation.
- Presents the influence of transaction on assets, liabilities and equity through the accounting equation.

Basic terms and Concepts

Concept Map



Learning – Teaching process

Engagement:

- Commence the lesson enquiring from students about their views of a popular business in the area. Engage with the students in a discussion that brings forth the following points.
    - Explain to the students that in maintaining accounts, the business and the owners are considered as two entirely separate persons or entities.
    - However much transactions take place in a business, make clear that only the transactions that are measurable in money terms are recorded.
    - The investment made in the business by the owners is called 'capital'.
    - Explain that when the investors' capital becomes insufficient, it may become necessary to obtain loans, stocks of goods, fixed assets etc from outside parties. Explain that this will result in the creation of liabilities.
    - Discuss that the resources that generate profit for the business are identified as assets.
- If the resources of the business have been invested only by the owner confirm that

Assets = Equity

- Clarify that when outside persons and owners have invested in the resources of the business, the accounting equation becomes:

Assets = Equity + Liabilities

- Now, engage the students in the following activities:

Activity 01 : Worksheet

- Give each group a copy of the following worksheet.

Sanka is a businessman carrying on a retail trade business. He commenced trading operations on January 01, 2017. He inherited a valuable building worth Rs.2,000,000 from his father that he invested in the business together with Rs.1,000,000 of his savings. However, he did not invest the Savings Deposit of Rs.500,000 that was in his name.
With the rapid increase in business activity, in order to expand the business he obtained a Bank loan of Rs.4,000,000 while also employing a person holding a Management Degree.

Proposed instructions for Learning

- Divide the students into four groups.
- Ensure that each group has a copy of the worksheet.
- Involve the groups in the activity in the following manner:
    - Provide questions at random to each group as appropriate.
    - Give an opportunity to discuss and provide answers to the questions.
    - As each group presents their findings discuss and clarify the subject matter that emanates.
- Present the relevant questions of each group in the following manner.

Group No.	Questions to be asked
01	• State the total resources that Sanka **can invest** in the business • State how much of this available resource has been **invested** in the business
02	• Divide the resources Sanka has invested in his business as per the following captions: o Resources that can be measured in monetary terms o Resources that cannot be measured in monetary terms
03	• State the value of the resources Sanka has contributed to his business • State the value of the resources that were obtained from outside parties • What is the total value of the resources invested in the business
04	• What are the assets that Sanka initially invested in the business? • State the total value of these assets

Guidance on subject matter.

- When all the groups have presented their findings, the relevant questions of each group can be stated in the following manner.

Group No.	Points relevant to the subject
01.	• That the business is independent of its owners or other parties • Explain that this is the **' business entity concept'** • What is recorded is not the owner's transactions but only the transactions entered into by the business.
02.	• Only the resources that have a monetary value are recorded • Explain that this is the **'money measurement concept'** • Explain that resources that cannot be valued in monetary terms though important for decision making are not recorded.

03.	• The resources input by the owner is called capital. • The amounts repayable to other parties that are not the owners are known as liabilities. • Explain also that all resources received from the owners and outside parties are assets. • Show that therefore, the accounting equation can be constructed as "Assets =Equity + Liabilities"
04.	• Explain that when only the owners have contributed resources to the business • the equation will commence as "Assets = Equity"

Activity 02 :

- Divide the students into four groups
- Provide each of them details of the following situation:

Situation: "Malsha Retail Trading Shop"

01/01	On 01/01/2017 Malsha utilized Rs.500,000 of his money together with a motor vehicle valued at Rs.700,000 to commence a retail trading shop.
02/01	He purchased a stock of goods worth Rs.100,000 for cash.
03/01	He obtained Furniture and Fittings worth Rs.150,000 from Lakdiva Furniture on credit.
04/01	He recruited a workman agreeing to pay Rs.10,000 per month.
05/01	Paid Rs.10,000 being the cost of fuel for the motor vehicle.
06/01	Paid Rs.25,000 to Lakdiva Furniture.
07/01	Malsha incurred a loss of Rs.150,000 as a result of burglars breaking into his house.

- Show the above transactions substituted into the accounting equation.
- Inquire from students whether all the above transactions can be included in the accounting equation.
- Give an opportunity to present the findings as individual groups and jointly to the class as a whole.

Eg:	Equity	+	Liabilities	=	Assets		
					Cash	+	500,000
					Motor vehicle	+	700,000
	1,200,000						1,200,000

Guidance on subject matter.

- Recall the elements in the Accounting equation.
- Emphasize that it is only the transactions that have a monetary value that are accounted for.
- **Profit generated in the future from a past activity is known as an asset controlled by the business.**
- **The outflow of resources in the present as a result of a past transaction is known as a current liability.**
- As a result of transactions and events, the double impact on assets, liabilities and equity can be summarized as follows:

Transaction No.	Equity	+	Liabilities	=	Assets	Dual effect
1				=	- +	One asset decreases while another increases
2			+	=	+	Assets increase and liabilities increase
3			-	=	-	Assets decrease and liabilities decrease
4	+			=	+	Assets increase and equity increases
5	-			=	-	Assets decrease and equity decreases
6	+		-	=		Liabilities decrease and equity increases
7	-		+	=		Liabilities increase and equity decreases

Using examples discuss these transactions with the students.

Assessment and Evaluation Criteria:

<u>Question 1</u>

1. From the transactions below, select the ones that have an affect on the equity of the business:
    i. Ashan invests Rs.500,000 to commence a business.
    ii. Utilizing a building valued at Rs.1,000,000 that Ashan inherited from his parents for the business activities.
    iii. Purchasing a motor vehicle for Rs.800,000 for business purposes.
    iv. Purchasing equipment for business purposes, worth Rs.100,000 on credit from Kamal.
    v. Purchasing of a stock of goods for resale for cash Rs.40,000.

2. From the following transactions select the one that will result in a decrease in Equity as well as Assets.
    i. Obtaining a bank loan of Rs.200,000.
    ii. Purchasing a stock of goods for cash Rs.50,000.
    iii. Drawings by the owner worth Rs.10,000.
    iv. Payment of Rs.30,000 as part settlement of bank loan.
    v. Purchasing goods worth Rs.40,000 on credit.

3. Of the following statements except for one the rest are correct. Select the incorrect statement.
    i. Where there are no external parties contributing resources to the business the Accounting Equation is "Assets = Equity".
    ii. A business is a separate entity distinct from its owners and other businesses.
    iii. The money measurement concept states that only changes in the monetary values of assets are recorded.
    iv. Whenever there is a change in the assets of a business there will be a corresponding increase or decrease in Equity.
    v. The changes in a business' liabilities is affected by an impact on its assets and equity.

4. In the following statements mark (/) if correct or (x) if it is incorrect.

    i. The business entity concept must be taken into consideration in preparing accounts ( )
    ii. A business must pay the personal expenses of the owner ( )
    iii. Assets change as a result of the impact of Equity and Liabilities ( )
    iv. The owner cannot provide capital after the initial capital input ( )
    v. When a person owns several businesses, it is appropriate to maintain accounts for all together as a single entity. ( )

Solutions

(1)i, ii (2) iii (3) iv (4) i – True, ii – False, iii – False, iv – False, v - False

Question 2

The investment of Janithya on January 01, 2017 to commence a business and the dual impact of the transactions during the first week is shown below as an equation.

	Transaction	Assets	=	Equity	+	Liabilities
(i)	Land & Buildings	+5,000				
	Motor Vehicle	+2,000				
	Cash	+1,000	=	8,000		-
(ii)	Cash	-500				
	Stock of goods	+500	=		+	
(iii)	Office equipment	+300				
	Cash	-300				
(iv)	Cash	+800	=		+	+ 800 Bank Loan
(v)	Cash	- 200	=	- 200 (Equiry)	+	

Requirement:

1. Explaining each of the above transactions in details with values
2. Showing the totals of all Assets, Liabilities and Equity at the end of the first week.

Question 3.

The account balances of Thushan's business as at January 01, 2017 is as follows:

	Rs. '000's
Land & Buildings	4,000
Motor Bus	2,000
Bank	500
Bank loan	1,500

The transactions during the first week were as follows (Rs.'000's)

1. Paid Rs.50 to purchase a stock of goods
2. Paid Bank loan installment Rs.500.
3. Purchased a stock of goods on credit from Chathura Rs.250.
4. As the brand of the goods requested differed goods worth Rs.25 was returned to Chathura.
5. Thushan withdrew Rs.50 for personal expenses.

Required:

1. Insert the above transactions in the equation 'Assets = Equity + Liabilities'
2. Calculate the final totals for Equity, Assets and Liabilities after all the transactions.

KEY TERMS

Competency 2.0 : Presents transactions and events of a business through an accounting equation.

Competency Level 2.2 : Discloses the changes in equity through the transactions and events of business.

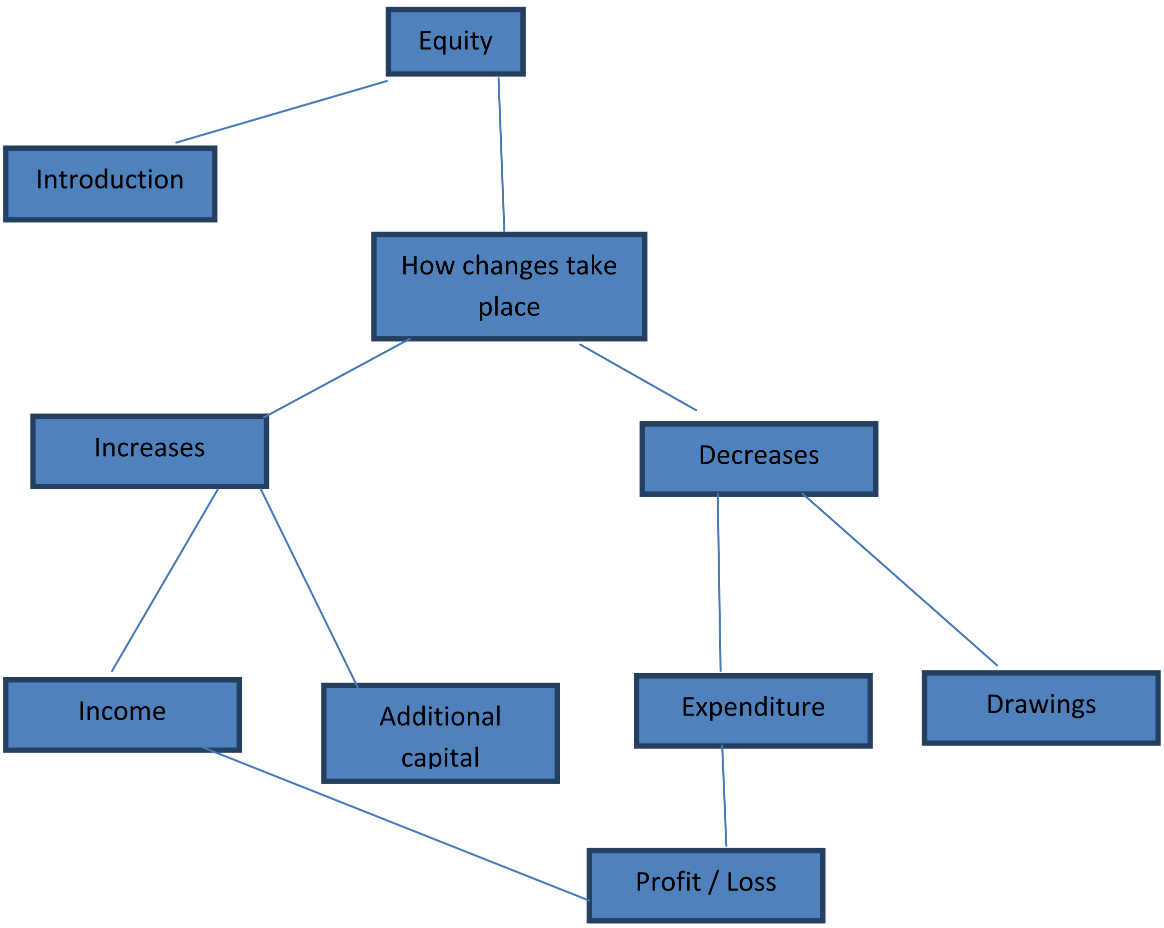
No. of periods : 03

Learning outcomes :

- Names the factors that change equity and explains them.
- Calculates net assets/equity.
- Calculates profits or losses by using net assets.

Basic Terms and Concepts

Concept map



Learning and Teaching Process

Engagement :

- Arrange for two students in the class to carry out the following dialogue for all the students in the class to hear.
- Arrange for another student to record the transactions on the board while the dialogue is going on.
- State the difference between equity and capital.
- Explain how the financial results impact the equity.

Oshada	:	Hi…… Muditha how are your business activities going on?
Muditha	:	Recently I invested Rs.20 lakhs to start a 'Car Sale' business. I purchased two vehicles and later sold them for Rs.30 lakhs.
Oshada	:	Great. Your business is successful isn't it?
Muditha:		Yes, yes, but I had to spend a little. I have to pay Rs.50,000 as rent for the building where I am carrying out the car sale business. Besides that I also had to pay Rs.10,000 for the electricity and telephone bills.
Oshada:		You didn't purchase a vehicle recently?
Muditha:		I bought two more vehicles. They cost Rs. 25 lakhs. Later on as the money was not enough I sold one of my lands and invested Rs.50 lakhs in the business. However, when my wife got sick I had to spend Rs.150,000 from the business funds. I also paid Rs.100,000 from the business funds for my son's school fees. I will try to control my expenses a little bit.
Oshada	:	I also like to do a vehicle business.
Muditha:		Good idea. If you have the money start the business. Last week I also obtained a loan of Rs.800,000 from the People's Bank.

Commence a discussion incorporating the following points:

- That employing additional capital increases the equity.

- When the owner takes money from the business to meet his personal expenses it is called '**drawings'** and this result in a reduction in equity.
- When carrying on a business various administration expenses are incurred and that this too results in a reduction in equity. Examples of administration expenses could be electricity bills, telephone bills, building rent etc.
- As a result of the daily activities of the business income will be earned and as an example of income we can identify the proceeds of the sale of motor vehicles. Besides this, bank deposit interest can be termed as income.
- Income increases profits, thereby increasing equity.

Proposed instructions to assist learning:

Activity

- Distribute four copies of a statement that contains the following events to each of four groups of students.

  Rupika commenced a beauty parlour which started its activities on January 01, 2017 and the following transactions took place during the first week.

2017/01/01	To commence business activities she gave the business a building valued at Rs.8 lakhs that she owned together with Rs.5 lakhs in cash.
2017/01/02	Purchased necessary materials for use in the beauty parlour at a cost Rs.2,250,000.
2017/01/03	Income for the supply of beauty parlour services Rs.150,000 while the cost of materials used was Rs.100,000.
2017/01/04	Obtained a loan of Rs.2 lakhs from the People's Bank for business expansion.
2017/01/05	Paid Rs.3,000 for telephone services and Rs.2,000 for electricity in cash.
2017/01/06	Paid Rs.10,000 as salary to an assistant.
2017/01/07	Rupika took Rs.4,000 from the business for her personal expenses.
2017/01/07	Rs.50,000 for the provision of Staff Loans. Cost of materials consumed is Rs.40,000.

- Give the groups enough time to make a careful study of the transactions.
  - Guide the students in the understanding of each transaction and how it affects the accounting transaction stating it as follows:

Tramsaction	Capital	Income	Expenses	Liabilities	Assets
1					
2					

- Demonstrate how to calculate the total income and total expenditure of the business.
- Direct how to assess the impact of the results of the administration of the business and how it affects the equity.
- Prepare the groups to creatively present their findings to the whole class.

Guidance on subject matter

- A business will earn income through its operating activities.
- **The reasons for the increase in equity during an accounting period through an increase in the cash inflow or increase in assets or reduction in liabilities and without the contribution of the owners, the resulting increase in the economic benefits is known as "income".**
- **In carrying out the operating activities of a business it incurs different types of expenditures. During an accounting period, the outflow of cash or a reduction in the value of assets (depreciation) or increase in liabilities, excepting distributions to the owners, any reduction in the economic benefits is identified as "expenses".**
- When income exceeds expenditure it is **profit**, while when expenditure exceeds profits it is **losses**.
- The difference in the income and expenditure during a period is the result of its operating activities.
- While the use of cash or property or goods of the business is used for personal needs of the owner it's value is termed as "drawings" it reduces the equity level of the owner.
- When drawings is added back to the difference between the opening and closing equity of a business and reducing any additional capital introduced the profit or loss during a period can be calculated.

	Rs.
Closing Net Assets (CAN)	xxx
- Opening Net Assets	(xxx)
	xx
+ Drawings	xx
	xx
- Additional capital	(xx)
Profit / Loss (P/L)	xx

P/L = CNA – ONA + D – AC

- The business transactions of the above business can be stated as follows:

Rupika's Business					
Date	**Capital**	**Income**	**Expenses**	**Liabilities**	**Assets**
01/01	+1300				Cash +500
					Building +800
01/02					Cash -225
					Stocks +225
01/03		+150	+100 (Cost of sales)		Stocks -100
					Cash +150
01/04				+200 (Bank Loan)	Cash +200
01/05			+3 (Telepohone)		Cash -5
			+-2 (Electricity		
01/06			+10 (Salaries)		Cash -10
01/07	-4 (Drawings)				Cash -4
01/07		+50 (Sales)			Stocks -40
			+40 (Cost of Sales)		Debtors +50
	1296	200	155	200	1541

- The effect of each transaction on the capital, income and expenditure, assets and liabilities is shown as + or -.
- The profit for the period can be accounted for as follows:

  Profit = Income – Expenses

  45 = 200 - 155

The profit / loss of Rupika's business can be calculated from net assets in the following manner.

Closing Net Assets	1.341
- Opening Net assets	-1,300
	41
+ Drawings	4
	45

Assessment and Evaluation Criteria

01. Select the statements that only affect a change in equity.
    A. Investment by the owner of Rs.400,000 of his cash on land & buildings for the business.
    B. Payment of Rs.50,000 for the owner's domestic telephone bill.
    C. Payment of Rs.150,000 for the business electricity bill.
    D. Purchase of a computer for the business for a payment of Rs.100,000.
    E. Receipt of Rs.20,000 being interest on a business Fixed Deposit.
    (i) ABDE (ii) ABCD (iii) ABCE (iv) BCDE (v) only ABC

02. Select the correct word from the following to fill the blank in the statements below: (inputs : drawings, expenses, income, equity, additional capital)

    (i) The investment of additional resources/cash to an existing business is known as ______________. This increases equity.
    (ii) When carrying on a business different types of ___________ needs to be incurred. This will reduce equity.
    (iii) The money value of resources withdrawn from the business by the owner is known as ___________.
    (iv) As a result of a business' operating activities different inputs are received. These are known as ____________. These transactions result in an increase in equity.
    (v) The ownership of the business owners is known as ___________.

03. Where the following statement is correct, mark (✓) and if incorrect mark (x)

(i)	Income will increase the business equity	____
(ii)	Introduction of new capital will not change equity	____
(iii)	In earning income it becomes necessary to incur various expenses	____
(iv)	Taking a bank loan will increase only equity	____
(v)	Drawings will increase the business expenditure	____

04. The assets and liabilities of Ramani's business as at 2017/01/01 is given below (Rs.'000's)

	Rs.
Land & buildngs	5,000
Motor vehicle	3,000
Fixed Deposit	2,000
Inventory	1,000
Cash balance	1,500
Bank loan	2,000

Given below is a summary of the transactions that took place during January 2017 (Rs.'000's)

1. Sale for Rs.600 goods worth Rs.400 for cash.
2. Paid staff salariesRs.100.
3. Purchase of goods valued at Rs.500 from Rasika on credit.
4. Sale of inventory worth Rs.200 to Imasha on credit for Rs.300.
5. Drawing of goods worth Rs.50 from the business by Ramani for her house function.
6. The electricity bill received in respect of the month of January Rs.20.
7. Paid interest for the bank loan Rs.20.

Required:

1. Using the accounting equation 'Assets = Equity + Liabilities', insert the above transactions a + or – along with the value.
2. Using the equation 'Assets = Equity + (Income – Expense) + Liabilities' insert the effect of the above transaction values as + / - .
3. Using the above income and expenses calculate the profit or loss for the month of January 2017.
4. Calculate the profit or loss through changes in net assets.

05. Give an example for each of the following three areas that are relevant for a business to earn income.

Nature of the economic benefits that are relevant to a business in earning its income

1	2	3
The flow of cash to the business	Increase of assets in the business	Decrease in liabilities

2.

Nature of the economic benefits that are relevant to a business in earning its income

1	2	3
The outflow of cash from the business	Decrease of assets in the business	Increase in liabilities

KEY TERMS

මූලික පද	gpujhd gjq;fs;		**Key terms**
• ඇල්මැති පාර්ශ්වයන්	- அக்கறையுள்ள தரப்பினர்	-	Interested Stake holders
• ශුද්ධ වත්කම්	- தேறிய சொத்துக்கள்	-	Net Assets
• ගැනිලි	- பற்றுக்கள்	-	Drawings
• අමතර ප්‍රාග්ධනය	- மேலதிக மூலதனம்	-	Additional Capital
• ආදායම	- வருமானம்	-	Income
• වියදම	- செலவினம்	-	Expense
• ශුද්ධ ලාභය	- தேறிய இலாபம்	-	Net Profit
• ශුද්ධ අලාභය	- தேறிய நட்டம்	-	Net Loss

Competency 2.0 : Presents transactions and events of a business through an accounting equation.

Competency Level 2.3 **:** Prepares Income statement and statement of Financial Position using accounting equation.

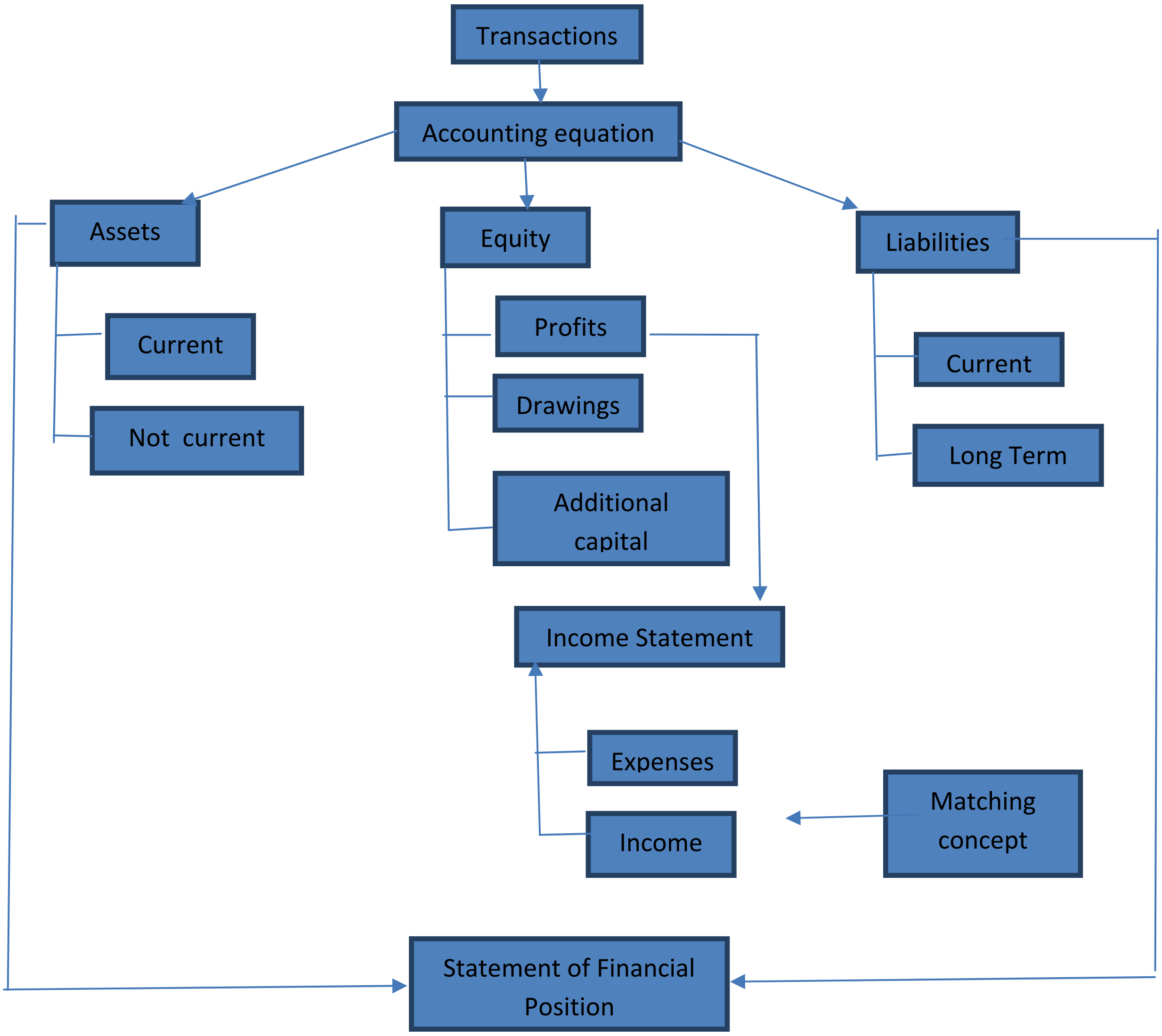
No. of periods : 02

Learning outcomes :

- Explains matching concept
- Explains income statement and statement of financial Position.
- Prepares the Income Statement using the Accounting Equation.
- Prepares Statement of Financial Position using the Accounting Equation.

Basic Terms and Concepts

Concept Map



Learning and TeachingProcess

Engagement

- Keeping in mind the need to recall previous lessons engage with the students on a discussion that raises the following questions.
    - What is equity?
    - What are assets?
    - What are liabilities?
    - What are the transactions that result in changes in equity?
    - What are examples for income?
    - Give examples of expenses.
- Develop the discussion around the student responses and when the transactions become complex record them and guide the discussion to show that the profit or loss can be arrived at by comparing the income and expenses.
- Explain the ‘matching concept’ and discuss its necessity.

- Explain that an **'income statement'** can be prepared to reveal the profit or loss.
- State that the profit or loss is known as the **result of its operations**.
- Discuss that at the end of a particular period a **'Statement of Financial Position'** can be prepared with the totals of assets, liabilities and equity.

Proposed instructions to assist learning:

On completion of Activity 1, direct them on to Activity 2 and then to Activity 3.

Activity 1: Distribute copies of the following leaflet to the groups.

Leaflet: The assets and liabilities of Dumindu's business as at 2017/01/01 is given below.

Assets		**Liabilities**	
Land & buildings	7,000	Bank Loan	2,500
Motor Vehicle	2,000	Creditors	200
Inventory	600		
Debtors	300		
Cash	100		

A summary of the transactions that took place during the month of January is given below (Rs.'000's):

1. Sale of goods for Rs.500 for cash which cost Rs.300.
2. The depreciation for a month for the Motor vehicle is Rs.50.
3. Dumindu invests Rs.400 in the business.
4. Sale for Rs.600 of goods costing Rs.400.
5. Dumindu's drawings total Rs100.
6. Received Rs.10 for the sale of old newspapers
7. The debtors paid Rs.450 in settlement of a debt of Rs.500. A discount of Rs.50 was given.
8. Paid creditors Rs.300 and received a discount of Rs.30.

1. Direct the students to record the above transactions in an equation as follows commencing with the opening balance.

'Land & buildings + Motor vehicle + Inventory + Debtors = Bank loan + Creditors + Equity'

2. Give instructions to calculate totals for each of the columns.
3. Show the way by calculating the difference between the opening balance (2017/01/01) and the closing balance (2017/01/31)
4. Direct them to name the items that causes the difference.

At the end of the activity, clarify the points below while presenting the group findings to the class.

- That the transactions that affect equity can be identified separately.
    - Drawings - That the value of goods or money taken out by the owners will decrease equity. Eg: Drawings of goods worth Rs.100.
    - Additional capital - This is the funds or other assets introduced to the business by the owners while the business is operating as a going concern. Eg: The additional money input by Duminda – Rs.400.
    - Income - The transactions that result in an increase of equity other than the input of additional capital.

Eg:	Cash sale	Rs.500
	Credit sales	Rs.600
	Discount received	Rs. 30
	Sale of old newspapers	Rs. 10

    - Expenses - Decreases in equity other than through 'drawings'.

Eg:	Cost of sales Cash sales	Rs.300
	Credit sales	Rs.400
	Discount allowed	Rs. 50
	Loan interest	Rs. 80
	Staff salaries	Rs. 80
	Depreciation of Motor Vehicle	Rs. 50

- Explain that the results of operations for the period can be calculated by recognizing the income and expenses separately and that it can be either a profit or a loss.
  Profit / Loss = Income – Expenses
- When calculating the profit/loss it is necessary to compare the income with the expenses incurred to generate that income. Explain that this is the matching concept.
- State that an 'Income Statement' is prepared to determine the profit or loss and that this is given to the stakeholders.

Activity 2

- Distribute the 2 leaflets containing the following events to the groups.

Leaflet 1:
Some reasons for the differences in the equity of Sudaraka's business from 2016/01/01 to 2016/12/31 are given below:

	(Rs.'000's)
Balance of equity at 2016/01/01	8,000
Balance of equity at 2016/12/31	10,000

- Sudaraka took Rs.500 in cash and Rs.200 worth of goods from the business for his personal needs.

- Sudaraka contributed a motor vehicle worth Rs.800 to the business.

Required:

1. Calculate the profit or loss for the year 2016 from the net assets

Leaflet 2:

Give the student groups copies of the leaflet containing the following:

A summary of the income and expenses of Tharaka's business during the accounting period 2016/01/01 to 2016/12/31 is as follows (Rs.'000's).

1. Sale of a stock of goods costing Rs.4,000 for cash Rs.6,000.
2. Sale of a stock of goods costing Rs.2,000 for Rs.3,500.
3. Paid annual staff salaries Rs.300.
4. Discount allowed to debtors on settlement – Rs.100
5. Depreciation of motor vehicle – Rs.50.
6. The interest income on the Fixed Deposits is given as Rs.80.
7. Entertainment expenses – Rs.20.
8. The total electricity charges for the year amounted to Rs.40.

1. Guide the students to group the above transactions as Income and Expenses.
2. Give instructions on how to compare the income and expenses and prepare a document to arrive at the profit or loss of Tharaka's business.

- Guide the discussions of the results of Tharaka's business to bring up the following points.
  - That the difference between income and expenses is profit or loss.
  - That the profit or loss is recognized as the result of operations.
  - In order to calculate the operating results for a particular period a document can be prepared and this is called the '**Income Statement**'.
  - Explain that the Income Statement can be prepared in the following manner.

Income Statement of Tharaka's business for the year ending 2016/12/31

Income	Sales		9,500
	Interest of Fixed Deposit		80
Less: Expenses	Cost of Sales	6,000	
	Staff salaries	300	
	Discount allowed	100	
	Depreciation of Motor vehicle	50	
	Entertainment expenses	20	
	Electricity expenses	40	6,510
	Net profit		3,070

Leaflet No.01

Activity 3.

- At the end of Activity 02 distribute the leaflet containing the following Statement of Financial Position.
- Instruct them to engage in the activity according to the leaflet

Leaflet No.1

The Statement of Financial Position of Sanjeeva's business as at 2016/12/31 was as follows:

Rs.'000's

Equity		**Assets**	
2016.01.01 Capital	40000	Land & Buildings	18000
Net Profit	2000	Equipment	12000
Equity at 2016.12.31	-----	Inventory	3000
		Debtrors	7000
Liabilities		Cash	5000
Bank Loan	2000		
Creditors	-----		
	-----		----

1. Instruct on how to fill in the blank sections.
2. Give an opportunity to present this statement in an alternative format.

Leaflet No.02

Statement of Financial Position of Rashmi's business as at 2016/12/31:

Assets		
Land		16000
Buildings		12000
Stock of goods		4000
Debtors		3000
Cash / Bank		------
Total assets		------
Equity		
Capital at 2016/01/01	28000	
Net profit for the year	7000	
Capital at 2016/12/31		------
Creditors		5000
Total equity and liabilities		

- Give advice to insert the blanks.
- Give an opportunity to present this statement in a different format

Guidance on subject matter

- At the point of disclosing the findings of the students, explain the following points while engaging the students in the discussion.
  - Explain that the Statement of Financial Position is a document that discloses the connection between the assets, liabilities, and equity of the business as at a particular date.
  - Explain that the Statement of Financial Position provides information to the stakeholders of the business and thereby discloses the financial position of the business.
  - Discuss that when the profit or loss for the period is added to the capital invested by the owners, it is called equity.
  - Explain that a statement of financial position can be preparedwith the aid of the accounting equation.

Assessment and Evaluation Criteria

(1) Insert the following words in the appropriate blanks in the following statements to complete them:

Matching concept, Income statement, Statement of Financial Position, Net Assets, Profit/Loss.

(i) A _______________ is prepared to determine the operating results of the business at the end of a specific period.

(ii) In order to calculate the profit or loss at the end of a specific period of time the expenses incurred to generate income is calculated according to the _______________.

(iii) The document that provides information on the assets, liabilities and equity a business as at a given date is known as the _________________________.

(iv) The main purpose of the Income Statement is to calculate the _____________ for a given period.

(v) The equity of a business is also known as the _______________.

(02) Rajitha is carrying on business as a retail trader. His transactions and events for the month of January 2017 have been included in the format of the accounting equation given below:

Trn No.	Land & Buildings	+	Inventory	+	Debtors	+	Cash	=	Bank Loan	+	Creditors	+	Equity
(i)			+80,000				,-80,000	=					
(ii)			-150,000		,+250,000			=					100,000
(iii)					-30,000		28,000	=					-2000
(iv)							,+1,200,000	=					,+1,200,000
(v)							-36,000	=			-40,000		+4,000
(vi)							-15,000	=	-12,000				-3,000
(vii)			-8,000					=					-8,000
(viii)	-10,000							=					-10,000
(ix)	+1,000,000						-1,000,000	=					
(x)			-2,000					=					-2,000
(xi)			,+40,000					=			,+40,000		
(xii)							-12,000	=					-12,000

Additional information:

(a) Transaction nos. 07 and 09 have no impact on profit.

(b) The assets and liabilities of the business as at 2017/01/01 are as follows:

Land and buildings	Rs.1,000,000
Stocks	Rs. 200,000
Debtors	Rs. 900,000
Cash	Rs. 280,000
Bank loan	Rs. 180,000
Creditors	Rs. 70,000

1. Explain each of the transactions/events in the above table
2. Prepare the Income Statement for the month of January 2017.
3. Prepare the Statement of Financial Position as at January 31, 2017.

(03) Select the incorrect statement from the following:

(i) The Statement of Financial Position shows the assets, liabilities and equity as at a specific date.

(ii) When arriving at the profit from Net Assets it is necessary to deduct the drawings.

(iii) The main purpose of the Income Statement is to calculate the financial results.

(iv) It is possible to prepare an Income Statement from the transactions recorded to show the changes in equity in the accounting equation.

(v) The information in the Income Statement is necessary to prepare the Statement of Financial Position.

(04) In the following statements mark (✓) if it is correct and (x) if incorrect.

1. The accounting equation shows the assets of the business and the connection with its ownership. ( )
2. When calculating the profit/loss from the Net Assets, the opening net assets and drawings are deducted from the closing net assets. ( )
3. When preparing the Income Statement, the matching concept should be considered. ( )
4. By recording how business transactions impact the accounting equation it is possible to prepare a Statement of Financial Position. ( )
5. Cash drawings and additional capital, do not impact the profit or loss ( )

KEY TERMS

මූලික පද gpujhd gjq;fs; **Key terms**

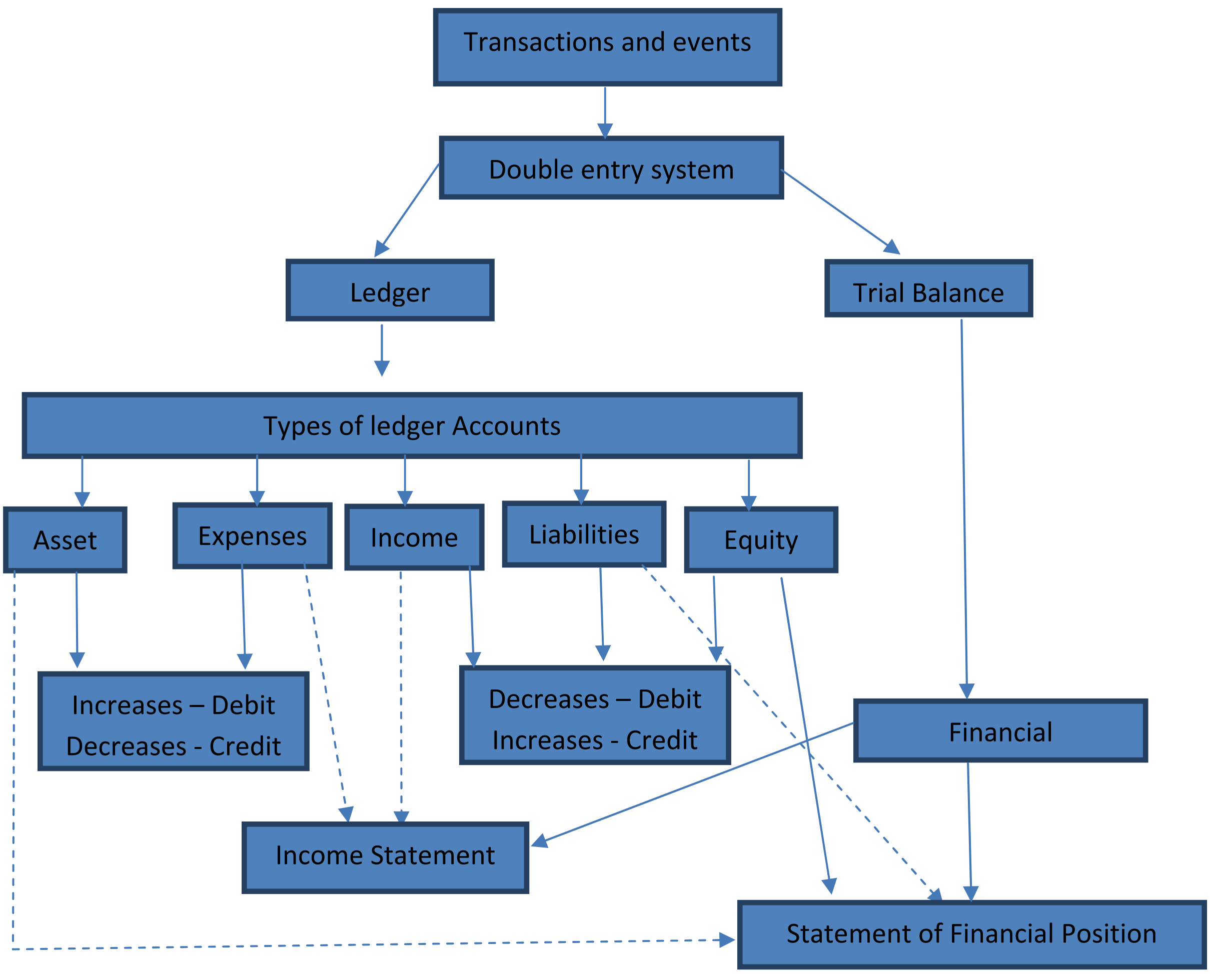
- ඇල්මැති පාර්ශ්වයන් - அக்கறையுள்ள தரப்பினர் -Interested Stake holders
- ආදායම් ප්‍රකාශනය - வருமானக்கூற்று - Income Statement
- මූල්‍ය තත්ත්ව ප්‍රකාශනය - நிதிநிலைமைக்கூற்று - Statement of Financial Position
- ජංගම වත්කම් - நடைமுறைச் சொத்துக்கள் - Current Assets
- ජංගම නොවන වත්කම් - நடைமுறையல்லாச் சொத்துக்கள் - Non -current Assets
- විකුණුම් පිරිවැය - விற்பனைக் கிரயம் - Cost of Sales
- ගැලපුම් සංකල්පය - இணைதல் எண்ணக்கரு - Matching Concept

Competency 3.0	:	Records business transactions and events based on the double entry system.
Competency Level 3.1	**:**	Records transactions and events of a business.
No. of periods	:	12
Learning outcomes	:	

- Explains dual aspect of a transaction.
- Explains double entry system and its beginning and explains the double entry system.
- Presents principles of double entry.
- Explains account and format ofan account.
- Names the types of ledger accounts.
- Records transactions in accounts using the double entry principle.
- Names the main elements of Financial Statements.

Basic Terms and Concepts

Concept Map



Learning and Teaching Process

Engagement

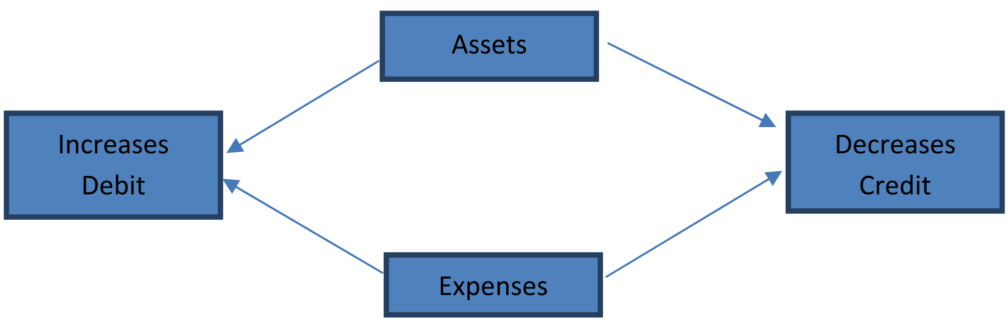
- Introduce a transaction where the **business obtains Rs.25,000 worth of Furniture and Equipment on credit for its use** and put it up to the students, enquiring from them about their ideas about the double entry aspects, and lead the discussion around the following points.
- Explain how the obtaining of the Furniture & Equipment increases the assets of the business and at the same time increases the liabilities because of the credit purchase.
- Explain that this transaction results in changes in the assets of the business.
- Explain that while there is a similar dual aspect to all transactions this duality must be recorded in the accounts.

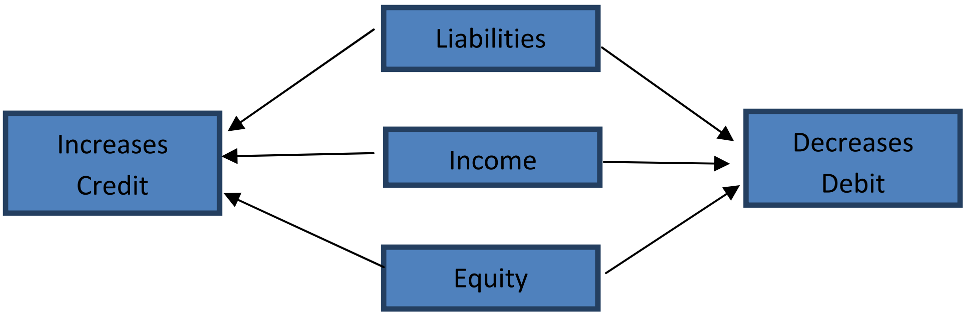
Proposed instructions for learning:

- Divide the students to four groups and giving them the following topics, draw their attention to the topic they have received and guide them to find answers to the questions posed.

1. Topic for Group 1 : Assets & Liabilities
2. Topic for Group 2 : Assets & Expenses
3. Topic for Group 3 : Capital & Assets
4. Topic for Group 4 : Assets & Income

- Give guidance for each group to recognize/understand the topic they have received.
- Guide through group discussion, to arrive at four transactions each that are relevant to the given topic in a selected business.
    - Direct them to be able to recognize the dual aspects, dual effects of each transaction and realize that the values increase and decrease on either side and to write them down.
    - When recognizing the dual aspects give guidance to realize that the foundation for the duality is based on the following:





- Provide guidance to record the dual aspects of each transaction in the following format:

Transaction	Dual aspect	Double entry
Eg: 1. Obtaining bank loan of Rs.100,000.	1. Bank asset increases 2. Bank loan liability increases	1. Bank account – Debit 2. Bank loan account - Credit

- Get them to make a careful study of the 'Double entry' column and make the relevant entries in ledger accounts.

Guidance on Subject matter

- There is a dual aspect in every business transaction or event.
- The standard format for the recording of every financial transaction is known as an "**account**". Here the dual aspects of all transactions and events from a given date and upto a specific date are recorded in chronological order.
- Explain that the economic result of the dual aspects of each transaction affect the business in two ways and that the recording of the two aspects is known as the "**doubleentrysystem**"
- While the double economic impact is the basic principle of the double entry system, this method was first introduced by an Italian priest **Fr**.**LucaPacioli** in the year 1494 AD.
- While the recording of the dual aspects of each transaction is guided by the principle of double entry, the rule to record them as '**debit'** and '**credit'** are basic double entry principles.
- The increase or decrease in the assets, liabilities and capital as a result of each business transaction is recorded as a 'debit' or 'credit'. Whether an entry should be recorded as a 'debit' to show an increase or decrease is guided by double entry principles.

- A traditional ledger account takes the form of the English alphabet letter "**T**" the following format will be used to denote the ledger account.

(i) Account format:

Debit	Account Name		Credit

(ii)							
DR			**…………………Account**				**CR**
Date	Details	Folio Ref	Amount	Date	Details	Folio Ref	Amount

(iii)						
			…………………Account			
Date	Details	Folio Ref	Amount		Balance	
			Debit	Credit	Debit	Credit

- The place where all the accounts are positioned is known as the **'Ledger'**. This can be maintained in a book, as individual account sheets or in an electronic device, card etc.
  Eg: In a computerized business the transactions may be recorded in magnetic tapes or magnetic discs i.e. the normal hard disk in a PC or laptop.
- The transactions of a business enterprise can be categorized into 5 types of ledger accounts. They are **assets**, **expenses**, **liabilities**, **income**, and **equity**.
- The increasesand decreases in the respective accounts can be summarized as follows:

Asset and Expense accounts				Capital, Income and Liabilities accounts			
Debit			Credit	Debit			Credit
DR			CR	DR			CR
Opening balance							
+			-	-		Opening balance	
Increases			Decreases	Decreases			+
						Increases	

The assets, liabilities, income, expenses, and equity accounts where the impact of the transactions and events are recorded are known as the basics of the financial statements.

Analysis and Evaluation Criteria

1. Give the necessary instructions to complete the following columns:

Transaction	Double entry rule	Double entry
1. The owner introduces Rs. 200,000 to start the business	Increase in Assets - Debit Increase in Equity - Credit	Bank/Cash a/c – Debit Rs.200.000 Capital a/c - Credit Rs.200,000
2. Purchase Furniture for Rs. 25,000.	……………………………….	…………………………………
3. Purchase goods for cash Rs. 60,000	……………………………….	…………………………………
4. Cash Sales Rs. 100,000	………………………………..	…………………………………
5. Paid telephone bill Rs. 6,000	………………………………..	…………………………………
6. Purchased goods on credit Rs. 30,000	………………………………..	…………………………………
7. Credit sales Rs. 40,000	‘’’’’’’’’’’’’’’’’’’’’’’’’’’’’’’’’’’	………………………………….
8. Paid Rs. 20,000 to Creditors	………………………………..	………………………………….
9. Received Rs. 35,000 from Debtors	…………………………………	………………………………….
10. Received rent income Rs.	…………………………………	………………………………….

72,000		
11. Obtained bank loan of Rs. 100,000	…………………………………	…………………………………
12. The owner withdrew Rs. 5,000 for personal expenses	…………………………………	…………………………………

(i) Post the entries in the 'Double-entry' column to the Ledger.
(ii) Balance the ledger accounts
(iii) Categorize the accounts according to the elements in the Financial Statements.

2. Given below are details of transactions that took place in a business enterprise. Name the relevant transactions.

	Double Entry		Rs.	Rs.	Transaction
1	Cash a/c	Debit	300,000		
	Capital a/c	Credit		300,000	
2	Motor Vehicle a/c	Debit	150,000		
	Capital a/c	Credit		150,000	
3	Bank Loan a/c	Debit	20,000		
	Cash a/c	Credit		20,000	
4	Drawings a/c	Debit	50,000		
	Cash a/c	Credit		30,000	
	Creditors a/c	Credit		20,000	
5	Electricity a/c	Debit	8,000		
	Cash a/c	Credit		8,000	
6	Debtors a/c	Debit	20,000		
	Sales a/c	Credit		20,000	
7	Creditors a/c	Debit	20,000		
	Cash a/c	Credit		20,000	
8	Cash a/c	Debit	8,000		
	Discount allowed a/c	Debit	2,000		
	Debtors a/c	Credit		10,000	
9	Drawings a/c	Debit	6,000		
	Purchases a/c	Credit		6,000	
10	Electricity expense a/c	Debit	1,500		
	Electricity payable a/c	Credit		1,500	

3. Identify the **incorrect** statement as per double entry principles.
   a. Assets and expenses - Increase Debit
   b. Liabilities, Equity and Income Increase Credit
   c. Assets and expenses - Decrease Debit
   d. Assets, Equity and Income - Decrease Debit
   e. Assets and Expenses - Decrease Credit

4. Identify the correct statement as per double entry principles

a.	Purchased goods for cash Rs.20,000.	Purchases a/c	Debit
		Cash a/c	Credit
b.	Purchased goods on credit Rs.30,000.	Stock a/c	Debit
		Creditors a/c	Credit
c.	Sale of goods for cash Rs.50,000	Sales a/c	Debit
		Stock a/c	Credit
d.	Sales on credit Rs.40,000.	Sales a/c	Debit
		Creditors a/c	Credit
e.	Received telephone bill Rs.2,000.	Telephone expense a/c	Debit
		Cash a/c	Credit

5. Mark whether the following statement are correct or incorrect.
   a. The father of modern accounting is Fr.Luca Pacioli ( )
   b. The recording of the impact of transactions and events is done following double entry principles ( )
   c. The double entry principles to record equity is different to the principles for recording liabilities. ( )
   d. Drawing of goods decreases equity ( )
   e. The net profit earned during a period does not result in changes to equity.
6. State the dual impact and the double entry in respect of the following transactions:

Lochana's business in January 2017		
Transaction	**Dual Impact**	**Double Entry**
Eg: Investing Rs.500,000 to commence the business	Increase in Assets - Debit Increase in Equity - Credit	Bank a/c - Debit Rs.500,000 Capital a/c Credit Rs.500,000
1. Purchase of goods on credit from Amanda's business for Rs.80,000		
2. Purchase of Office Equipment worth Rs.150,000		
3. Obtaining Bank loan of Rs.200,000		
4. Cash Sales for Rs.100,000		
5. Paid staff wages Rs.10,000		

Record the above transactions in the respective Ledger Accounts.

KEY TERMS

මූලික පද	gpujhd gjq;fs;	**Key terms**
• ද්විත්ව සටහන් ක්‍රමය	- இரட்டைப் பதிவு முறைமை	- Double Entry System
• ගිණුම	- கணக்கு	- Account
• ගිණුම් වර්ග	- கணக்கீட்டின் வகைகள்	- Types of Accounting
• ලෙජරය	- பேரேடு	- Ledger
• ද්විත්ව බලපෑම	- இரட்டை விளைவு	- Dual Aspect / Effect
• මූල්‍ය ප්‍රකාශන මූලිකාංග	- நிதிக்கூற்றின் கூறுகள்	- Elments of Financial Statements