



Grade

12

Accounting

Teacher's Guide

(To be Implemented from 2017)



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

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First Edition 2017

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Message from the Hon.Minister of Education

Message from the Director General

With the primary objective of realizing the National Educational Goals recommended by the National Education Commission, the then prevalent content based curriculum was modernized, and the first phase of the new competency based curriculum was introduced to the eight year curriculum cycle of the primary and secondary education in Sri Lanka in the year 2007

The second phase of the curriculum cycle thus initiated was introduced to the education system in the year 2015 as a result of a curriculum rationalization process based on research findings and various proposals made by stake holders.

Within this rationalization process the concepts of vertical and horizontal integration have been employed in order to build up competencies of students, from foundation level to higher levels, and to avoid repetition of subject content in various subjects respectively and furthermore, to develop a curriculum that is implementable and student friendly.

The new Teachers' Guides have been introduced with the aim of providing the teachers with necessary guidance for planning lessons, engaging students effectively in the learning teaching process, and to make Teachers' Guides will help teachers to be more effective within the classroom. Further, the present Teachers' Guides have given the necessary freedom for the teachers to select quality inputs and activities in order to improve student competencies. Since the Teachers' Guides do not place greater emphasis on the subject content prescribed for the relevant grades, it is very much necessary to use these guides along with the text books compiled by the Educational Publications Department if, Guides are to be made more effective.

The primary objective of this rationalized new curriculum, the new Teachers' Guides, and the new prescribed texts is to transform the student population into a human resource replete with the skills and competencies required for the world of work, through embarking upon a pattern of education which is more student centered and activity based.

I wish to make use of this opportunity to thank and express my appreciation to the members of the Council and the Academic Affairs Board of the NIE the resource persons who contributed to the compiling of these Teachers' Guides and other parties for their dedication in this matter.

Dr. (Mrs.) Jayanthi Gunasekara

Director General

National Institute of Education

Foreword

Message from the Deputy Director General

Education from the past has been constantly changing and forging forward. In recent years, these changes have become quite rapid. The Past two decades have witnessed a high surge in teaching methodologies as well as in the use of technological tools and in the field of knowledge creation.

Accordingly, the National Institute of Education is in the process of taking appropriate and timely steps with regard to the education reforms of 2015.

It is with immense pleasure that this Teachers' Guide where the new curriculum has been planned based on a thorough study of the changes that have taken place in the global context adopted in terms of local needs based on a student-centered learning-teaching approach, is presented to you teachers who serve as the pilots of the schools system.

An instructional manual of this nature is provided to you with the confidence that, you will be able to make a greater contribution using this.

There is no doubt whatsoever that this Teachers' Guide will provide substantial support in the classroom teaching-learning process at the same time. Furthermore the teacher will have a better control of the classroom with a constructive approach in selecting modern resource materials and following the guide lines given in this book.

I trust that through the careful study of this Teachers Guide provided to you, you will act with commitment in the generation of a greatly creative set of students capable of helping Sri Lanka move socially as well as economically forward.

This Teachers' Guide is the outcome of the expertise and unflagging commitment of a team of subject teachers and academics in the field Education.

While expressing my sincere appreciation for this task performed for the development of the education system, my heartfelt thanks go to all of you who contributed your knowledge and skills in making this document such a landmark in the field.

M.F.S.P. Jayawardhana

Deputy Director General

Faculty of Science and Technology

Message from the Director

According to the present policy with regard to the curricula of Sri Lanka the entire curriculum has to be revised once every eight years. A new revision of this nature has become necessary because of the meaningful expectation that a generation of students capable of facing local as well as global challenges taking place, needs to be produced. Further the recent past has witnessed immense economic, political, social and trade related changes on a global scale. As a result the stage has arisen for all curricula to be revised in 2015. The revised G.C.E. (Advanced Level) curriculum has been revised and will come into effect from the year 2017

Taking the situation above in to consideration, I am extremely pleased that Grade 12 Accounting, Teacher's guide has been written and forwarded in such a short time.

I would like to extend my very sincere thanks, especially to the panel of writers, for functioning with such commitment, to the Director General for her instructions and guidance for the fulfillment of this task successfully, to the Deputy Director General and to all those who supported the conclusion of this responsible endeavor.

It is my firm belief that this Teacher's guide on Accounting for Grade 12 will prove of immense support to subject directors, In service advisors and teachers in the provision of learning experiences successfully, to students.

K. R. Pathmasiri

Acting Director

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Instructions for the use of the Teachers' Guide

This Teachers' Guide has been prepared for Grade 12 based on the syllabus for Accounting proposed to be implemented for G.C.E. (A/L) from 2017.

Model activities have been included here as guidance in the planning of teachers' learning-teaching process so as to ensure the development of the students' competencies.

This Teachers' Guide has been prepared in keeping with the order in which the learning – teaching process should be implemented in the classroom. Learning outcomes have been presented for every competency level in the syllabus. It is expected that the teacher will implement a student-centered learning-teaching procedure to ensure that all the students achieve these learning outcomes and the relevant competencies. For this purpose the learning-teaching process has been presented under each competency level in order to provide you with guidance. It is by no means compulsory that you conform to these instructions in that very form itself since, you as creative individuals, have complete freedom to conform to any other student-centered learning-teaching procedure you consider for students.

Similarly, included in this Teachers' Guide are the basic terms and concepts related to the subject area under each competency level. They will serve as guidance to the subject matter you should elicit through the activities in the classroom as well as for the notes you give the students.

S.K. Prabakaran

Project Leader - Accounting

Department of Commerce

National Institute of Education

National Goals

1. The achievement of a functioning sense of National Cohesion, National Integrity, and National Unity.
2. The establishment of a pervasive pattern of Social Justice and active elimination of inequities.
3. The evolution of a Sustainable Pattern of living – A sustainable Life Style.
4. Seeking a livelihood and work opportunities that are, at one and the same time, productive and give avenues of self-fulfilment.
5. Participation in human resource development that will support socio-economic growth of the country.
6. Involvement in nation building activities: learning to care.
7. Cultivation of an element of adaptability to change – learn to learn and adapt, developing competence to guide change.
8. Coping with the complex and the unforeseen; and achieve a sense of security and stability.
9. Securing an honourable place in the international community.

Basic Competencies

The following competencies promoted through education will help to achieve the above mentioned National Goals.

(i) Competencies in Communication

This first set of competencies is made up of four subsets - Literacy, Numeracy, Graphics and information communication skills :

Literacy	:	Carefully listening, Speaking clearly, Reading for comprehension, writing clearly and accurately.
Numeracy	:	Using numbers to count, calculate, code and to measure, matter, space and time.
Graphics	:	Making sense of line and form, expressing and recording essential data, instructions and ideas with line, form, colour, two and three-dimensional configurations, graphic symbols and icons
ICT Competencies	:	Knowledge on computers, and the ability to use the information technology skills at learning or work as well as in the private life

(ii) Competencies relating to the Personality Development

- Generic skills such as creativity, divergent thinking, initiative, decision making, problem-solving, critical and analytical thinking, team work, inter-personal relationships, discovering and exploring
- Values such as integrity, tolerance and respect for human dignity.
- Cognition

(iii) Competencies related to the Environment.

This is the second set of competencies related to the Social, Biological and Physical Environments.

Social Environment	:	Awareness, sensitivity and skills linked to being a member of multi cultural plural society, social relationship, personal conduct, general and national heritage, legal conventions, rights, responsibilities, duties and obligations.
Biological Environment	:	Awareness, sensitivity and skills linked to the living world, man and the ecosystem, trees, forests, seas, water, air and life - plant, animal and human life.
Physical Environment	:	Awareness, sensitivity and skills related to space, energy, fuels, matter, materials and their links to human living, food, clothing, shelter, health, comfort, respiration, sleep, relaxation, rest, wastes and excretion, media of communication and transport. <i>Included here are the skills in the use of tools to shape and materials for living and learning.</i>

(iv) Competencies related to Preparation for the world of work

Employment related skills to maximize their potential and to enhance their capacity to contribute to economic development; to discover their vocational interests and aptitudes; to choose a job that suits their abilities and; to engage in a rewarding and sustainable livelihood

(v) Competencies related to religion and ethics

This fourth set of competencies are laden with values and attitudes. It is essential for individuals to assimilate values, so that they may function in a manner consistent with the ethical, moral and religious modes of conduct, rituals and practices in everyday living, selecting the most appropriate.

(vi) Competencies in Play and Use of Leisure

Competencies that link up with pleasure, joy, emotions and such human motivations. These find expression in play, sports, athletics and leisure pursuit of many types. These also link up with such values as cooperation, team work, healthy competition in life and work. Included here are such activities that are involved in aesthetics, arts, drama, literature, exploratory research and other creative modes in human living.

(vii) Competencies related to 'Learning to learn

These competencies flow directly from the nature of a rapidly changing, complex and interdependent world. Whatever one learns, that learning will need updating and review. This requires that one should be aware of, sensitive and skilful in sustained attention, and be willing to persevere and attend to details that matter in a given situation.

Objectives of the Subject

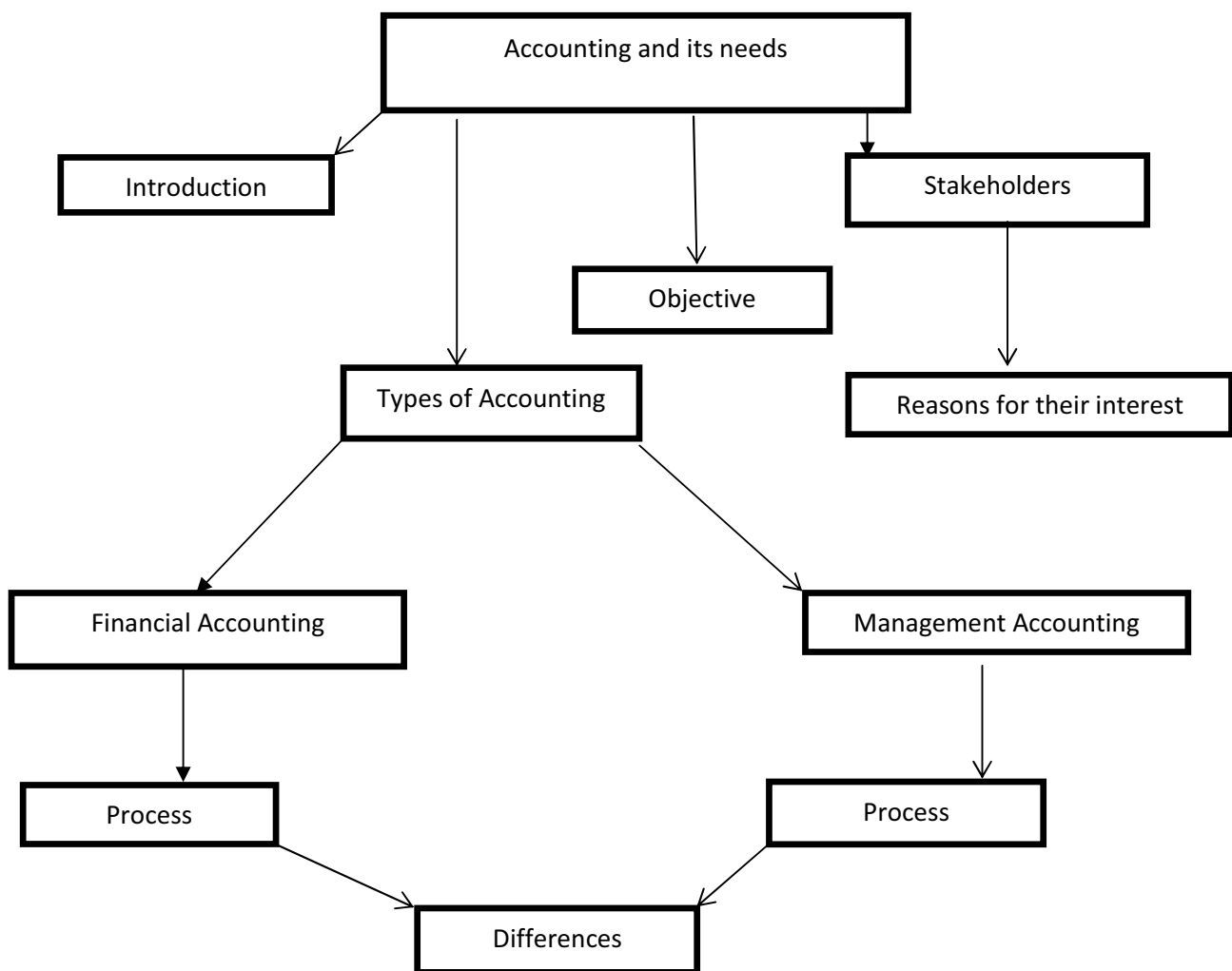
- Obtain basic understanding of the theoretical basis of accounting.
- Obtain and apply basic knowledge of accounting techniques.
- Produce guidance on new educational opportunities opened through the subject area of accounting.
- Apply the knowledge acquired through the area of accounting, for various professional needs.
- Acquiring the knowledge for the effective use of resources in a gainful manner that is suitable for sustainable development within the existing social, economic and political environments.
- Acquire the ability of preparation, presentation, and analysis of financial statements of various business organizations.
- Acquire the experiences through the research study in the subject that can be used for future research study development.

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** :
- Explains ‘what is Accounting’.
 - Explains the objective of Accounting.
 - Names the stakeholders of a business.
 - Analyses information required by the stakeholders in 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 **nonfinancial** events.
 2. That there are several stakeholders in an organization while considering the reasons for their interest. That the types of accounting can be differentiated as **Financial Accounting** and **Management Accounting**.
 3. That there are distinct procedures in Financial and Management Accounting methods.
 4. That there are differences in Financial and Management Accounting.
 5. That the **objective of accounting is to provide information to the stakeholders to enable them to make decisions.**
 6. 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 **four** stakeholders of a business enterprise.
 4. State **one** 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 *four* 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 Accounting Association (AAA)

“Accounting is the **process** of identifying, measuring and communicating economic information to permit informed judgments 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.

Objective 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.

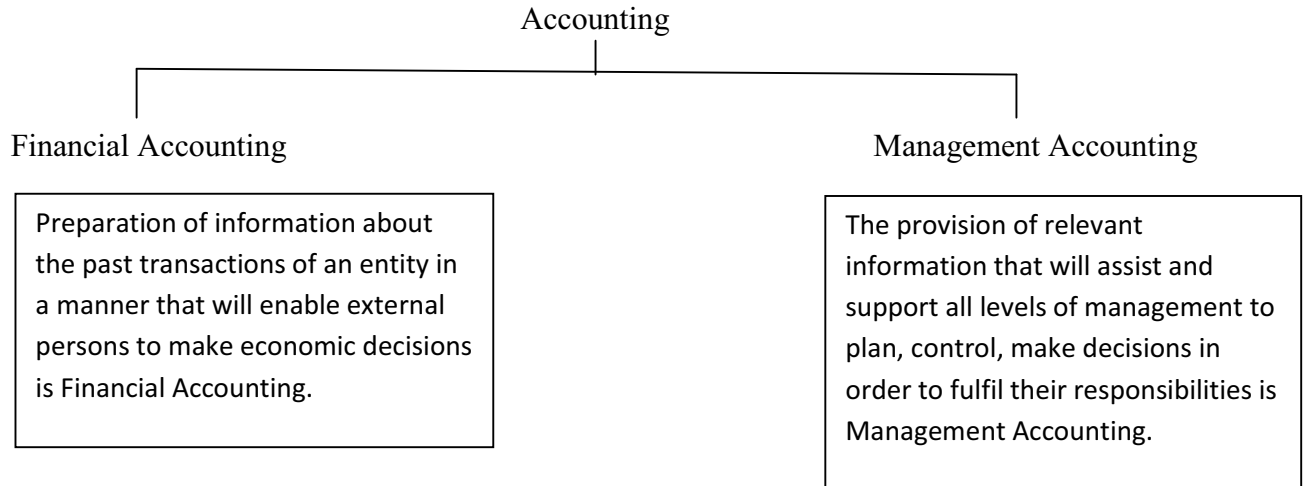
- The workforce of the organization is 500.
- The business has a good reputation for its marketing of goods of high quality and in good condition.
- The business organization has good procedures for employee motivation.

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

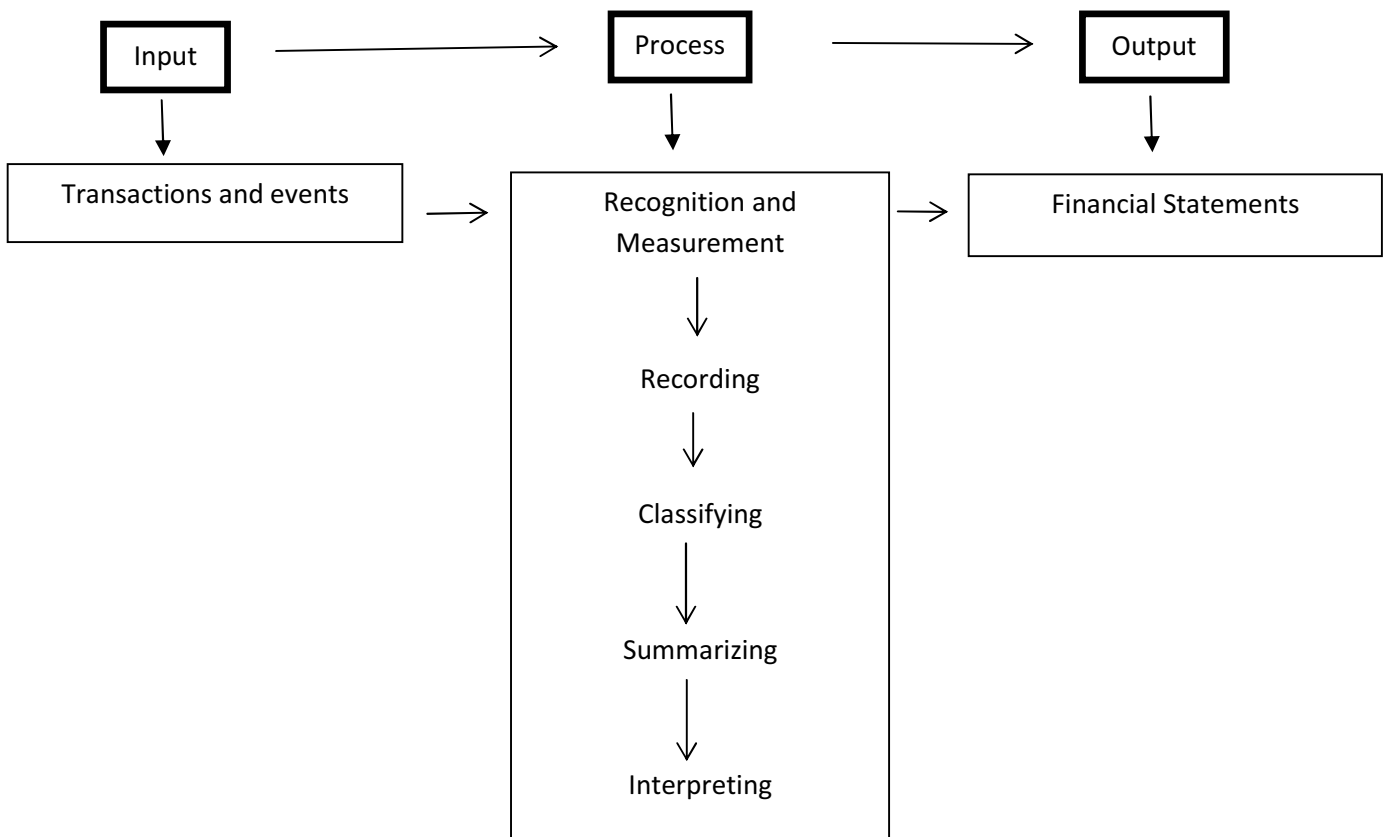
Interested Stake holders	The information requirements of the stakeholders
1. Owner / Owners	<ul style="list-style-type: none">• Has a satisfactory profit been made in accordance with the investment?• Should further investments be made?
2. Management	<ul style="list-style-type: none">• Are plans being implemented appropriately?• What are the necessary plans/decisions for future development?
3. Employees	<ul style="list-style-type: none">• Is there stability of employment?• Is the business able to increase wages/salaries?
4. Government institution Eg: Tax department	<ul style="list-style-type: none">• Are taxes being received on the due dates?• Are relevant reports submitted to appropriate entities?• Are quality goods available at a reasonable price?
5. Customers	<ul style="list-style-type: none">• Are goods of good quality provided at reasonable prices?• Does the organisation have a reputation and ability to honour their commitments?
6. Creditors and lending Institutions	<ul style="list-style-type: none">• Can the monies lent be recovered?• Is it feasible to extend further credit/loans?

Types of Accounting

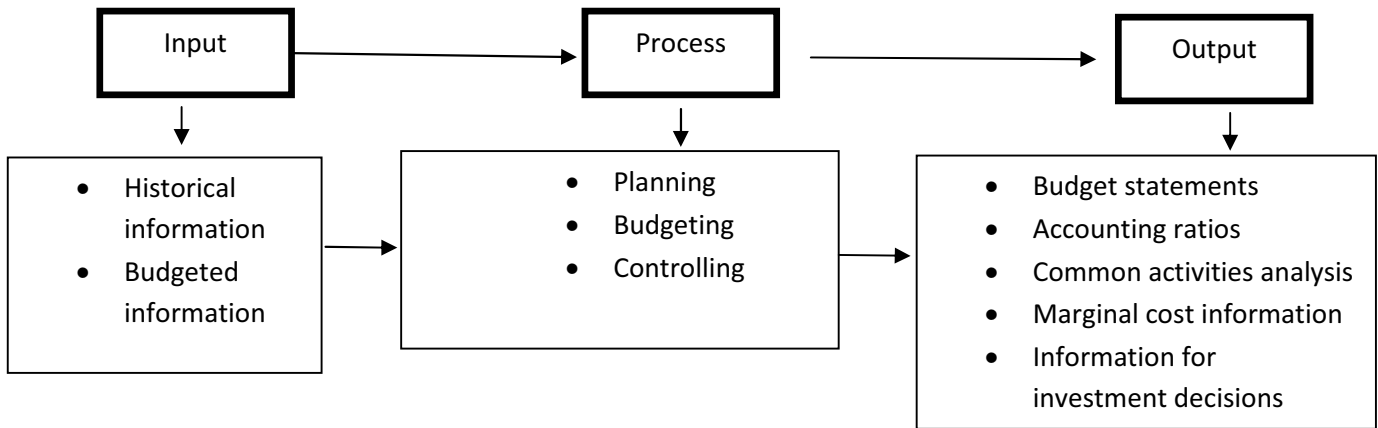
According to the different users of accounting information, accounting has two important divisions.



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

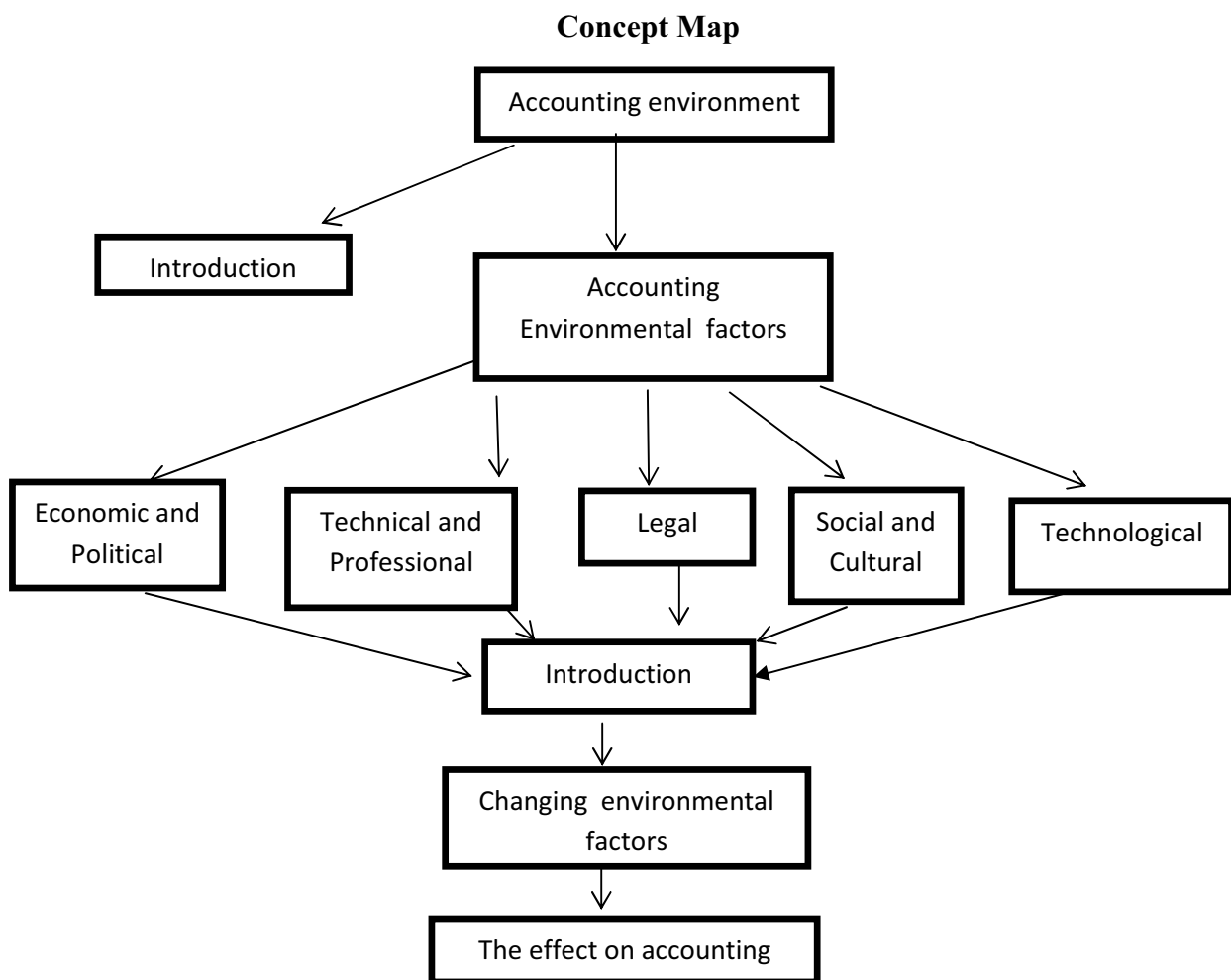
- Explaining accounting clearly.
- Stating the objectives of Accounting.
- Naming the stakeholders of the business and noting their information requirements.
- Identifying given transactions and events as ‘financial’ and ‘non-financial’.
- Stating the differences between financial accounting and management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

KEY TERMS

Key terms	මූලිකපද	பிரதான பதங்கள்
Interested Stake holders	අර්ථකර්මී පාර්ශ්වයන්	அக்கறையுள்ள தரப்பினர்
Financial Accounting	මූල්‍ය ගිණුම්කරණය	நிதிக் கணக்கீடு
Management Accounting	කළමනාකරණ ගිණුම්කරණය	முகாமைக் கணக்கீடு
Objective of Accounting	ගිණුම්කරණයේ අරමුණ	கணக்கீட்டின் நோக்கம்
Types of Accounting	ගිණුම්කරණයේ ප්‍රභේද	கணக்கீட்டின் வகைகள்
Accounting Inputs	ගිණුම්කරණයේ දැවුම්	கணக்கீட்டு உள்ளீடுகள்
Accounting Outputs	ගිණුම්කරණ නිමවුම්	கணக்கீட்டு வெளியீடுகள்
Accounting Process	ගිණුම්කරණ ක්‍රියාවලිය	கணக்கீட்டுச் செயன்முறை

- 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 environmental factors.
 - Discloses how changes in environmental factors influence the Accounting process.

Basic Terms and Concepts:



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 variables of environmental factors affecting accounting.
- Direct students to make a careful study of the diagram containing the accounting environmental factors and variables.
- Direct students to write down the environment factor variables against each of the environmental 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 variables related to environmental factors and explain how each of them affect accounting.

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 variables of environmental factors on accounting of a business can be classified as follows.

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.	<ul style="list-style-type: none">• Taxation policy• Exchange rates• Price levels• Government policies (interest rates, wages, decisions)• State of the market (financial / capital)
02. 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	<ul style="list-style-type: none">• Accounting standards• Techniques in accounting• Professional accounting bodies
03. Legal Environment	The necessity to observe the laws relating to accounting in the accounting process is known as the Legal Environment	<ul style="list-style-type: none">• Companies Act No.07 of 2007• Partnership Ordinance Act of 1890• Inland Revenue Act• Accounting and Auditing Standards Act• Court judgements relevant to Accounting
04. Social & Cultural Environment	The hopes, customs, aspirations and attitudes of the persons in the society and its environments is known as the Social & Cultural Environment	<ul style="list-style-type: none">• Attitudes• Norms and customs• Habits• Beliefs• Population• Migration• Personal life style patterns
05. Technological Environment	The use of various technical equipment to assist the accounting process is known as the Technological Environment	<ul style="list-style-type: none">• Computer technology• Use of modern technical equipment• Communication technology

How changes in accounting environmental factors affect accounting

Environmental factor	Variables in environmental factors	Effect on Accounting
1. Economic and Political Environment	<ul style="list-style-type: none"> • Interest rates 	<ul style="list-style-type: none"> • A reduction in interest rates encourages obtaining loans. Profits increase. • The increase in additional loans result in business development and increased income.
2. Technical & Professional Environment	Depreciation of Property, Plant and Equipment according to the standards	<ul style="list-style-type: none"> • The use of the 'Straight Line method of depreciation' from among many methods protects the uniformity in the information.
3. Legal Environment	<ul style="list-style-type: none"> • Partnership Ordinance Act 1890 • Companies' Act No.07 of 2007 	<ul style="list-style-type: none"> • 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
4. Social & Cultural Environment	<ul style="list-style-type: none"> • Personal life style patterns 	<ul style="list-style-type: none"> • The consumption of locally produced food encourages more businesses to engage in local food production and sale thus increasing profits.
5. Technological Environment	<ul style="list-style-type: none"> • Use of modern technological equipment 	<ul style="list-style-type: none"> • In the marketing of gold a 'Densi metre' is used which helps to prevent fraud thus increasing profits.

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?

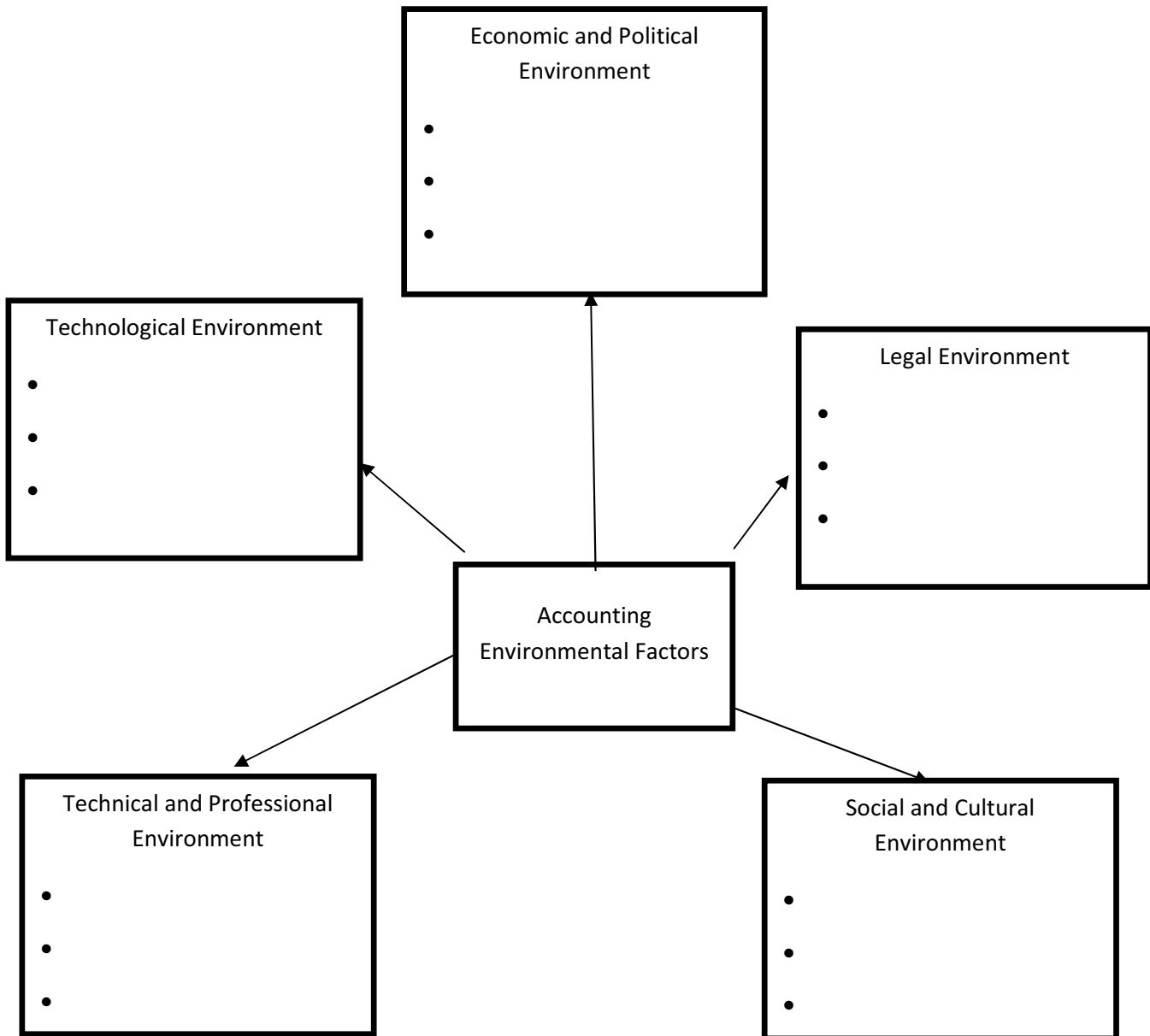
1. Economic environment
2. Legal environment
3. Technological environment
4. Social & cultural environment
5. Technical & Professional environment

- 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

Key terms	මූලිකපද	பிரதான பதங்கள்
Accounting Environment	ගිණුම්කරණ පරිසරය	கணக்கீட்டுச் சூழல்
Economic and political environment	ආර්ථික හා දේශපාලන පරිසරය	பொருளாதார மற்றும் அரசியல் சூழல்
Technical and professional environment	ශිල්පීය හා වෘත්තීය පරිසරය	நுட்ப மற்றும் தொழில்சார் நுட்பச் சூழல்
Legal environment	නෛතික පරිසරය	சட்டச் சூழல்
Social and cultural environment	සමාජ හා සංස්කෘතික පරිසරය	சமூக கலாசாரச் சூழல்
Technological environment	තාක්ෂණික පරිසරය	தொழினுட்பச் சூழல்

Annexure 1.2.1:



Variables of environmental factors

1. Exchange rates
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

Competency 1.0 : **Analyses accounting and its purpose**

Competency Level 1.3 : **Analyses accounting as a process**

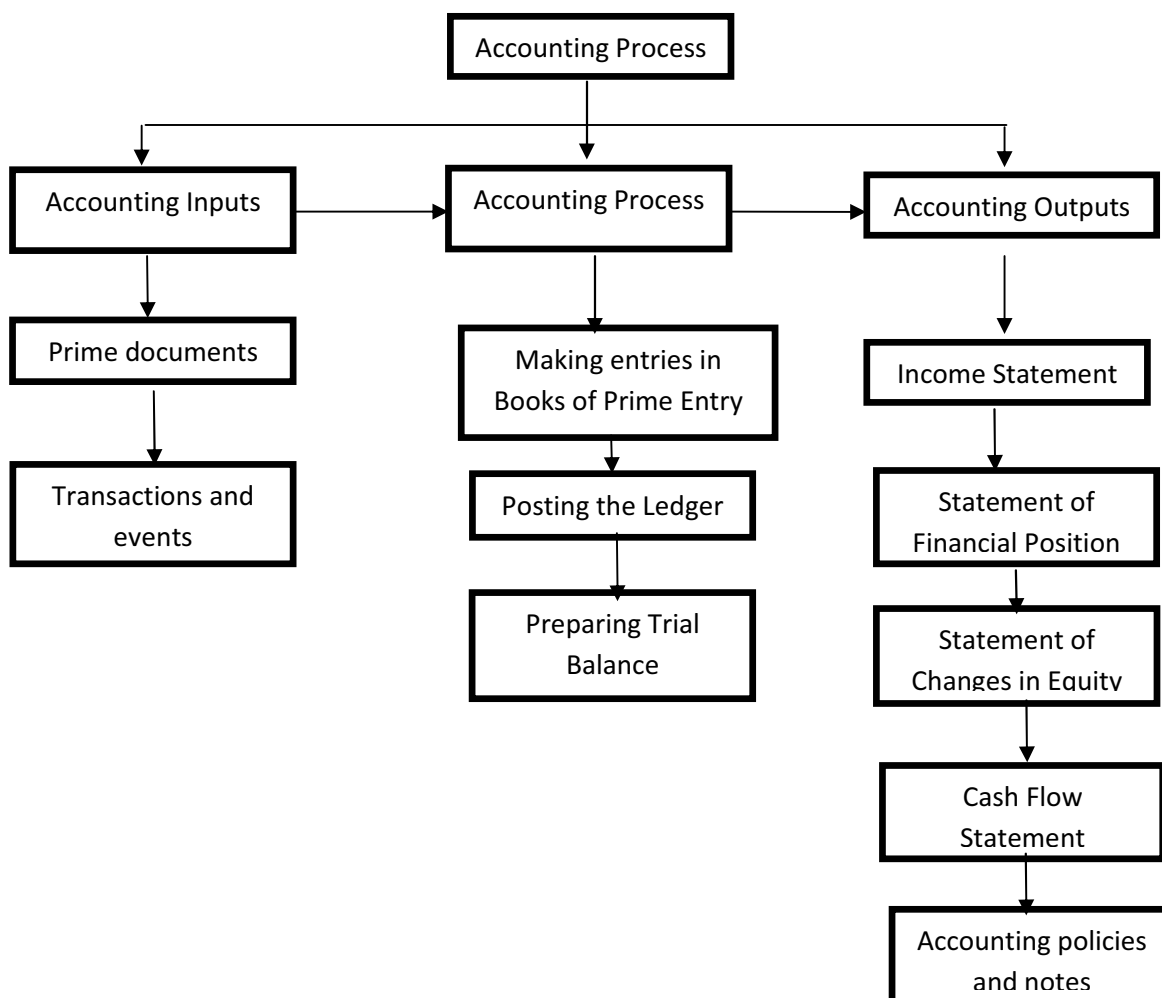
No. of periods : **01**

Learning outcomes :

- Explains Accounting Process
- Presents stages of Accounting Process.

Basic Terms and Concepts:

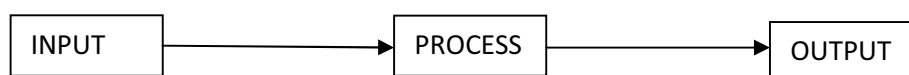
Concept Map



Learning and teaching process:

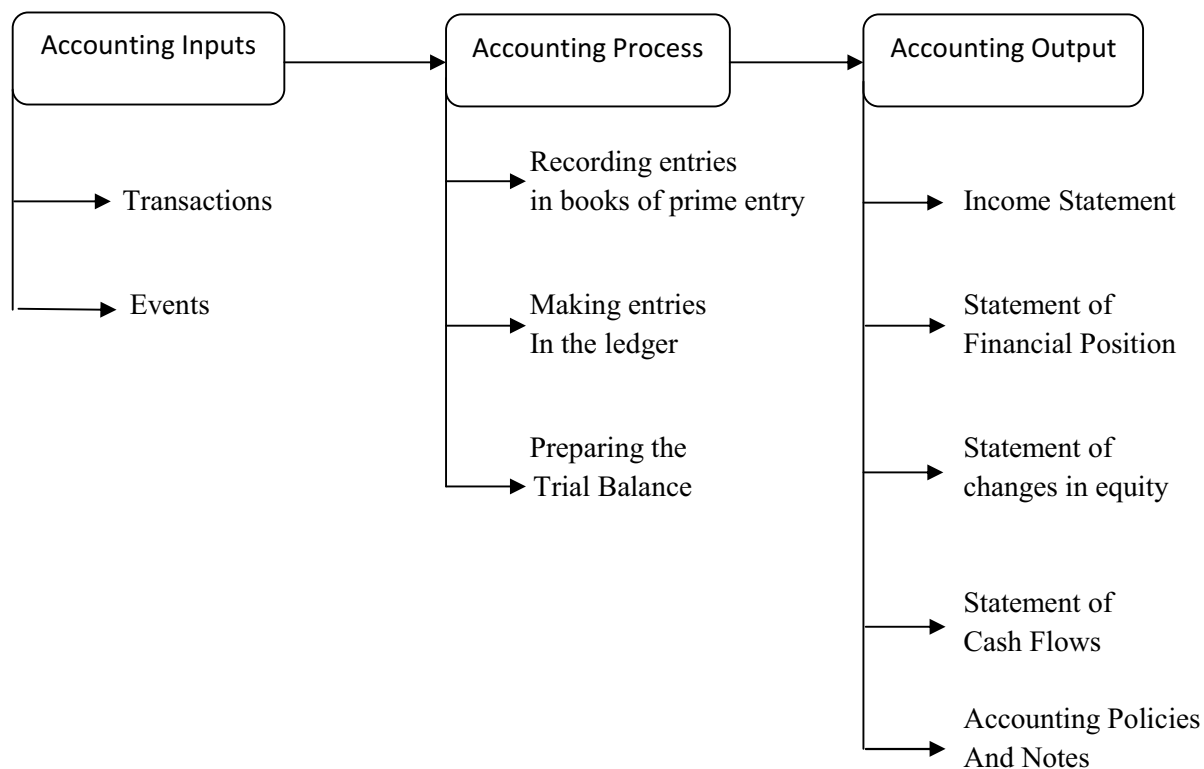
Engagement:

- 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 monetary 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 position of the assets, liabilities and equity of the business.

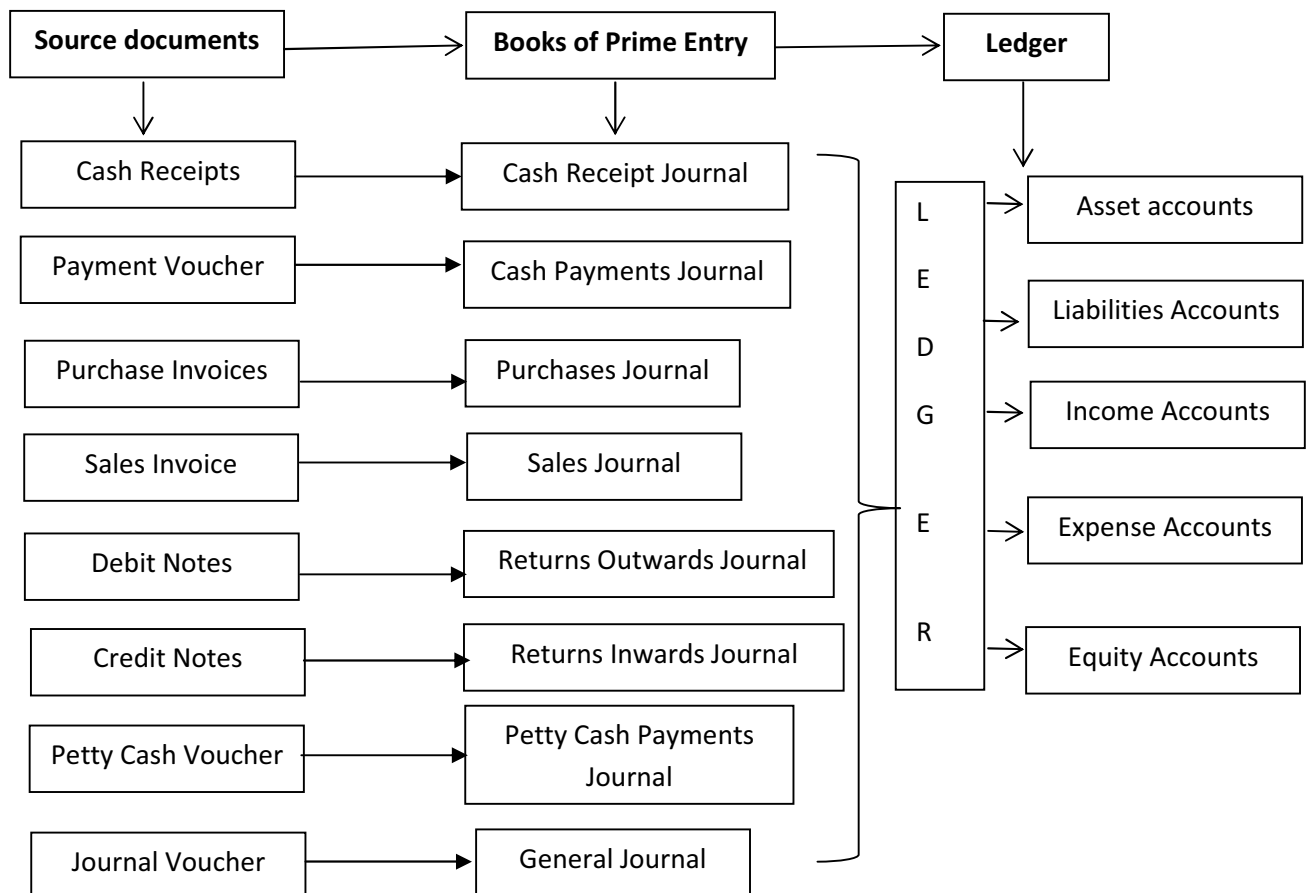
Even where an exchange does not take place between two parties, if changes that are measurable in money terms that affect the assets, liabilities and equity take place, these are identified as 'events'.

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.
5. Preparing the financial statements



- Accounting output means the preparation of the basic accounting statements that will allow economic decisions to be taken. Included here are,
 - Income Statement / Statement of Profit or Loss, showing the profit or loss for the period.
 - 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:

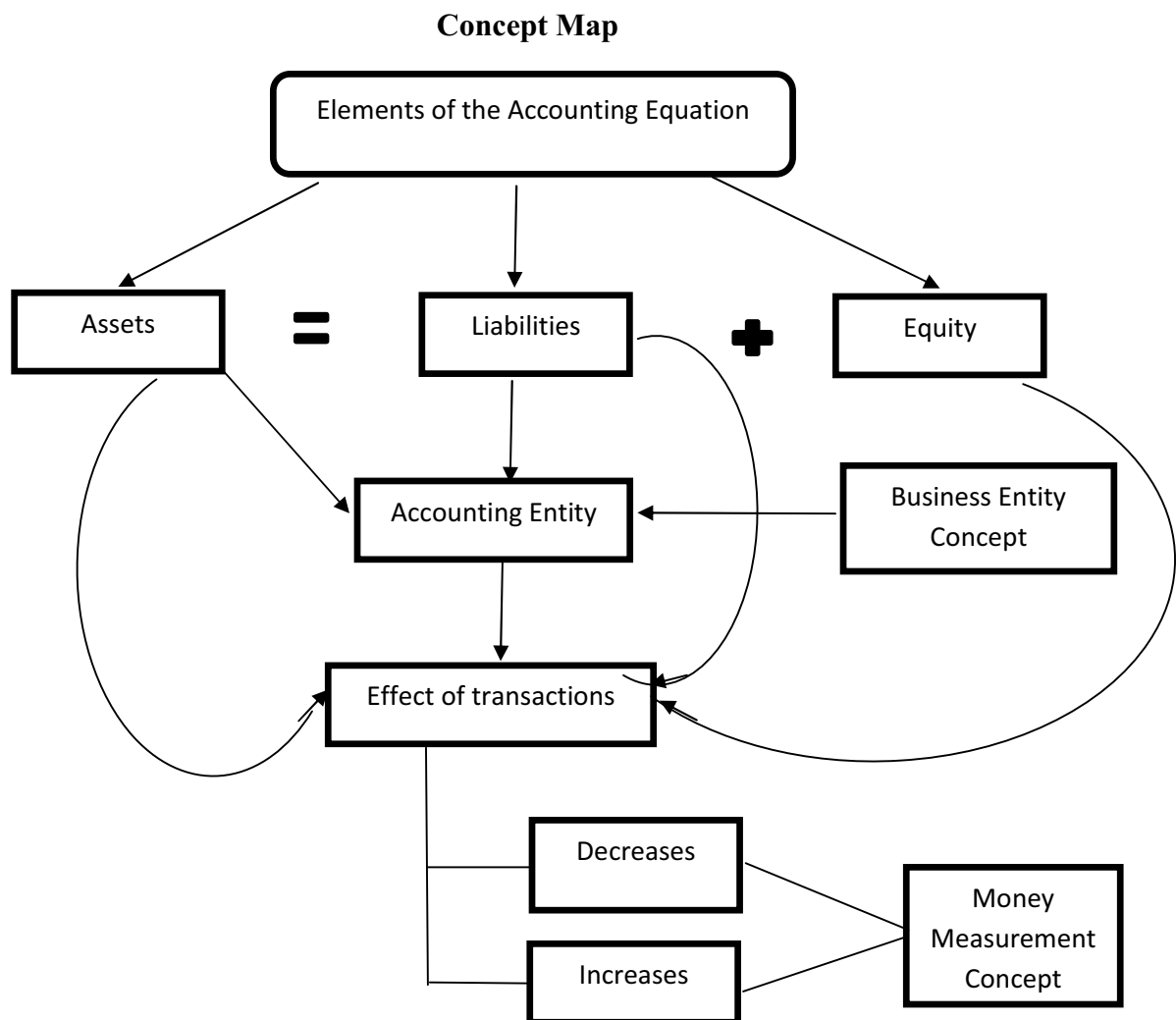
- (1) Stating the Source Documents where the following is recorded :
 - i. Cash Sales of Rs.25,000.
 - ii. Payment of Insurance charges Rs.4,000.
 - iii. Receiving goods for trading, valued at Rs.45,000 from Amal's company.
 - iv. Return of goods valued at Rs.2,000 to Amal's company as they did not conform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

Key terms	இலக்கப்படி	பிரதான பதங்கள்
Business entity concept	வியாபார ஸ்திரீகை சங்கல்பம்	வணிக அலகு எண்ணக்கரு
Money measurement concept	இலா திஷுதி சங்கல்பம்	பண அளவீட்டு எண்ணக்கரு
Assets	வநீகதி	சொத்துக்கள்
Liabilities	வகைதி	பொறுப்புக்கள்
Equity	திமீகதி	உரிமையாண்மை
Accounting equation	திஷுதிக்கரண சமீகரணம்	கணக்கீட்டுச் சமன்பாடு

- 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 its 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 transactions on assets, liabilities and equity through the accounting equation.

Basic terms and Concepts:



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.
 - Whatever volume of transactions take place in a business, make clear that only the transactions that are measurable in monetary 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

$$\text{Assets} = \text{Equity}$$

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

$$\text{Assets} = \text{Equity} + \text{Liabilities}$$

- 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	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• Divide the resources Sanka has invested in his business as per the following captions:<ol style="list-style-type: none">1. Resources that can be measured in monetary terms2. Resources that cannot be measured in monetary terms
03	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• 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.	<ul style="list-style-type: none">• 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.	<ul style="list-style-type: none">• 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.	<ul style="list-style-type: none"> • The resources introduced by the owner is called capital and equity of the business.. • The amounts repayable to other parties that do not belong to the owners is 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 built up as “Assets =Equity + Liabilities”
04.	<ul style="list-style-type: none"> • 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 her money together with a motor vehicle valued at Rs.700,000 to commence a retail trading shop.
02/01	She purchased a stock of goods worth Rs.100,000 for cash.
03/01	She obtained furniture and fittings worth Rs.150,000 from Lakdiva Furniture on credit.
04/01	She 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.

						(Rs.)
Eg:	Equity	+	Liabilities	=	Assets	
					Cash	+ 500,000
					Motor vehicle	+ 700,000
	<u>1,200,000</u>					<u>1,200,000</u>

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 that can be generated in the future from a past activity which can be controlled by the business is known as an asset of 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

Discuss the double effects of the relevant transactions above with the students through examples.

Assessment and Evaluation Criteria:

Question 1

1. From the transactions below, select the **transactions** that have an effect on the equity of the business:
 - i. Ashan invests Rs.1,500,000 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.

						(Rs.)
	Transacton	Assets	=	Equity	+	Liabilities
(i)	Land & Buildings	+5,000				
	Motor vehicle	+2,000				
	Cash	+1,000	=	8,000		
(ii)	Cash	-500				
	Inventory	+500	=	0		
(iii)	Office equipment	+300				
	Cash	-300	=	0		
(iv)	Cash	+800	=			800 (Bank loan)
(v)	Cash	-200	=	-200 (Equity)		

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

The transactions during the first week of January were as follows (All figures in 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.

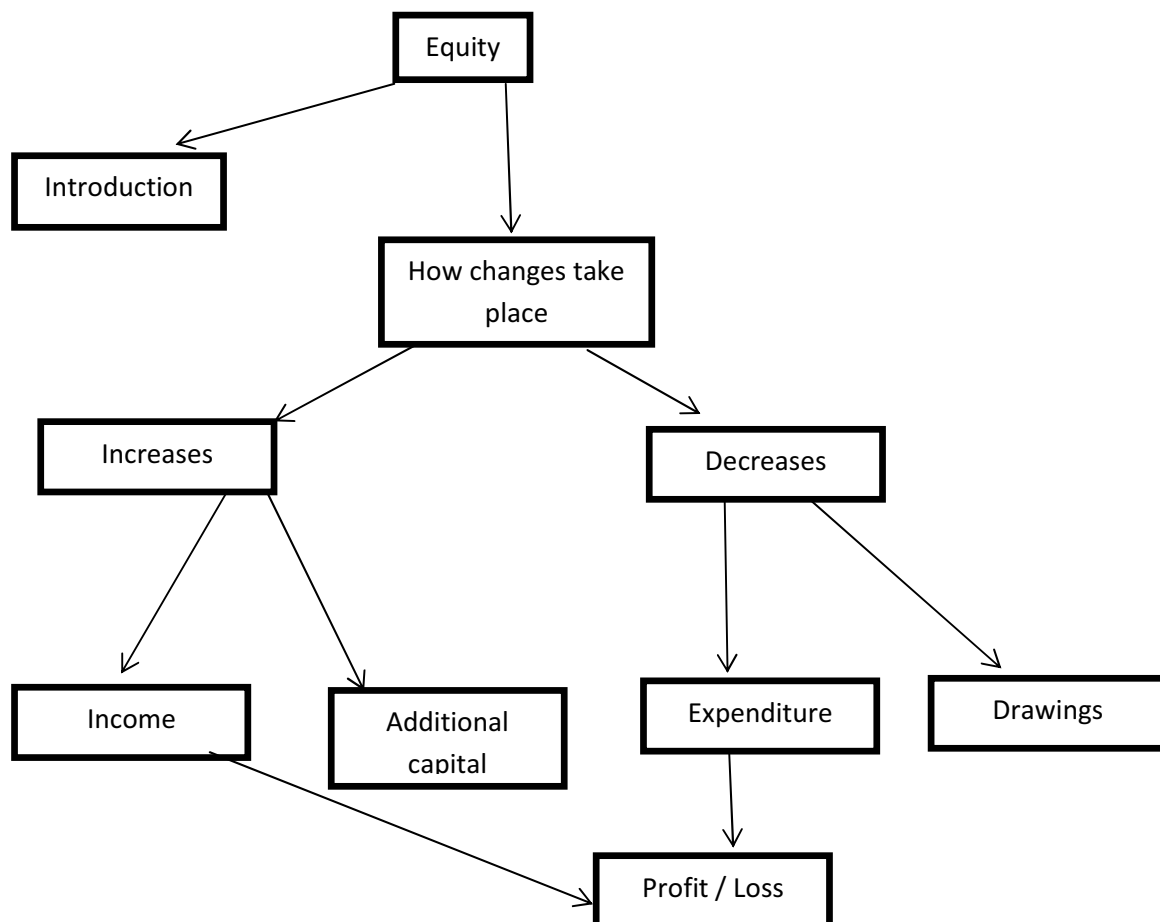
Required:

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.

- 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 successfulIsn'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 of 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:

Transaction	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 (CNA)	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 (Telephone)		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:

$$\text{Profit} = \text{Income} - \text{Expenses}$$

$$\text{Rs. } 45 = \text{Rs. } 200 - \text{Rs. } 155$$

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

	(Rs.)
Closing Net Assets	1341
- Opening Net Assets	-1300
	41
+ Drawings	4
Profit	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 Rashini’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

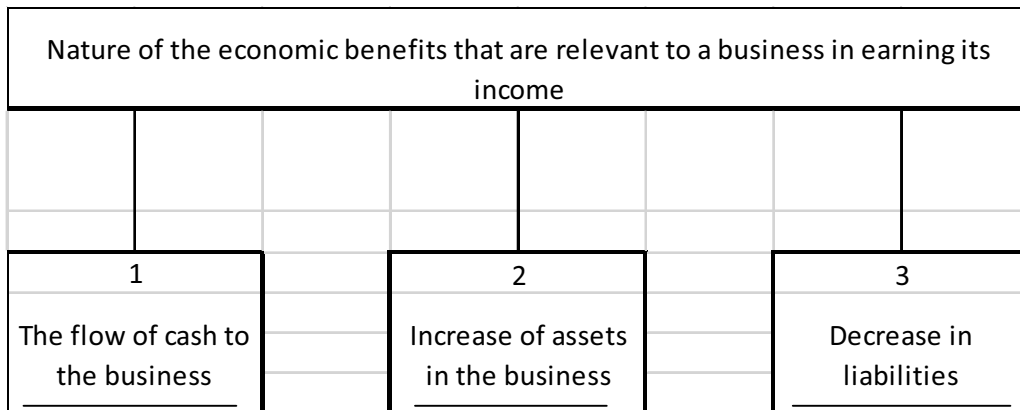
Given below is a summary of the transactions that took place during January 2017 (Rs.'000's)

1. Sale for Rs.600 goods costing Rs.400 for cash.
2. Paid staff salaries Rs.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.

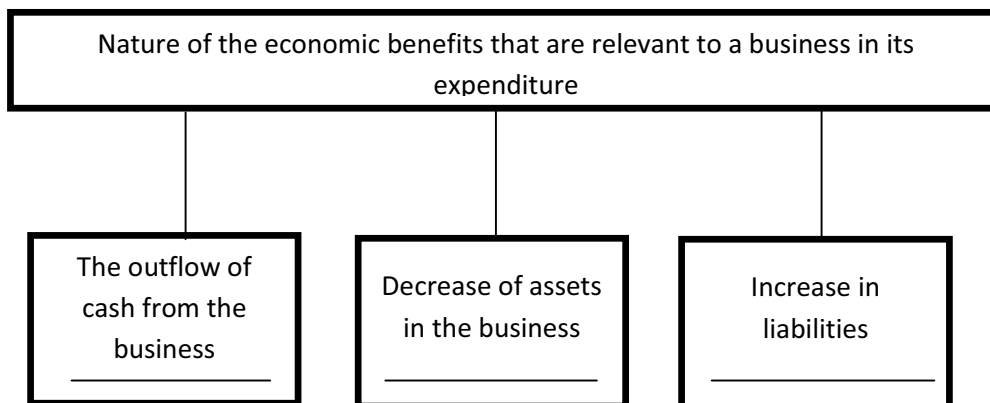
Required:

1. Using the accounting equation 'Assets = Equity + Liabilities', insert the above transactions as + 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.



2.



KEY TERMS

Key terms	මූලික පද	பிரதான பதங்கள்
Stake holders	අලේඛනී පාර්ශ්වයන්	அக்கறையுள்ள தரப்பினர்
Net Assets	ශුද්ධ වත්කම්	தேறிய சொத்துக்கள்
Drawings	ගැනීලි	பற்றுக்கள்
Additional Capital	අමතර ප්‍රාග්ධනය	மேலதிக மூலதனம்
Income	ආදායම	வருமானம்
Expense	වියදම	செலவினம்
Net Profit	ශුද්ධ ලාභය	தேறிய இலாபம்
Net Loss	ශුද්ධ අලාභය	தேறிய நட்டம்

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

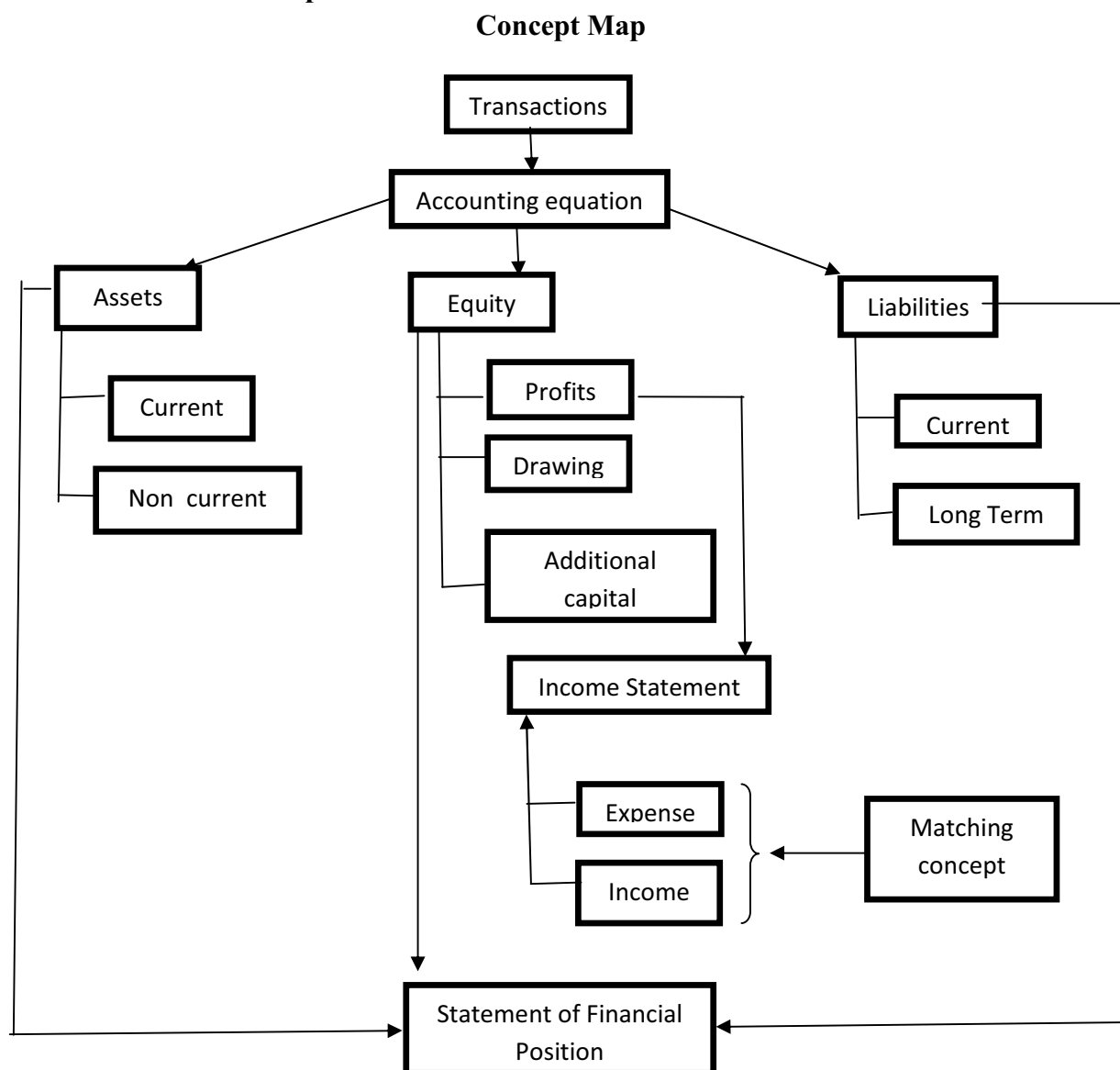
Competency Level 2.3 : Prepares Income statement and statement of Financial Position using accounting equation.

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:



Learning and Teaching Process:

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	(Rs.)	Liabilities	(Rs.)
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.
9. Loan installment of Rs.280 was paid inclusive of Rs. 80 interest.
10. Paid staff salaries for a month Rs.80.

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+ Cash = 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 Dumindu – Rs.400.
 - Income - The transactions that result in an increase of equity other than the input of additional capital.

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

- Expenses - Decreases in equity other than through ‘drawings’.

		(Rs.)
Eg:	Cost of sales: Cash	300
	Credit	400
	Discount allowed	50
	Loan interest	80
	Staff salaries	80
	Depreciation of Motor Vehicle	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 of Rs.100
5. Depreciation of motor vehicle of Rs.50.
6. The interest income on the Fixed Deposits is given as Rs.80.
7. Entertainment expenses isRs.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

		(Rs..000s)			(Rs..000s)
Income			Sales		9500
Sales		9500	(-) Cost of Sales		(6000)
Deposit interest		80	Gross Profit		3500
		9580	Deposit Interest		80
					3580
Expenses					
Cost of Sales	6000				
Staff salaries	300		Staff salaries	300	
Discount allowed	100		Discount allowed	100	
Depreciation of Motor Vehicle	50		Depreciation on Motor Vehicle	50	
Entertainment expenses	20		Entertainment expenses	20	
Electricity	40	(6510)	Electricity	40	(510)
Net Profit		3070			3070

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.000s)
Equity		Non-Current Assets	
2016.01.01 Capital	40000	Land & Buildings	18000
Net Profit	2000	Equipment	12000
Equity at 2016/12/31	.....	
Non current Liabilities		Current Assets	
Bank Loan	2000	Inventory	3000
		Debtors	7000
Current Liabilities		Cash	5000
Creditors	.....	

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

Leaflet No.02

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

		(Rs.'000s)
Non-current Assets		
Land	16000	
Buildings	12000	28000
Current Assets		
Inventory	4000	
Debtors	3000	
Cash	.....	.....
Total Assets		
Equity		
Capital at 2016/01/01	28000	
Net profit for the year	7000	.....
Current Liabilities		
Creditors		5000
	

- Give advice to insert the blanks.
- Give an opportunity to present this statement in a different format
- Allow the students to present their answers to the class.

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 prepared with 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:

					(All figures are in Rs.)			
Assets					=	Liabilities		+ Equity
Transaction ref.	Land & Bldgs.	+ Inventory	+ Debtors	+ Cash	=	Bank Loans	+ Creditor	+ Equity
(i)	+80,000	.....	-80,000	=	.....	.....	.....
(ii)	-150,000	+250,000	.....	=	.....	.....	+100000
(iii)	-30,000	+28,000	=	.....	.....	-2,000
(iv)	+1,000,000	.....	.....	-1,000,000	=	.....	.....	.....
(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)	+1,200,000	=	.....	.....	+1,200,000
(x)	-2,000	.....	.....	=	.....	.....	-2,000
(xi)	+40,000	.....	.....	=	.....	+40,000	.....
(xii)	-12,000	=	.....	.....	-12,000

Additional information:

- (a) Transaction nos. **vii** and **ix** have no impact on profit.
- (b) The assets and liabilities of the business as at 2017/01/01 are as follows:

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

Key terms	இலக படி	பிரதான பதங்கள்
Stake holders	அர்த்தகரிகி பார்வையினர்	அக்கறையுள்ள தரப்பினர்
Income statement	அடாயித் துகாணய	வருமானக்கூற்று
Statement of financial position	இலய நன்னித் துகாணய	நிதிநிலைமைக்கூற்று
Current assets	சுலம வன்கி	நடைமுறைச் சொத்துக்கள்
Non-current assets	சுலம துலவன வன்கி	நடைமுறையல்லாச் சொத்துக்கள்
Cost of sales	விதூணுத் திரிவய	விற்பனைக் கிரயம
Matching concept	அருதூத் துனகல்பய	இணைதல் எண்ணக்கரு

Competency 3.0 : **Records business transactions and events based on the double entry system.**

Competency Level 3.1 : Disclose the importance of following double entry principle when recording transactions and events in accounts

3.2 : Records transactions and events of a business.

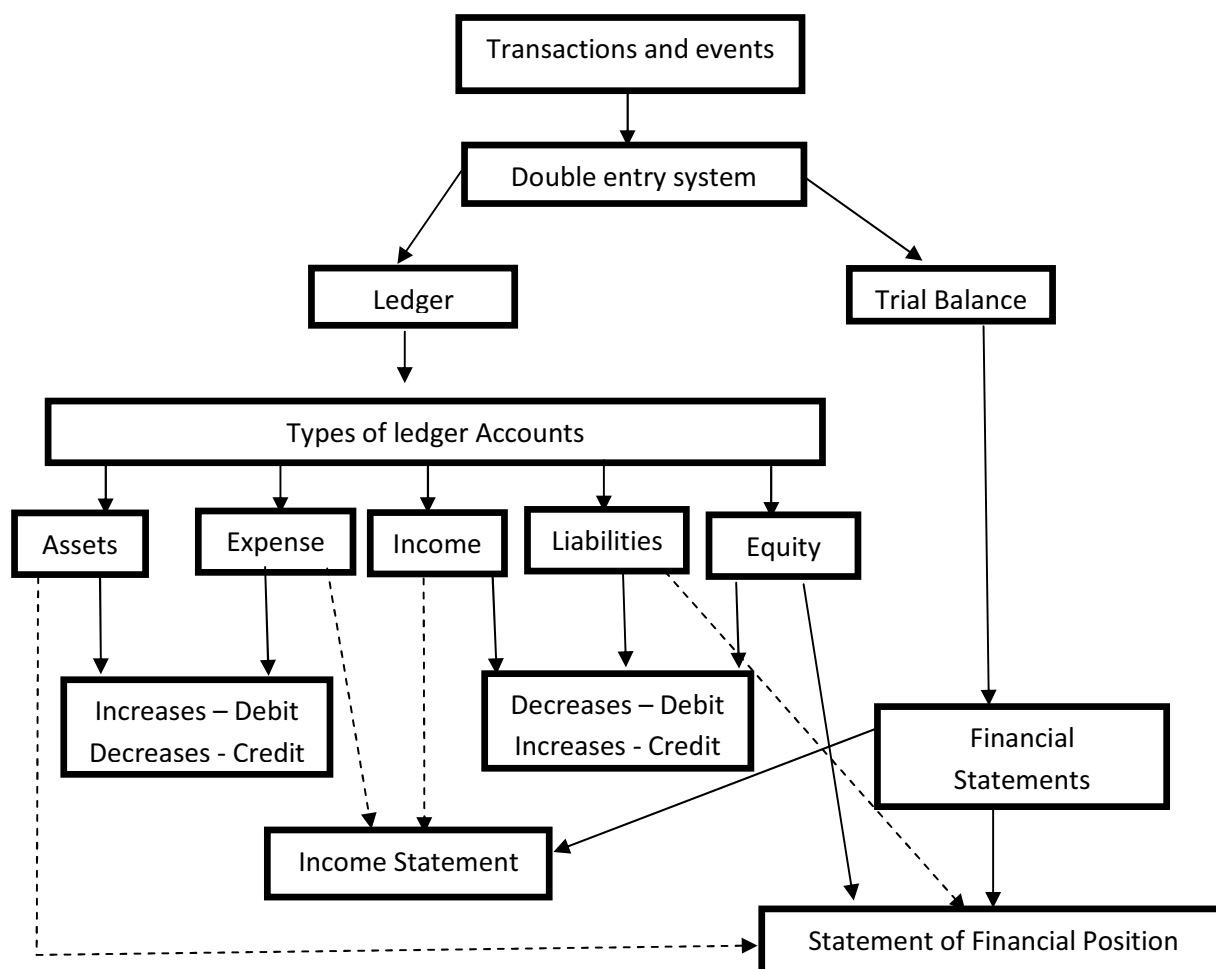
No. of periods : 12

Learning outcomes :

- Explains dual aspect of a transaction.
- Explains double entry system and its beginning and explain the double entry system.
- Presents principles of double entry.
- Explains account and format of an 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



- Transactions are recorded in the accounts following double entry principles
- Names the elements of financial statements

Learning and Teaching Process:

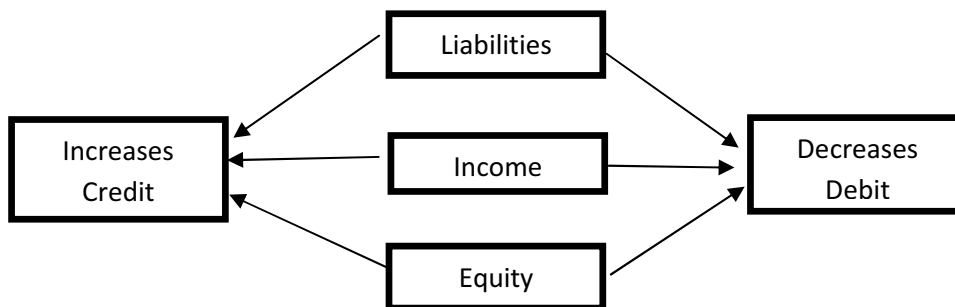
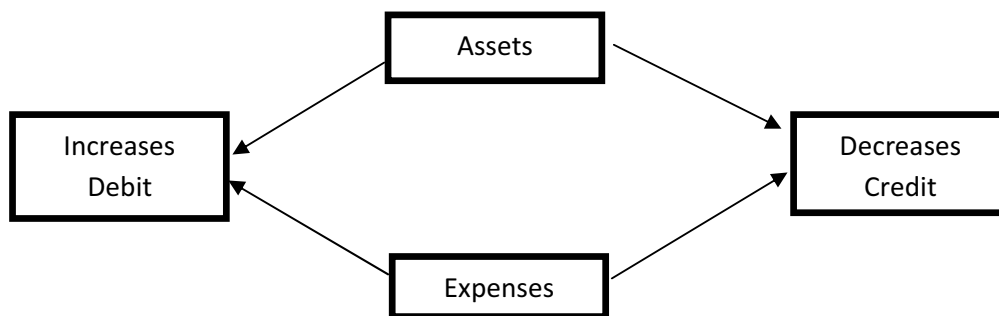
Engagement:

- 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 “**double entry system**”
- While the double economic impact is the basic principle of the double entry system, this method was first introduced by an Italian priest **Fr. Luca Pacioli** 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 increases and 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	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 the double entries of some 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	Cash a/c	Debit	20,000		
	Bank Loan a/c	Credit		20,000	
4	Purchase a/c	Debit	50,000		
	Cash a/c	Credit		30,000	
	Creditors Control a/c	Credit		20,000	
5	Electricity a/c	Debit	8,000		
	Cash a/c	Credit		8,000	
6	Debtors Control a/c	Debit	20,000		
	Sales a/c	Credit		20,000	
7	Creditors Control 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 Control 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.

- Assets and expenses - Increase Debit
- Liabilities, Equity and Income - Increase Credit
- Assets and expenses - Decrease Debit
- Assets, Equity and Income - Decrease Debit
- Assets and Expenses - Decrease Credit

4. Identify the correct statement as per double entry principles

- Purchased goods for cash Rs.20,000. Purchases a/c Debit
Cash a/c Credit
- Purchased goods on credit Rs.30,000. Stock a/c Debit
Creditors a/c Credit
- Sale of goods for cash Rs.50,000 Sales a/c Debit
Stock a/c Credit
- Sales on credit Rs.40,000. Sales a/c Debit
Creditors a/c Credit
- 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.
- The father of modern accounting is Fr. Luca Pacioli ()
 - The recording of the impact of transactions and events is done following double entry principles ()
 - The double entry principles to record equity is different to the principles for recording liabilities. ()
 - Drawing of goods decreases equity ()
 - The net profit earned during an accounting 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	Cash 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

Key terms	මූලික පද	பிரதான பதங்கள்
Double entry system	ද්විත්ව සටහන් ක්‍රමය	இரட்டைப் பதிவு முறைமை
Account	ගිණුම	கணக்கு
Branches of accounting	ගිණුම් වර්ග	கணக்கீட்டின் வகைகள்
Ledger	ලෙජරය	பேரேடு
Dual aspects / effects	ද්විත්ව බලපෑම	இரட்டை விளைவுகள்
Elements of financial statements	මූල්‍ය ප්‍රකාශන මූලිකාංග	நிதிக்கூற்றின் கூறுகள்

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

Competency Level 4.1 : Evaluates the importance of maintaining prime entry books.

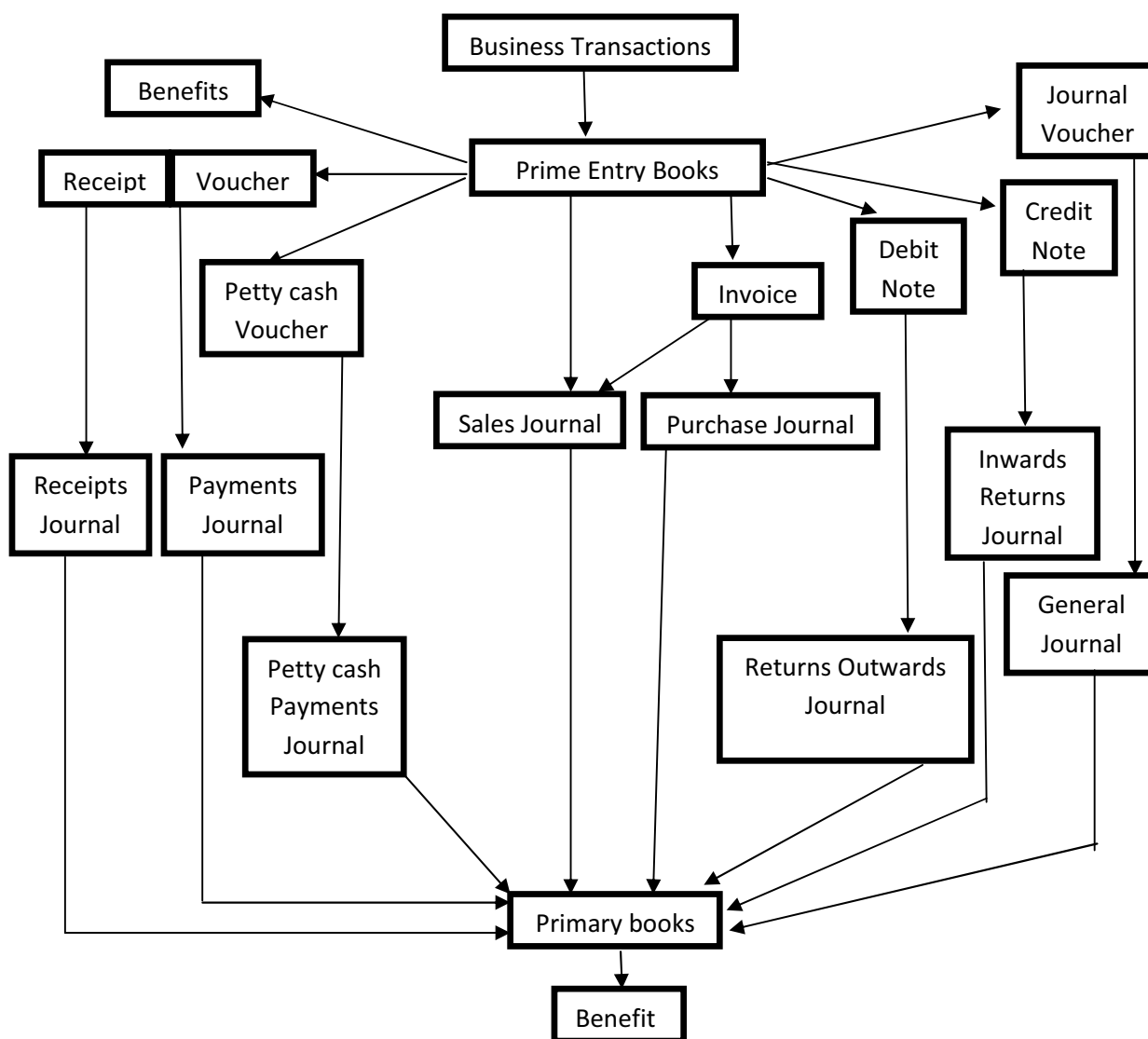
No. of periods : 04

Learning outcomes :

- Explains source documents and their importance.
- Names source documents relevant for transactions.
- Explains prime entry books and their importance.
- Tabulates prime entry books and relevant source documents.
- Preparation of prime entry books in a business registered for Value Added Tax (VAT).

Basic Terms and Concepts:

Concept Map



Learning - Teaching Process:

Engagement:

- Discuss with the students about the documentary proof that is available to confirm that the following transactions took place.
 - Travelling by bus
 - Purchase of goods from Sathosa.
 - Payment of Facilities Fees to the school.
 - Payment of Electricity bill.
 - Obtaining medical services from a specialist doctor.

- Lead the discussion to highlight the following points:
 - While various transactions take place in a business, the documents issued detailing the relevant transactions are known as **‘source documents’ or ‘original documents’**.
 - The original documents as appropriate to different transactions are varied.
 - What is contained in these documents are important information that is relevant to the particular transaction.
 - The original documents are used to record transactions in the Books of Prime Entry
 - These documents are useful in order to be able to discover shortcomings, errors, wrong doings, inconsistencies with regard to the particular activity and also as proof that a particular transaction took place.
 - These original documents are also an aid to confirm the value of the transaction.
- Based on the original documents and according to the nature of the transaction, books of prime entry as follows, will be used by the business.
 - Receipts Journal
 - Payments Journal
 - Petty Cash payments Journal
 - Purchases Journal
 - Purchase returns Journal
 - Sales Journal
 - Sales returns Journal
 - General Journal
- The books of prime entry, support books are also known as Journals.

Proposed Instructions for Learning:

- Give the following information to the respective groups and give necessary advice to understand the given points.
 - Information about receipts and payments of business finances.
 - Information about cheque payments and receipt of cheques.
 - Information about purchases on credit and returns outwards.
 - Information about sales on credit and returns inwards.
 - Information regarding Petty cash payments.
 - Information about the Purchase and sales on credit of Property, plant and equipment and accounting errors.
- Direct the students to study the given information diligently and provide answers to the following questions.
 - Nature of the transaction
 - The original documents relevant to the transaction
 - The book/s of prime entry relevant to the transaction.

Guidance to clarify subject matter:

- The importance of original documents and books of prime entry are given below:
- **Original documents**
 - Using the original document as the basis on which the accounting entry is made.
 - The ability to obtain all relevant information about the transaction.
 - It can be used as documentary proof that the transaction took place.
 - The officer who has certified the original document can be held responsible for it.
- **The book of prime entry**
 - Similar transactions are entered in the same book.
 - To minimize memory lapses and omissions.
 - Any errors in posting of entries can be quickly identified and resolved.
 - The ability to carry on business transaction with good control.
 - As different staff members will enter the books of prime entry accounting activities will become easier.
- The Prime entry books and Original documents can be stated as follows:

Transaction	Original documents	Book of Prime entry
1. Receipts of Cheques and Cash Deposits	<ul style="list-style-type: none">• Receipt / Deposit slip	Cash Receipts Journal
2. Issue of Cheques	<ul style="list-style-type: none">• Payment Voucher / Counterfoil	Cash Payments Journal
3. Petty Cash Payment according to the nature of the business	<ul style="list-style-type: none">• Receipt• Petty Cash Voucher	Petty Cash Payments Journal
4. Purchase goods on credit	<ul style="list-style-type: none">• Purchase Invoice	Purchase Journal
5. Returns outwards	<ul style="list-style-type: none">• Debit Note	Returns outwards Journal
6. Sale of goods on credit	<ul style="list-style-type: none">• Sales Invoice	Sales Journal
7. Returns inwards	<ul style="list-style-type: none">• Credit Note	Returns Inwards Journal
8. Transactions not recorded in other books of prime entry	<ul style="list-style-type: none">• Journal Voucher	General Journal

Assessment and Evaluation Criteria:

1. Kalpanie Enterprise purchased 100pcs children's clothes at Rs.800 each for sale from Sadeepa Fashion for cash. However, due to a change in design they returned 10pcs of the children's clothes.

In relation to Kalpanie Enterprise:

- i. Name the original documents
- ii. According to the original documents name the relevant books of prime entry.
- iii. Name the original documents and books of prime entry for Sadeepa Fashion.

2. "Nisha Book Shop" who is in the business of purchase and sale of stationery purchased 10 wooden chairs @ Rs.1,500/- each for cash. Selecting the original document/s relevant to this transaction.

- i. Payment Voucher - Payments Journal
- ii. Journal Voucher - General Journal
- iii. Invoice - Purchases Journal
- iv. Debit Note - General Journal
- v. Invoice - Sales Journal

3. The Purchases invoice of a business is given below:

INVOICE				
Maduri Enterprise				
Samanala Mawatha				
Pelmadulla.				
Tharaka Enterprise				
1st Lane,			Invoice No. : 0048	
Ratnapura			Date: 2016.01.05	
Item No.	Description	Quantity	Unit Price (Rs.)	Value (Rs.)
1	Exercise books - 80 pages	500	30	15,000
2	CR books - 120 pages	200	90	18,000
3	Drawing books	100	150	15,000
4	Pastel boxes	100	60	6,000
				54,000
Less: Discount 10%				-5,400
				48,600
(Rupees Forty eight thousand six hundred only)				
Note: For cash payment before 2016/01/31 discount 5%				
.....				
Sgd. Manager				

After careful observation of the above invoice write down 06 main points therein.

1.
2.
3.
4.
5.
6.

4. State whether each of the following statements is true (T) or false (F)
- i. The book of prime entry to record the purchase of wooden furniture by a business for resale, is the General Journal ()
 - ii. The original document to record the purchase of machinery for the use of the business is the Purchase Invoice. ()
 - iii. It is necessary to use original documents to make entries in the books of prime entry. ()

KEY TERMS

Key terms	இலக்க படி	பிரதான பதங்கள்
Double entry system	ஃலிவ் ஃஃஃன் ஃஃஃய	இரட்டைப் பதிவு முறைமை
Debit Note	ஃஃஃஃ	வரவுத்தாள்
Credit Note	ஃஃஃஃ	செலவுத்தாள்
Receipt	ஃஃஃஃ	பற்றுச்சீட்டு
Voucher	ஃஃஃஃ	கைச்சாத்து
Petty Cash Voucher	ஃஃஃ ஃஃஃ ஃஃஃஃ	சில்லறைக் காசேட்டுக் கைச்சாத்து

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

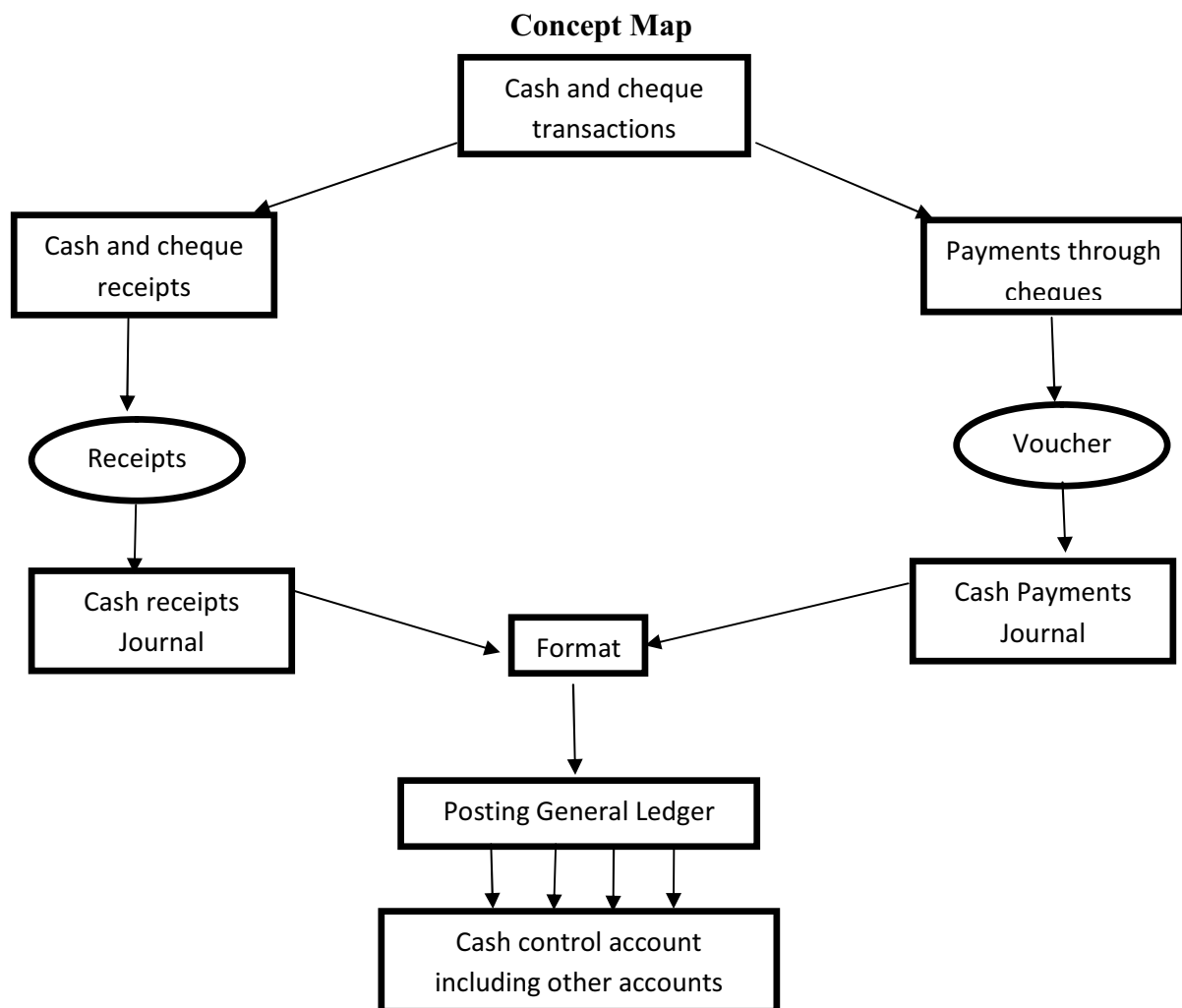
Competency Level 4.2 : Records cash transactions of a business.

No. of periods : 15

Learning outcomes :

- Names source documents relevant to cash receipts and payments.
- Records cash receipts and bank transactions by developing format of the Cash Receipts Journal.
- Records cash payments transactions through developing the format of the Cash Payments Journal.
- Transactions in the Cash receipts journal and cash payments journal post to the General Ledger.

Basic Terms and Concepts:



Learning and Teaching Process:

Engagement :

- Initiate a discussion by inquiring about the cash receipts and payments within the family.
- Explain the importance of having a plan in carrying out cash transactions.
- Explain that the use of receipt vouchers for cash receipts and payment vouchers for cash payments confirms the trust in those transactions.
-

Proposed Instructions for Learning:

Activity 01

- Give the following activities to the students as individual activities.
- Present the following advice sheet in an appropriate manner to the class.
 - Write down 10 transactions regarding the receipts and payments of cash with dates for any month together with values, in a **business organization that does not have banking transactions**.
 - For this purpose, include transaction of the following types:
 - Receipts from debtors
 - Payments to creditors
- Name the relevant original documents for these cash transactions.
- Enter the 10 transactions you have written into the Cash receipts Journal and Cash payments Journal in the following formats and balance them as at the end of the month.

CASH RECEIPTS JOURNAL / RECEIPTS JOURNAL								
Date	Receipt No.	Description	Discount Allowed (Rs)	Value (Rs.)	Receipts analysis			
					Cash Sales	Debtors Receipts	Income	Other Receipts
			xx	xxx	xx	xx	xx	xx
			(1)		(2)	(3)	(4)	(5)

*_

CASH PAYMENTS JOURNAL / PAYMENTS JOURNAL								
Date	Voucher No.	Description	Discount Received (Rs)	Value (Rs.)	Payments Analysis			
					Cash Purchases	Payments to Creditors	Expenses	Other Payments
			xx	xxx	xx	xx	xx	xx
			(6)		(7)	(8)	(9)	(10)

- Guide the students to make the double entries in the General Ledger from the sum totals in the columns in the Cash receipts Journal and Cash payments Journal.
- The recording in the Ledger should be in the following manner.
- For this purpose make available to students the following accounts formats and necessary details.

Cash account / Cash Control account				(Rs.)	
	Balance b/f	xx	(7)	Purchases a/c	xx
(2)	Sales a/c	xx	(8)	Creditors Control a/c	xx
(3)	Debtors Control a/c	xx	(9)	Expenses	xx
(4)	Other Income a/c	xx	(10)	Other payments	xx
(5)	Other receipts a/c	xx		Balance c/f	xx
		xxx			xxx
	Balance b/f	xx			

OR

Cash account / Cash Control account				(Rs.)	
Balance b/f	xx	Various a/cs - Payments	xx		
Various a/cs - Receipts	xx	Balance c/f	xx		
	xxx		xxx		
Balance b/f	xx				

(Rs.)		(Rs.)	
Discount allowed a/c		Sales a/c	
(1) Debtors Control a/c	xx	(2) Cash a/c	xx

Guidance to clarify subject matter:

- Cash receipts Journal is the prime book of entry where receipts of money for whatever reason is recorded for the first time.
- The original document relevant to the receipt of money is the ‘**receipt voucher**’.
- When cash is paid out for various reasons, it is first recorded in the prime book of entry called the Cash Payments Journal.
- The original document relevant to cash payments is the Cash Payment Voucher.
- After the cash transactions of a business are entered in the Receipts and Payments Journals must relevant, they must be posted to the General Ledger following double entry principles.
- The columnar totals in the Cash Receipts Journal must be posted to the General Ledger in the following manner.

Discount allowed column total	Discount allowed a/c - debit	Debtors control a/c - credit
Sum total of each column	Cash control a/c - debit	
Total of cash sales column	Cash control a/c - debit	Sales a/c - credit
Total of Debtors receipts column	Cash control a/c - debit	Debtors control a/c - credit
Total of Income column	Cash control a/c - debit	Respective income a/c's – credit
Total of other income column	Cash control a/c - debit	Respective receipts a/c's – credit

- The columnar totals in the Cash Payments Journal must be posted to the General Ledger in the following manner.

Sum of the Discounts received column	Creditors Control a/c - Debit	Discount received a/c - credit
Sum of the Cash Purchases column	Purchases a/c - Debit	
Sum of the Payments to Creditors Column	Creditors Control a/c - Debit	
Sum of the other expenses column	Individual expense a/c's - Debit	
Sum of the total value column		Cash a/c - credit

- When debt transactions are settled discounts are realized.
 - The discount given when debtors settle within the agreed period is ‘Discount allowed’.
 - The discount received when creditors are settled within the agreed period is ‘Discount received’.
- The cash receipts are entered in the Cash Receipts Journal. Let us consider the following examples.
- In Amal’s business transactions of cash receipts and similar transactions during the month of January 2017 are given below

				(Rs.)
2017.04.05	Cash sales	R. No.1		60,000
2017.04.10	Building rent received	R. No.2		5,000
2017.04.15	Received Bank loan	R. No.3		100,000
2017.04.18	Receipts from Amal (debtor)	R. No.4		9,000
2017.04.18	Discount given to Amal			500
2017.04.20	Cash sales	R. No. 5		50,000
2017.04.22	Receipt from Tilak (debtor)	R. No.6		48,000
	Discount given to Tilak			2,000
2017.04.25	Commission received	R. No.7		1,000
2017.04.28	Investing additional capital	R. No.8		20,000

Cash Receipts Journal / Receipts Journal

Date	Receipt No.	Description	Discount allowed	Value	Analysis				Folio page
					Cash sales	Debtors	Income	Other receipts	
4/5	1	Sales		60,000	60,000				
4/10	2	Building rent		5,000			5,000		
4/15	3	Bank loan		100,000				100,000	
4/18	4	Amal	500	9,000		9,000			
4/20	5	Sales		50,000	50,000				
4/22	6	Tilak	2,000	48,000		48,000			
4/25	7	Commission received		1,000			1,000		
4/28	8	Capital		20,000				20,000	
			2500	293000	110000	57000	6000	120000	

The cash payment transactions of a business are given below. The cash payment Journal can be presented in the format as given.

				Rs.
2017.04.06	Payment of monthly electricity bill	V.No. 01		6,000
2017.04.08	Paid Malinda – a creditor	V.No.02		12,000
	Discount received			1,000
2017.04.10	Cash purchases	V.No.03		18,000
2017.04.12	Payment of monthly insurance	V.No.04		12,000
2017.04.14	Payment to Sagara – creditor	V.N0.05		16,000
	Discount received			1,000
2017.04.16	Purchased office furniture	V.No.06		50,000
2017.04.18	Payment of wages and salaries	V.No,06		30,000
2017.04.20	Payment of bank loan installment	V.No.07		12,000
2017.04.22	Cash purchases	V.No.09		22,000
2017.04.26	Cash drawings	V.No.10		5,000

Cash Payments Journal / Payments Journal									
Date	Voucher No.	Description	Discount Received (Rs.)	Value (Rs.)	Analysis (Rs.)				Folio Page
					Cash Purchases	Creditors	Expenses	Other Payments	
4/6	1	Electricity		6,000			6,000		
4/8	2	Milinda	1,000	12,000		12,000			
4/10	3	Purchases		18,000	18,000				
4/12	4	Insurance		12,000			12,000		
4/14	5	Sagara	1,000	16,000		16,000			
4/16	6	Office furniture		50,000				50,000	
4/18	7	Salaries & wages		30,000			30,000		
4/20	8	Bank loan		12,000				12,000	
4/22	9	Purchases		22,000	22,000				
4/26	10	Drawings		5,000				5,000	
			2,000	183,000	40,000	28,000	48,000	67,000	

- Assuming the opening cash balance in Amal's business as at 2017.04.01 is Rs.25,000, the posting of Cash Receipts Journal and Cash Payments Journal to the General Ledger is given below:

Cash Account / Cash Control Account					
		Rs.			Rs.
4/1	Balance b/f	25,000		Creditors Control a/c	28000
	Sales	110000		Purchases	40000
	Debtors Control a/c	57000		Expenses	50000
	Income	6000		Other payments	65000
	Other receipts	120000		Balance c/f	135000
		<u>318,000</u>			<u>318000</u>
5/1	Balance b/f	135000			

OR

(Rs.)

Cash Account Cash / Control Account					
4/1	Balance b/f	25,000	4/30	Cash payments	183,000
4/30	Cash receipts	<u>293,000</u>	4/30	Balance c/f	<u>135,000</u>
		<u><u>318,000</u></u>			<u><u>318,000</u></u>

Sales a/c					
		Rs.			Rs.
			4/30	Cash a/c	110,000

(Rs.)

Bank Loan a/c					
4/20	Cash a/c	12,000	4/15	Cash a/c	100,000

(Rs.)

Capital a/c					
			4/1	Balance b/d	xxx
			4/28	Cash a/c	20,000

(Rs.)

Discount allowed a/c					
4/30	Debtors Control a/c	2,500			

(Rs.)

Discount received a/c					
			4/30	Creditors control a/c	2,000

					(Rs.)
Debtors Control a/c					
			4/30	Cash a/c	57,000
				Discount allowed	2,500

					(Rs.)
Creditors Control a/c					
4/30	Cash a/c	28,000			
	Discount received a/c	2,000			

					(Rs.)
Building rent received a/c					
			4/30	Cash a/c	5,000

					(Rs.)
Commission received a/c					
			4/25	Cash a/c	1,000

					(Rs.)
Purchases a/c					
4/30	Cash a/c	40,000			

					(Rs.)
Electricity Expense a/c					
4/6	Cash a/c	6,000			

					(Rs.)
Insurance expense a/c					
4/12	Cash a/c	12,000			

					(Rs.)
Office Furniture a/c					
4/16	Cash a/c	50,000			

					(Rs.)
Drawings a/c					
4/26	Cash a/c	5,000			

					(Rs.)
Salaries & Wages a/c					
4/18	Cash a/c	30,000			

Guidance to clarify subject matter:

- Most businesses carry out their transactions with cash as well as cheques.
- Businesses that carry out their transactions with cheques as well, deposit all cheques and cash received directly to the bank account. These are all entered in the Cash Receipts Journal.
- Payments made by cheque are entered in the Cash Payments Journal.
- When payments are made by cheque as well as cash, all cash payments must be entered in the Petty Cash payments Journal.
- It must be clearly explained that all cash received by the business is deposited in the bank account on the same day.

Activity 02 : Handover Annexure 4.2.1 to the students.

Annexure 4.2.1

On 2017.04.01 Thilina deposited Rs.800,000 in the business bank account to commence his trading business. Given below are the transactions that took place during the month of April.

Transaction date	Description	Receipt No.	Voucher No.	Cheque No.	Amount (Rs.)
2017.04.01	Cash purchases		1	800400	120,000
2017.04.02	Purchase of furniture & fittings		2	800401	80,000
2017.04.02	Cash sales	2		712520	200,000
2017.04.03	Purchases from Athula				100,000
2017.04.04	Sales on credit to Venura				150,000
2017.04.05	Payment to Petty Cashier		3	800402	10,000
2017.04.06	Paid transport for goods inwards		4	800403	5,000
2017.04.07	Credit purchases from Thushan				80,000
2017.04.08	Credit sales to Chatura				90,000
2017.04.08	Loan from People's Bank	3			300,000
2017.04.09	Paid Athula. Discount received Rs.5,000		5	800404	95,000
2017.04.10	Received payment from Venura. Discount allowed 10%			620703	135,000
2017.04.12	Cash sales	5		cash	250,000
2017.04.14	Paid Building rent		6	800405	20,000
2017.04.15	Cash purchases		7	800406	110,000
2017.04.18	Paid Thushan - Discount received 10%		8	800407	72,000
2017.04.22	Receipts from Chathura - Discount allowed 10%	6		cash	81,000
2017.04.25	Paid wages		9	800408	10,000
2017.04.26	Drawings by Thilina		10	800409	10,000
2017.04.28	Commission received	7		cash	8,000

- Enter the above transactions of Thilina's business in the Cash Receipts Journal and Cash Payments Journal and then post them to the General Ledger.

- Confirm whether the students' answers agree with the given solution.

All figures in Rs.

CASH RECEIPTS JOURNAL									
Date	Receipt No.	Description	Cheque No.	Discount allowed	Amount	Cash Sales	Debtors	Other Income	Other receipts
17/4/1	1	Capital			800,000				800,000
17/4/2	2	Sales	702520		200,000	200,000			
17/4/8	3	Bank Loan			300,000				300,000
17/4/10	4	Venura	620703	15,000	135,000		135,000		
17/4/12	5	Sales			250,000	250,000			
17/4/22	6	Chathura		9,000	81,000		81,000		
17/4/28	7	Commission received			8,000			8,000	
				24,000	1,774,000	450,000	216,000	8,000	1,100,000

CASH PAYMENTS JOURNAL									
Date	Voucher No.	Description	Cheque No.	Discount received	Amount	Analysis (Rs.)			
						Cash Purchases	Creditors	Expenses	Other Payments
17/4/1	1	Purchases	800400		120,000	120,000			
17/4/2	2	Furniture	800401		80,000				80,000
17/4/5	3	Petty Cash	800402		10,000				10,000
17/4/6	4	Transport charges	800403		5,000			5,000	
17/4/9	5	Athula	800404	5,000	95,000		95,000		
17/4/14	6	Building rent	800405		20,000			20,000	
17/4/15	7	Purchases	800406		110,000	110,000			
17/4/18	8	Thushan	800407	8,000	72,000		72,000		
17/4/25	9	Staff salaries	800408		10,000			10,000	
17/4/26	10	Drawings	800409		10,000				10,000
				13,000	532,000	230,000	167,000	35,000	100,000

General Ledger

Discount allowed a/c				
		Rs.		Rs.
4/30	Debtors Control a/c	24,000		

Capital a/c					
		Rs.			Rs.
			4/30	Cash a/c	800,000

Discount received a/c					
		Rs.			Rs.
			4/30	Creditors Control a/c	13,000

6

Sales a/c					
		Rs.			Rs.
			4/30	Cash a/c	450,000

Petty Cash a/c					
			Rs.		Rs.
4/05	Cash a/c		10,000		

(Rs.)

Bank Loan a/c					
			4/08	Cash a/c	300,000

(Rs.)

Commission received a/c					
			4/28	Cash a/c	8,000

Creditors Control a/c					
					(Rs.)
4/30	Discount received a/c	13,000			
4/30	Cash a/c	167,000			

(Rs.)

Furniture a/c					
4/02	Cash Book	80,000			

Exercise:

- Malidu's business carries out all transactions through a bank account. The balance in the bank account on 2017.04.01 was Rs. 1,200,000. The transactions during the month of April 2017 are given below:

Transaction date	Original document No.	Details	Cheque No.	Amount (Rs.000's)
2017.04.01	R. No. 01	Cash Sales	135401	4,000
2017.04.02	V .No.01	Cash purchases	350150	2,000
2017.04.03	R. No. 02	Received from Sudesh	Cash	1,500
2017.04.04	V. No.02	Paid Sujani	350151	1,400
2017.04.05	V. No.03	Paid Electricity bill	350152	300
2017.04.06	R. No. 03	Rent income	Cash	400
2017.04.08	R. No. 04	Received from Namal subject to 10% discount	125214	360
2017.04.10	V. No.04	Paid Sudaraka subject to 10% discount	350153	180
2017.04.12	V. No.05	Paid staff salaries	350154	120
2017.04.14	V. No.06	Purchased motor vehicle	350155	2,500
2017.04.15	R. No.05	Obtained Bank loan	Cash	3,000
2017.04.18		Bank informed that Namal's cheque is dishonoured	125214	360
2017.04.20	V. No.06	Cash Sales	Cash	4,400
2017.04.22	V. No,07	Paid Pasindu (Discount received	350156	450
2017.04.24		Electricity payment cheque returned due to error	350152	300
2017.04.26	V.NO.08	Malidu's drawings	350157	100
2017.04.28	V. No.09	Cash purchases	138146	1,300
2017.04.29	R. No.07	Received from Hasitha	350158	350
2017.04.30	V. No.10	Electricity expenses		300

Required:

1. Prepare the Cash Receipts Journal and Cash Payments Journal for Malidu's business for the month of April 2017.
2. Use the information from the Cash Receipts Journal and Cash Payments Journal to prepare the Cash Control account.

Guidance to clarify the subject matter:

- If a cheque received from a Debtor is **deposited in the bank and returned unpaid** the original entries in this connection must be entered in the General Journal.
- In this case, if the debtor has been allowed a discount this too should be reversed.
- Accordingly, make the following entry in the General Journal

Debtors control a/c	Debit	xxx
Discount allowed a/c	Credit	xx
Cash a/c	Credit	xxx

(Being reversal of entries as the cheque has been dishonoured)

- Where a cheque issued by the business is returned for some reason, this too should be entered in the General Journal.
- If the creditor has given a discount, the business becomes ineligible to this too. Accordingly, record the following in the General Journal:

Cash a/c	Debit	xx
Discount received a/c	Debit	xx
Creditors control a/c	Credit	xx

Ineligibility to receive discount due to cheque being returned.

- When a cheque paid for expenses is dishonoured by the bank and a new cheque is issued in lieu, make the following entries in the General Journal.

Cash a/c	Debit	xxx
Accrued expense a/c / Expense a/c	Credit	xxx

Cheque issued for expenses returned.

KEY TERMS

Key terms	இலக்க படி	பிரதான பதங்கள்
Double entry system	தீவிர சமன் முறை	இரட்டைப் பதிவு முறைமை
Cash receipt journal	இடல் கைபி சீர்தரவு	காசுப் பெறுவனவு நாட்குறிப்பேடு
Format	அமைப்பு	அமைப்பு / மாதிரி
Cash control account	இடல் கட்டுப்பாட்டு கணக்கு	காசுக் கட்டுப்பாட்டுக் கணக்கு
Cash	இடல்	காசு
Cheque	சேக்க	காசோலை

Competency4.0 : **Posts transactions to the ledger using prime entry books.**

Competency Level 4.3 : **Maintains the petty cash book to record petty cash expenses.**

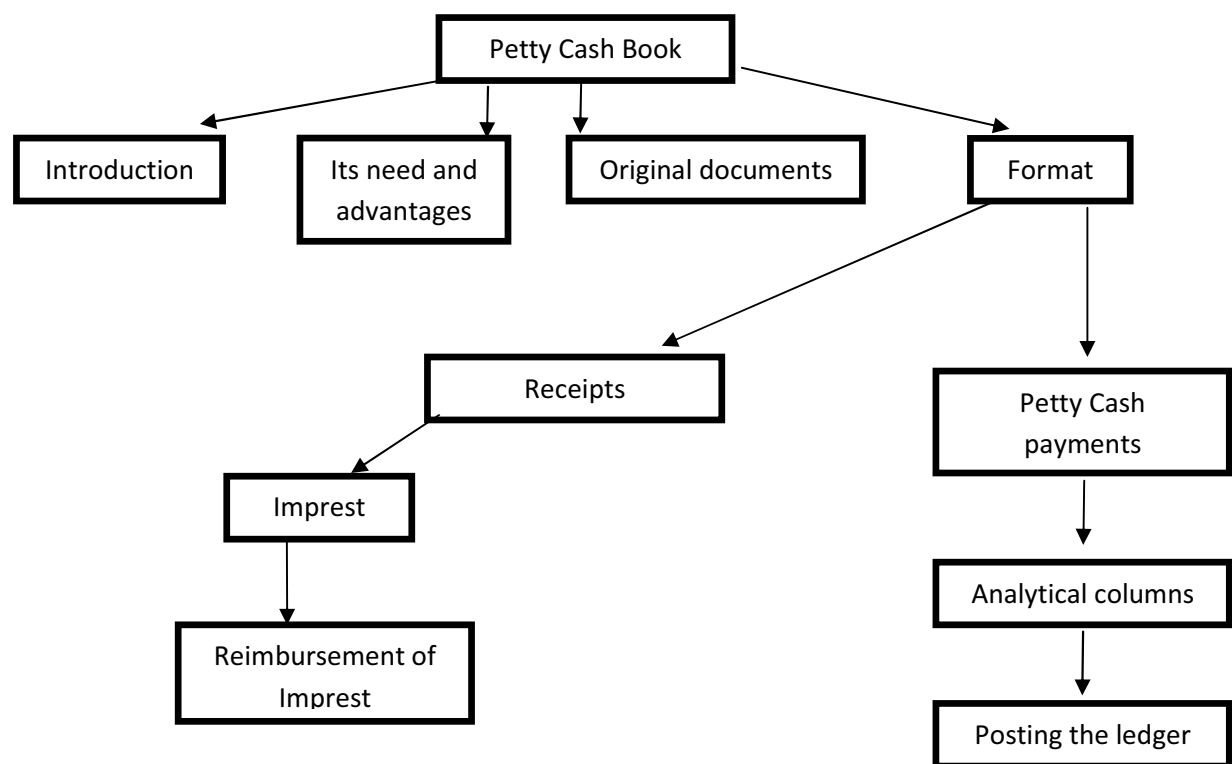
No. of periods : 12

Learning outcomes :

- Names source documents related to petty cash transactions.
- Explains petty cash imprest and the reimbursement.
- Develops format of the Petty Cash book.
- Prepares the Petty Cash Payment Journal.
- Posts petty cash payments to the ledger.

Basic Terms and Concepts:

Concept Map



Learning and Teaching Process:

Engagement:

Hand over a paper containing the following information to the students in a suitable manner and inquire about their views.

Transaction	Rs.
Purchase of stocks	15,000
Entertainment expenses	75
Purchase of stamps/envelopes	40
Paid wages	9,000
Purchase of file covers	30
Purchase of pen	15
Purchase of furniture	60,000
Travel expenses	125

- Lead a discussion to bring forth the following points.
- Create awareness that in a business, very small value transactions also take place and some examples are as follows:
 - Entertainment expenses
 - Purchase of file covers
 - Cost of purchasing a pen
 - Cost of travel
 - Etc.
- That such small value payments can be identified as Petty expenses.
- That a Petty Cash Payment Journal is used to record such transactions.
- The likely total cost of such expenses for a given period is decided in advance and the Chief Cashier will give that some to a Petty Cashier.
- Explain that this sum of money is known as the **Petty Cash Imprest** and that the reimbursement of the expenses to the Petty Cashier is known as the **Imprest system**.

Proposed Instructions for Learning:

Direct the attention of the two groups to the information about the business that each group receives.

Date 2015	Ruvani's business	Rs.	Aruni's business	Rs.
3/01	1. Cash given to Petty Cashier	2500	1. Cash given to Petty Cashier	5000
3/02	2. Purchase of inventory	60000	2. Tri shaw expenses	150
3/03	3. Hire charge for transporting goods	8000	3. Stationery expenses	250
3/04	4. Entertainment expenses	200	4. Purchase of furniture	5300
3/05	5. Stamps and envelopes	180	5. Pens and paper	80
3/06	6. Cleaning expenses	300	6. Sugar and Tea leaves	300
3/07	7. Purchase of furniture	6000	7. Sundry expenses	360
3/08	8. Postage	300	8. Registered letters	160
3/09	9. Hire of motor vehicle	250	9. Photocopy paper	250
3/10	10. Gave Ranil	600	10. Paid Piyal	200
3/11	11. Cleaning expenses	150	11. Bus fare	50

- Guide the groups to arrive at the following information through discussing the relevant business.
 - Identifying the comparatively low value transactions.
 - Arriving at the value of the Petty cash Imprest.
 - The original documents required to confirm the transactions.
 - Recording the low value transactions of the business and money received in a format similar to the following.

Petty Cash payment Journal									
Date	Details	V. No.	Amount (Rs.)	Analysis columns				Other (Rs.)	Ledger Ref.
				Stationery (Rs.)	Labour (Rs.)	Travelling (Rs)	Miscellaneous (Rs.)		

- Balancing the Petty Cash Payment Journal to 2017.03.15.
- Posting the entries in the Petty Cash Payment Journal to the Ledger.
- Show that the reimbursement of the petty cash imprest must be made.

Guidance to clarify Subject matter:

- Among the daily transactions that take place in a business, the low value transactions must be identified and recorded in a separate book of prime entry. This book of prime entry is identified as the Petty Cash Payment Journal.
- The original documents used to make entries in the Petty Cash Payment Journal are the receipt and the Petty Cash voucher.

- The amount of money given to the Petty cashier for expenses for a specific period, decided by the management as the likely expenses for that period, at the beginning of that period, is known as the **Petty Cash Imprest**.
- At the end of each period the Petty Cashier will obtain the money spent from the Chief Cashier and this is known as the reimbursement of the imprest.
- The petty cash payments must be entered in a Petty Cash Payment Journal that has analysis columns.
- If a payment that should be made by the Chief Cashier is paid by the Petty Cashier, then this must be entered in the 'Ledger a/c' column. Such payments must be entered directly in the relevant ledger account on the same day.
- The petty cash payments made in respect of an account that is already existing in the ledger must be entered in the 'ledger' column.
- The double entry for the transactions entered in the Petty Cash book are given below:
 - Receiving the Petty Cash Imprest:

Petty Cash a/c	Debit	
Cash a/c		Credit
 - Reimbursement of the Imprest

Petty Cash a/c	Debit	
Cash a/c		Credit
 - Sum totals of the analysis columns

Respective account	Debit	
Petty Cash a/c		Credit

The Petty Cash book of Ruvani's business can be prepared in the following manner:

Petty Cash Book										
Receipts Rs.	Ledger folio	Description	Voucher No.	Amount	Entertainment (Rs.)	Postage & Stamps (Rs.)	Travel (Rs.)	Cleaning (Rs.)	Other (Rs.)	Ledger folio
2500	3/1	Stamps	1							
	3/4	Entertainment	2	200	200					
	3/4	Stamps/envel	3	180		180				
	3/5	Cleaning	4	300				300		
	3/8	Posrtage	5	300		300				
	3/9	Vehicle hire ch	6	250			250			
	3/10	Ranil (creditor	7	600					600	8
	3/11	Cleaning expenses		150				150		
				1980	200	480	250	450	600	
520	3/16	Balance c/f			Debited Entertainment exps a/c (LF 20)	Debited Postage a/c (LF 21)	Debited Travel exps a/c (LF 23)	Debited Cleaning exps a/c (LF 24)		

The posting of the entries in the Petty Cash Payment Journal to the ledger will be done in the following manner.

Petty Cash a/c					
		Rs.			Rs.
3/1	Cash a/c	2,500		Various expenses	1,980

OR

Petty Cash a/c					
03/01	Cash a/c	2500	03/15	Entertainment	200
				Postage	480
				Traveling	250
				Cleaning	450
				others	600

Entertainment expenses					
		Rs.			Rs.
3/15	Petty Cash	200			

Cash a/c					
		Rs.			Rs.
31/1	Balance b/f	xxx	3/1	Petty Cash	2,500

Postage a/c					
		Rs.			Rs.
3/15	Petty Cash	480			

Cleaning expenses a/c					
		Rs.			Rs.
3/15	Petty Cash	450			

Travel expenses a/c					
		Rs.			Rs.
3/15	Petty Cash	250			

Creditors Control a/c					
		Rs.			Rs.
3/10	Petty Cash	600		Balance c/f	xxx

Assessment and Evaluation Criteria:

- (01) (i) Explain briefly the Petty Cash imprest and the reimbursement of the Imprest.
(ii) The original documents relevant to the petty cash transactions.
(i) Receipt of the Petty Cash imprest (ii) Petty cash payments

- (02) The Petty Cash Imprest in a business is Rs.3,000. The sum totals of the Petty cash expenses are as follows:

	Rs.
Stationery expenses	120
Travel expenses	240
Entertainment expenses	300
Postage expenses	450
Sundry expenses	900

The balance carried forward in the Petty Cash book as at 2015/01/31 will be:

- (i) Rs.990 (ii) Rs.2,010
(iii) Rs.3,000 (iv) Rs.3,990
(v) Rs.5,010

- (03) The balances in Sathsarani business on 2017/04/01 are given below:

- Cash Control a/c balance Rs.24,000
- Vimukthi (creditor) Rs. 2,500
- Monthly Petty Cash imprest Rs. 2,000

- The petty cashier received the imprest amount for the month of April 2017 on 2017.04.01.
- The sum totals of the Petty cash payments made by the Petty cashier are given below:

	Rs.
• Entertainment expenses	265
• Stationery expenses	315
• Postage expenses	340
• Payment to Vimukthi	300
• Travel expenses	160

- Required:
Post the transactions entered in the Petty Cash book as at 2017/04/30 to the Ledger.

- (04) State whether the following statements are true (T) or false (F).

- (1) It is possible to have control over the petty cash payments through maintaining Petty cash in the Imprest system. ()
(2) The Petty cash Payment Journal is a book of prime entry as well as a Ledger a/c. ()

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

Competency Level 4.4 : Prepares bank reconciliation statement

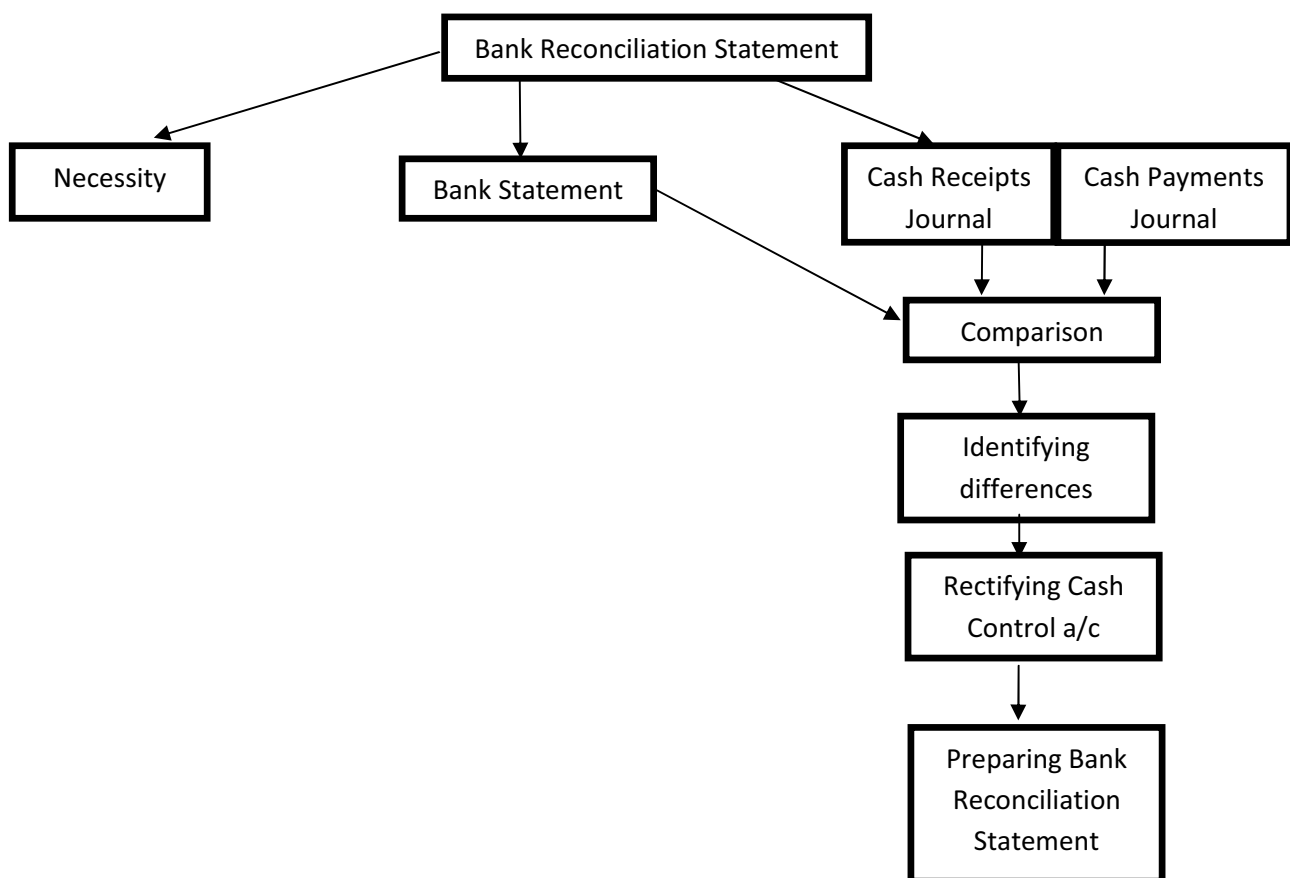
No. of periods : 12

Learning outcomes :

- Explains bank statement
- Presents transactions included in a bank statement
- Discloses the reasons for the differences in the balances between the Bank statement and the Cash Receipts Journal and Cash Payments Journal by comparing them.
- Rectifies the Cash Control account balance.
- Indicates the need for preparing the bank reconciliation statement.
- Prepares bank reconciliation statement.

Basic Terms and Concepts:

Concept Map



Learning and Teaching Process:

Engagement :

Lead a discussion that brings out the following points.

- That the balance in the Cash Control a/c of the business and the cash balance as per the Bank Statement will very often differ.
- That the relevant transactions in the Cash Control a/c are obtained from the Cash Receipts Journal and Cash Payments Journal.
- That the transactions done by the bank will be contained in the Bank Statement.
- That the reasons for the differences between the Cash Control a/c and the Bank Statement can be identified under the following two sections.
 - Comparisons to be made with the Cash Control a/c prepared by the business organization.
 - Periodical changes that must be included in the Bank Reconciliation statement and possible errors made by the bank.
- That in order to reveal the differences that affect the balances in the Cash Control a/c and the Bank statement balance, comparisons must be made in the following manner.
 - Comparison of the Cash Receipts Journal and credit column of the Bank Statement.
 - Comparison of the Cash Payments Journal and debit column of the Bank Statement.

Proposed Instructions for Learning:

Activity 01 :

- Give a handout to the students that contain details of ‘Amal’s business’ as given in Annexure 4.4.1.
- Give the following topics to the respective groups.

1stGroup

Bank Statement, Cash Receipts Journal, Cash Control a/c

2nd Group

Bank Statement, Cash Payments Journal, Cash Control a/c

- Direct them to compare and identify any differences according to the relevant topic.
 - Direct them to exchange the reasons that have been identified that caused the differences between the Cash Control a/c and Bank Statement and list them out.
 - Direct them to present to the entire class the reasons that have been revealed.
- Now compare with the solution provided.

Activity 02 :

- Direct the students to study the list of differences that were revealed in Amal's business above.
- Give the following two topics to some of the student groups.
 - Correcting errors in the Cash Control a/c
 - Prepare details for the Bank Reconciliation.
- Direct the groups to develop information relevant to the above two topics.

Confirm that the answers agree with the given solution.

Guidance to clarify Subject matter:

- While the Cash Control a/c from the point of view of the business is an Asset account, the current account maintained by the Bank on behalf of the business is a Liability account from the point of view of the Bank.
- Accordingly, the transactions with the bank that are entered in the Cash Receipts Journal will be credited to the Current account by the bank.
Eg: Cash deposit to the bank.
The value of cheques deposited in the bank and subsequently dishonoured.
- The transactions with the bank entered in the Cash Payments Journal by the business will be debited to the Current account by the bank.
Eg: The total value of the cheques issued by the business and payment effected by the bank.
- The following items which may not have been included in the Cash Control a/c may be included in the Bank Statement (In the Receipts Journal and Payments Journal).

Not included in Payments Journal	Not included in Receipts Journal
<ul style="list-style-type: none">• Payments made on a Standing Order	<ul style="list-style-type: none">• Amounts received by the bank directly (Direct transfers)
<ul style="list-style-type: none">• Bank charges imposed by the bank	<ul style="list-style-type: none">• Debtors payments
<ul style="list-style-type: none">• Cheque book charges	<ul style="list-style-type: none">• Investment income
<ul style="list-style-type: none">• Interest charges	<ul style="list-style-type: none">• Profit incomes, Interest income

- In addition to the above the following reasons also may cause differences in the balances.
 - Errors and omissions that may occur while recording transactions by the business.
 - Errors and omission of the bank.

- In correcting the Cash Control a/c balance, only the following reasons are relevant.

Items debited to the Cash Control a/c	Items credited to the Cash Control a/c
<ul style="list-style-type: none"> • Direct transfers made to the bank • Errors & Omissions made by the business when recording transactions. 	<ul style="list-style-type: none"> • Payments deducted by the bank in respect of Standing Orders • Bank and cheque book charges • Mistakes made by the business when recording transactions.

- The Bank Reconciliation Statement will be prepared after the Cash Control a/c balance is corrected. The following adjustments will be made to the revised Cash Control a/c balance:
 - The cheques issued by the business during the period but not presented to the bank for payment must be added.
 - The value of any cheques deposited business current account but were returned unpaid must be deducted.
 - Any errors or omissions of the bank must be added or deducted as appropriate.
- When the adjustments have been completed, the balance should tally with the Bank Statement balance.
- The formats for the correction of the Cash Control a/c and the Bank Reconciliation statement are given below:

Cash account / Cash Control account (Revision)			
	Rs.		Rs.
Balance b/f	xxx	Standing Orders not recorded	xxx
Direct transfers not recorded	xx	Bank charges	xx
Issued cheques returned	x	Cheque book charges	x
Reduction in value of cheques deposited	x	Cheque deposits dishonoured	x
		Cheques issued but not recorded	x
		Balance c/f	xx
	xxx		xxx
Balance b/f	xx		

Bank Reconciliation Statement		
	Rs.	Rs.
Cash Control A/c as revised		xxx
Add:		
Cheques not presented	x	
Errors made by the bank	x	xx
Less:		
Cheques not realised	xx	
Errors made by the bank	xx	(xx)
Balance as per Bank Statement		xxx

Annexure 4.4.1

Information about Amal's business.

The Cash Receipts Journal of "Amal's business" for the month of April 2016 is given below:

Cash Receipts Journal						
Date	Details	Cheque No.	Amount Rs.	Discount allowed Rs.	Analysis	
					Debtors	Sales
2016.04.05	Sales	147585	16,000	---	---	16,000
2016.04.08	Chamara	218570	10,000	500	10,000	
2016.04.10	Sales	---	5,000	---	---	5,000
2016.04.15	Menaka	412870	12,000	800	12,000	
2016.04.20	Sampath	241711	8,000	300	8,000	
2016.04.22	Ruwan	281620	15,000	700	15,000	
2016.04.25	Sagara	---	19,000	1,000	19,000	
			85,000	3,300	64,000	21,000

The Cash Payments Journal of "Amal's business" for the month of April 2016 is given below:

Cash Payments Journal								
Date	Details	Cheque No.	Amount Rs.	Discount Received Rs.	Analysis			
					Creditors	Purchases	Expenses	Other expenses
2016.04.04	Purchases	211010	6,000			6,000		
2016.04.06	Senaka	211011	15,000	500	15,000			
2016.04.08	Electricity	211012	6,000				6,000	
2016.04.12	Kokila	211013	18,000	1,000	18,000			
2016.04.18	Petty Cash	211014	2,000					2,000
2016.04.25	Purchases	211015	5,000					5,000
2016.04.28	Building rent	211016	6,000				6,000	
2016.04.29	Purchases	211017	4,000			4,000		
			62,000	1,500	33,000	10,000	12,000	7,000

Cash Control a/c for the month of April					
		Rs.			Rs.
4/1	Balance b/f	12,000		Creditors Control	33,000
	Sales	21,000		Purchases	1,000
	Debtors Control	64,000		Expenses	12,000
				Other payments	7,000
			4/30	Balance c/f	44,000
		97,000			97,000
	Balance b/f	44,000			

- The Bank Statement received for the month of April 2016 is given below:

Bank Statement for the month of April 2016				
Date	Details	Debit	Credit	Balance
		Rs.	Rs.	Rs.
4/01	Balance		12,000	12,000
4/08	Cheque 147585		16,000	28,000
4/10	Cheque 211010	6,000		22,000
4/10	Cash		5,000	27,000
4/12	Cheque 211011	15,000		12,000
4/15	Cheque 412870		12,000	24,000
4/16	Cheque 211013	18,000		6,000
4/18	Cheque 211014	2,000		4,000
4/20	Cheque 218570		10,000	14,000
4/25	Cheque 211015	5,000		9,000
4/25	Cash		19,000	28,000
4/30	Cheque 211016	6,000		22,000
	Cheque book charges	1,000		21,000
	Profits		4,000	25,000

Required:

State the reasons for the differences in the above Bank Statement and the Cash Control a/c and

- Revise the balance in the Cash Control a/c
- Prepare the Bank Reconciliation Statement

Solution

Reasons for the differences in the Bank Statement and Cash Control a/c balances:

- Cheques deposited but not realized

Cheque No.241711	Rs.8,000
Cheque No.281620	Rs.15,000

2. Profits credited direct to the bank Rs.4,000

3. Cheques issued but not presented for payment

Cheque No.211012	Rs.6,000
Cheque No.211017	Rs.4,000

4. Cheque book charges Rs.1,000

5. The sum total of the Purchases column in the Cash Payments Journal of Rs.10,000 recorded as Rs.1,000 in the Cash Control a/c

- Revision of the Cash Control a/c

Cash Control a/c / Cash a/c			
	Rs.		Rs.
Balance	44,000	Cheque book charges	1,000
Profits	4,000	Purchases	9,000
		Balance c/f	38,000
	48,000		48,000
Balance b/f	38,000		

Preparing the Bank Reconciliation Statement

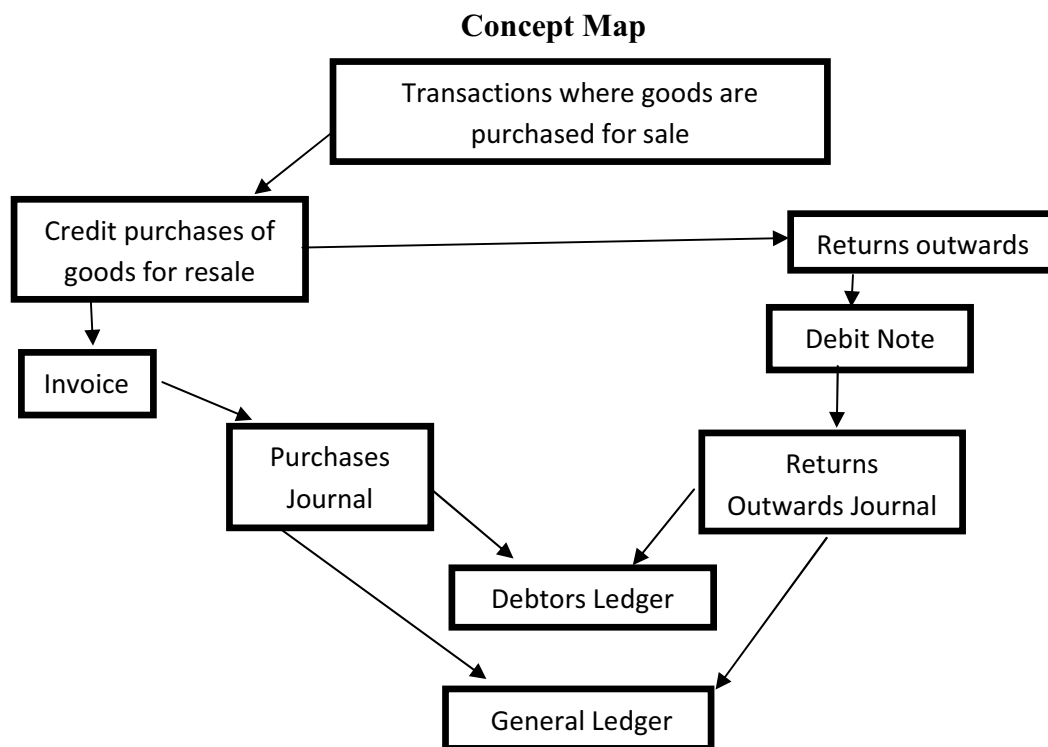
- Bank reconciliation statement as at 2016.04.30

	Rs.	Rs.
Correct balance as per Cash Control A/c		38,000
Add:		
Cheques issued but not presented:		
211012	6,000	
211017	4,000	10,000
		48,000
Less:		
Cheques not realized		
241711	8,000	
281620	15,000	- 23,000
Balance as per Bank Statement		25,000

Notes: If there is a credit balance in the Cash Control a/c (overdraft) explain how the items will be recorded in the Bank Reconciliation statement.

- Competency 4.0:** : **Posts transactions to the ledger using prime entry books.**
- Competency Level 4.5** : Maintains records related to trading goods purchased on credit.
- No. of periods** : 06
- Learning outcomes** :
- Explains Purchases Journal.
 - Names the source documents to record transactions in the Purchases Journal.
 - Develop format of the Purchases Journal.
 - Records transactions to the Purchases Journal.
 - Post transactions from the Purchases Journal to the ledger.
 - Explains Returns Outwards Journal.
 - Names the source documents to record transactions in the Returns Outwards Journal.
 - Develops the format of the Returns Outwards Journal. Records transactions in the Returns Outwards Journal.
 - Post transactions from the Returns Outwards Journal to ledger.

Basic Terms and Concepts:



Learning Teaching Process:

Engagement:

- Having made available to students copies of invoices and Debit Notes for their observation, direct the discussion to bring out the following points.
 - That, in business, goods for trading is purchased both for cash as well as on credit.
 - That, information about purchases on credit must be recorded separately in a book of prime entry.
 - That, while goods purchased on credit may be returned to the suppliers for different reasons, information about these goods returns must be recorded in a separate book of prime entry.

Proposed Instructions for Learning:

- Have available copies of several invoices and Debit Notes.
- Divide the students to two groups and hand over Purchase Invoices to one group and the Debit Notes to the other group.
- After careful observation of the source documents each group has received, guide the students to build up a format to record and calculate the total sum of credit purchases and total sum of Returns Outwards up to the end of the period.
- Give advice on how to make a brief introduction to the following details relevant to purchases.
 - Date of the credit purchase and the serial number of the document.
 - Supplier's name
 - Type of goods purchased on credit
 - Quantity purchased
 - Unit price
 - Value
 - Trade Discount
 - Total value (after deducting trade discount)
 - Reason for returning goods
- Post each transaction to the General Ledger.
- Provide guidance to write up the double entries for the total credit purchases and total returns outwards.
- Post them to the Ledger.

Guidance to clarify Subject matter:

- The book of prime entry used to record goods purchased on credit is the **Purchases Journal** or Purchases daybook.
- The source document relevant to the Purchases Journal is the **Invoice** (Purchase Invoice).
- While a certain percentage will be reduced from the marked price when goods for trading are purchased, this is known as a **Trade discount**.
- The amount of the Trade discount is reduced from the invoice value only. There isn't a separate accounting entry.
- The suppliers to provide goods to the entity are creditors to the business. They are considered as liabilities of the business.
- **Instruct students on how credit purchases are recorded in an organization not registered for VAT.**
- The format of the Purchases Journal in an organization registered for VAT could be shown as follows:

Purchases Journal						
Date	Invoice No.	Supplier	Amount Rs.	VAT Rs.	Total Amount Rs.	Ledger folio
01/03/2017	264	Manel and Co.	xx	x	xxx	
25/03/2017	610	Kumara and Co.	xx	x	xxx	
31/03/2017						
31/03/2017		Entered in General Ledger	xx	xx	xxx	

- The respective amounts and the VAT must be entered separately in the individual creditors accounts in the Creditors sub Ledger.
- At the end of the period the columnar totals of the Purchases Journal must be debited to the Purchases a/c and credited to the Creditors Control account. The total in the VAT column must be debited to the VAT a/c and credited to the Creditors Control a/c.
- The relevant transactions in the Purchases Journal will be posted to the Ledger in the following manner.

○ Purchases a/c	Debit	→ (total of the Purchases Journal)
○ VAT a/c	Debit	→ (total in the VAT column)
○ Creditors Control a/c	Credit	→ (total value including VAT)

- Goods purchased on credit may be returned to the suppliers for the following reasons.
 - The expiry date has passed
 - The goods received being different to the order
 - Goods supplied being damaged
 - Delay in receiving goods

- The book of prime entry for recording goods returns is the **Returns Outwards Journal** or Returns Outwards Day Book.
- The source document used to record goods returns is the **Debit Note**.
- The format of the Returns Outwards Journal could be as follows.

Purchases Returns Journal						
Date	Debit Note No.	Supplier	Amount Rs.	VAT Rs.	Total Amount Rs.	Ledger folio
05/03/2017	15	Manel and Co.	xx	x	xxx	
29/03/2017	16	Kumara and Co.	xx	x	xxx	
31/03/2017						
		Transferred to General Ledger	xx	xx	xxx	

- The net value of the Debit Notes will be transferred to the relevant Creditors' accounts in the Creditors sub ledger on the respective dates.
- At the end of the period the total value of the Returns Outwards Journal will be credited to the Returns Outwards a/c and the relevant VAT amount will be credited to the VAT a/c while the total will be debited to the Creditors Control account in the General Ledger.
- The transactions relevant to the Returns Outwards Journal will be posted to the Ledger in the following manner.

○ Creditors Control a/c Debit	→	(Total value including VAT)
○ Returns Outwards a/c Credit	→	(Total in Returns Outwards Journal)
○ VAT a/c Credit	→	(Total in the VAT column)

Assessment and Evaluation:

- (01) Tharindu Enterprise placed an order with Murthi Enterprise on 2017/03/10 for the supply of 20nos. Wrist watches for resale that had a marked price of Rs. 1,200 each. Murthi Enterprise supplied 20 wrist watches. Due to the brand being different to what was ordered 10nos wrist watches were returned on 2017/03/20.

State below the relevant book of prime entry and source document.

Transaction	Relevant book of prime entry	Source document
•	•	•
•	•	•

(2) Identifying the method to record the totals of the Returns Outwards Journal in the General Ledger of a business that is not registered for VAT.

- (i) Credit to Purchases a/c and the relevant Creditor's a/c.
- (ii) Debit to Creditor's a/c and to Returns Outwards a/c.
- (iii) Credit to Returns Outwards a/c and Creditors Control a/c.
- (iv) Debit to Creditors Control a/c and Credit to Returns Outwards a/c.
- (v) Credit to Returns Outwards a/c only.

(3) Indicate whether the following statements are True (T) or False (F).

- (i) Trade discounts will be accounted for after the Purchases Journal is prepared. ()
- (ii) The net balances of the Debit Notes are debited to the respective creditors' accounts. ()

(04)

Purchases Journal						
Date	Invoice No.	Supplier	Value (Rs.)	VAT 10%	Total Value (Rs.)	Ledger Folio
05/03/2017	224	Neetha	4,500	450	4,950	
08/03/2017	315	Geetha	12,800	1,280	14,080	
12/03/2017	228	Seetha	8,200	820	9,020	
18/03/2017	418	Vineetha	6,000	600	6,600	
25/03/2017	820	Amitha	9,500	950	10,450	
Transferred to General Ledger			41,000	4,100	45,100	

Returns Outwards Journal						
Date	Debit Note No.	Supplier	Value (Rs.)	VAT 10%	Total Value (Rs.)	Ledger Folio
10/03/2017	42	Geetha	1,500	150	1,650	
22/03/2017	43	Vineetha	800	80	880	
Transferred to General Ledger			2,300	230	2,530	

Note: The VAT rate is 10%.

Required:

Record the above information to the ledger as at the relevant dates.

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

Competency Level 4.6 : Maintains information related to trade stocks sold on credit.

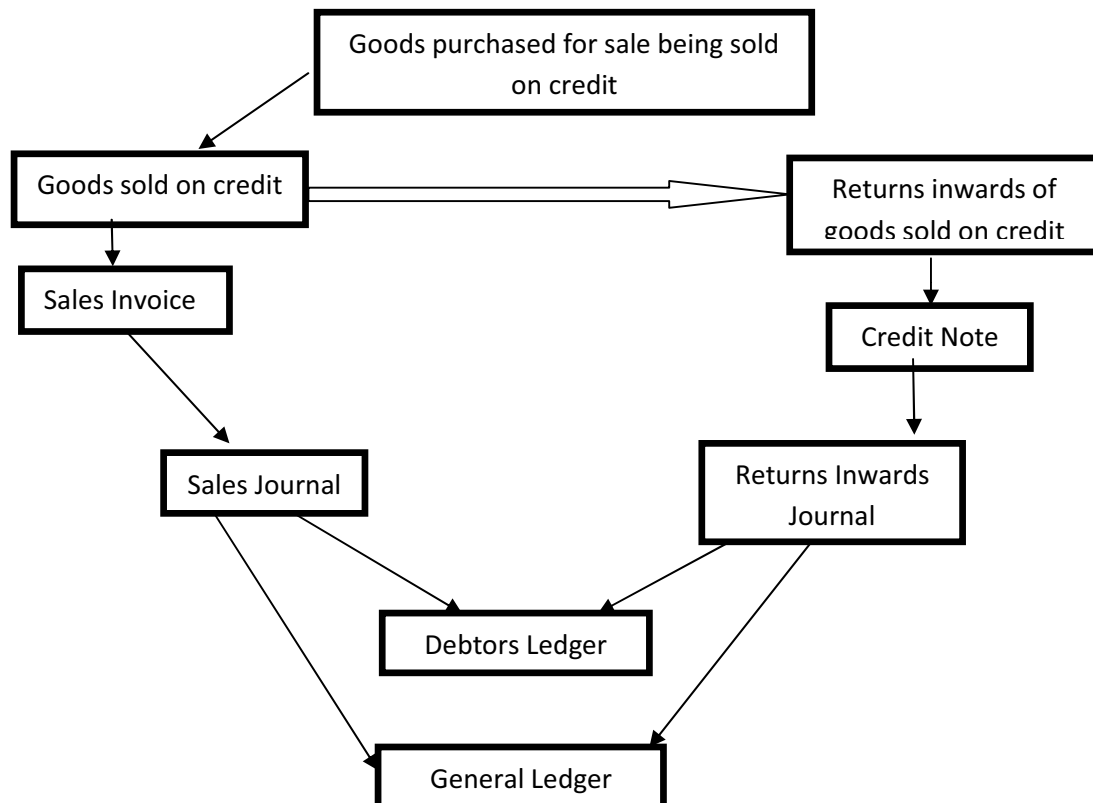
No. of periods : 06

Learning outcomes :

- Explains Sales Journal.
- Names relevant source documents to record transactions.
- Develops format of the Sales Journal.
- Records transactions in Sales Journal.
- Posts transactions from Sales Journal to Ledger.
- Explains Returns Inwards Journal.
- Names source documents to record transactions in Returns Inwards Journal.
- Develops format of the Returns Inwards Journal.
- Posts transactions to the Returns Inwards Journal.
- Posts transactions from Returns Inwards Journal to the Ledger.

Basic Terms and Concepts:

Concept Map



Learning Teaching Process:

Engagement:

- Make available to students several copies of Invoices and Credit Notes for their close examination and initiate and guide a discussion that will bring out the following points.
 - That in business, sale of goods is done on cash as well as credit terms.
 - Information about sales on credit must be recorded in a separate book of prime entry.
 - Goods sold on credit may be returned for a variety of reasons and information about such returns inwards must be recorded in a separate returns inwards book.

Proposed Instructions for Learning:

- Provide copies of Invoices and Credit Notes that have been prepared in advance to the students.
- Divide the students to two groups and give copies of the sales invoices to one group and the copies of the Credit Notes to the other group.
- After allowing the groups to make a close study of the source documents that they have received, guide them to prepare a suitable format to enable the calculation of the total value of credit sales.
- Give advice on making a brief introduction of the following information related to sales.
 - Date of sale and document No.
 - Customer's name
 - Type of goods sold on credit
 - The unit price
 - Value
 - Discounts allowed
 - Total value (after deducting trade discount)
- Provide advice to prepare a suitable format to calculate the total value of the returns inwards up to the end of the period.
- Give guidance to make a brief introduction to the following details relevant to sales returns.
 - Dates of returns
 - Document No.
 - Customer's name
 - Type of goods returned and quantity
 - Unit price
 - Value
 - Discounts
 - Total value (after deducting trade discounts)

- Reasons for the returns
- Show how to post individual transactions to the Debtors sub Ledger
- Show how to write up the relevant double entries for the total credit sales and total returns inwards.
- Post the double entries to the General Ledger.

Guidance to clarify subject matter:

- The book of prime entry used to record the sales of goods on credit is the **Sales Journal or Sales daybook**.
- The source document relevant to the Sales Journal is the **Invoice** (Sales invoice).
- When sales are made on credit, while a percentage from the marked price may be reduced it is known as a **Trade discount**.
- This trade discount is only a reduction of the price in the invoice. It is not accounted for separately.
 - While debtors are created when the business makes sales on credit, they are considered an asset to the business.
 - Make students aware of the method of recording credit sales in a business that is not registered for VAT.
 - The format of a Sales Journal in a VAT registered business could be as follows:

Sales Journal						
Date	Invoice No.	Customer	Amount	VAT	Total Amount	Ledger folio
2017/03/01	520	Duminda Traders	xx	x	xxx	
2017/03/20	521	Kamal & Brothers	xx	x	xxx	
2017/03/31		Transferred to General Ledger	xx	x	xxx	

- On the respective dates the invoice value and amount of VAT is posted to the relevant accounts in the debtors sub ledger.
- At the end of the period the totals of the ‘amount’ column must be posted as a debit to the Debtors Control a/c and as a credit to the Sales account. The total of the VAT column must be debited to the Debtors Control a/c and credited to the VAT a/c.
- That is, the totals in the Sales Journal will be posted to the General Ledger in the following manner:

Debtors Control a/c	Debit	→	Total amount including VAT		
VAT a/c	Credit	→	Total in the VAT column		
Sales a/c	Credit	→	The total in the 'amount' column in the Sales Journal		

- Goods sold on credit may be returned by the customers for the following reasons:
 - As the date of expiry has passed
 - Goods supplied being different to what was ordered
 - Being damaged goods
- The book of prime entry used to record the returns inwards is the **Returns Inwards Journal** or Returns Inwards book.
- The source document used as the basis to record returns is the Credit Note.
- Make students aware of the method of recording returns inwards in a business that is not registered for VAT.
- The Returns Inwards Journal of a business registered for VAT could take the following format:

Returns Inwards Journal						
Date	Credit Note No.	Customer	Amount Rs.	VAT Rs.	Total Amount Rs.	Ledger folio
2017/03/06	13	Duminda Traders	xx	x	xxx	
2017/03/25	14	Kamal & Brothers	xx	x	xxx	
2017/03/31		Transferred to General Ledger	xx	x	xxx	

- On the respective dates the invoice value and the amount of VAT must be credited to respective debtors accounts in the Debtors sub ledger.
- At the end of the period the total in the 'amount' column must be debited to the Returns Inwards account in the General Ledger and credited to the Debtors Control account. The total in the VAT column must be debited to the VAT account must be credited to the Debtors Control account.
- That is, the total in the Returns Inwards Journal will be posted to the General Ledger in the following manner.

Returns Inwards a/c	Debit	→	Total in the 'amount' column
VAT a/c	Debit	→	Total in the VAT column
Debtors Control a/c	Credit	→	Total in the 'Total amount' column including VAT

Evaluation and Assessment Criteria:

- (01) Providing answers to the following questions related to the Sales Journal and Returns Inwards Journal.

Journal	Type of transaction entered	Source document
• Sales Journal

- (02) Selecting the transaction where the purchase of furniture and resale done in a Furniture shop in Moratuwa is recorded in the Sales Journal.
- (i) Sale of a Motor vehicle used for one year to Sarath for Rs.350,000.
 - (ii) Sale of a stock of furniture costing Rs.35,000 for cash Rs.50,000.
 - (iii) Purchase of a stock of furniture for Rs.60,000 from Suranga Enterprise for resale.
 - (iv) Sale of a stock of furniture to Vipula for Rs.68,000.
 - (v) Sale of equipment for Rs.42,000 that was purchased for Rs.30,000.

- (03) Indicate if the following statements are True (T) or False (F).
- (i) The values of the individual Credit Notes are entered in the Returns Inwards Journal and entered in the Ledger on the same day. ()
 - (ii) The total sales value of a business is recorded in the Sales Journal ()

- (04) It is the policy of Shalika Trading Enterprise – registered for VAT, to deduct a 10% on the sale of trading goods.

The transactions entered into during the month of March 2017 are given below:

Date	Details
2015/03/04	Sales to Samanali on Inv. No.145 for Rs.30,000
2015/03/08	Sales to Mathali on Inv. No.146 for Rs.45,000
2015/03/10	Sales to Sandamali on Inv. No.147 for Rs.28,000
2015/03/15	Sandamali returns all the goods sold on 2015/03/10 as they differed from the type of goods ordered. (Credit Note No.18)
2015/03/20	Sales to Sirimali on Inv. No. 148 for Rs.36,000
2015/03/25	Sirimali returns Rs.8,000 worth of goods on 2015/03/20 as they had passed the expiry date. (Credit Note No.19) VAT rate 2%

Note: All sales are shown without VAT. The VAT rate is 15%

Required:

1. Sales Journal and Returns Inwards Journal
2. Relevant Ledger accounts (General Ledger and Debtors Ledger)

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

Competency Level 4.7 : Records transactions in the General Journal.

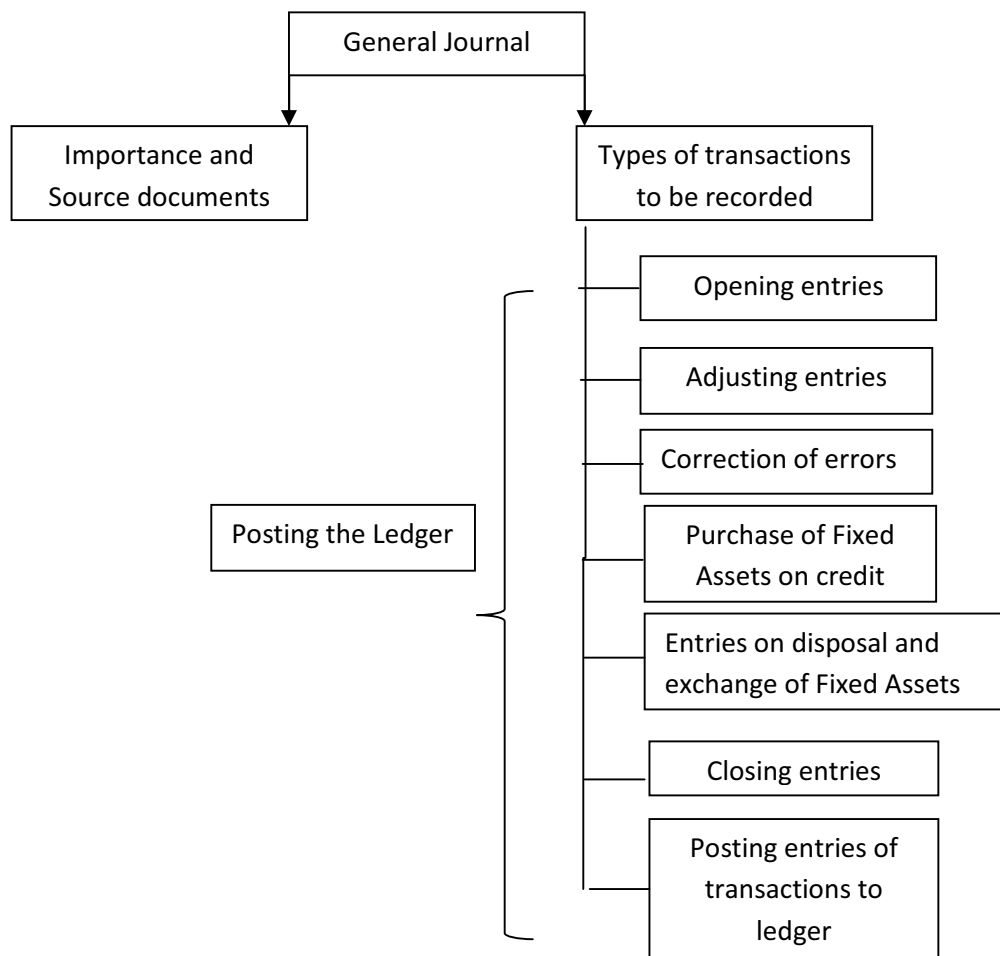
No. of periods : 06

Learning outcomes :

- Explains the General Journal.
- Names the relevant source documents to be recorded in the General Journal.
- Names the types of transactions to be recorded in the General Journal.
- Develops the format of the General Journal
- Records transactions in the General Ledger and posts them to the Ledger.

Basic Terms and Concepts :

Concept Map



Teaching - Learning Process:

Engagement:

- Inquire from the students their ideas on the prime entry books to be used in recording the following transactions.
 1. Cash sales
 2. Payment of staff salaries
 3. Purchase of trading goods on credit
 4. Returns Outwards of goods purchased on credit
 5. Sale of trading goods on credit
 6. Returns Inwards of goods sold on credit
 7. Payments for petty expenses
 8. Purchase of Property, Plant & Equipment on credit
 9. Sale of Property, Plant & Equipment on credit
 10. Corrections of Accounting errors
 11. Recording of the annual depreciation of a machine

- Lead a discussion that will highlight the following points.
 - That the recording of items 1 – 7 above will be done in **books of prime entry** belonging to a special type of journal.
 - That items 08, 09, 10 and 11 will be recorded in what is known as the **General Journal**
 - That the source document relevant to items 08, 09, 10 and 11 is the **Journal Voucher**.

Proposed Instructions for Learning:

- Direct the attention of students to the following business transactions.
- The accounting period of NET.com, a business in the buying and selling of computers, ends on 2017/03/31. You are given the following information:

(1) The account balances on 2016/04/01 were:

	Rs.
Motor vehicles	500,000
Buildings	600,000
Machinery	200,000
Debtors	60,000
Stock of goods (computers)	800,000
Cash	200,000
Bank loan	500,000
Creditors	80,000
Capital	-----

- (2) Obtaining Rs.60,000 worth of furniture from Shakthi Enterprise
- (3) A vehicle worth Rs.300,000 that was used for business purposes was sold to Samansiri for Rs.350,000.
- (4) A payment of Rs.45,000 for the purchase of computers was correctly recorded in the Cash payment journal but, the total in the cash purchases analysis column has been posted to the machinery a/c.
 - Divide the class into two groups and hand over the 4 sets of information at random
 - Direct them to provide answers to the following questions relevant to the transaction information they have received.
 - i. Source documents
 - ii. Book of prime entry
 - iii. Show the method of recording (double entries)

Guidance to clarify subject matter:

- The journal where entries that are not entered in the books of prime entry are made is introduced as the **General Journal** or Main Journal.
- The source document used to make entries in the General Journal is the Journal Voucher.
- The format of the General Journal could take the following form:

Date	Journal Voucher No.	Details	Folio Ref.	Debit (Rs.)	Credit (Rs.)
2017/xx/xx					
		Account to be debited		xx	
		Account to be credited			xx
(Narration).....					
.....					

- Entries made in the General Journal will be shown in the double entry format.
- The reason for the journal entry must be stated and this is known as the “narration”.
- The transactions recorded in the General Journal are posted to the Ledger in the same manner.
- The following types of transactions are recorded in the General Journal:
 - Opening entries
 - Adjustment entries
 - Correction of entries
 - Entries related to the purchase of Property, Plant & Equipment on credit, sale on credit, disposal and exchange
 - Closing entries
 - Notes for posting to ledger
 - Other notes

Evaluation and Assessment Criteria:

- (1)
 - i) Explain the General Journal.
 - ii) Select 6 types of transactions that are recorded in the General Journal,

- (2) Selecting the source document that is used when making entries in the General Journal.
 - (i) Receipt
 - (ii) Invoice
 - (iii) Payment Voucher
 - (iv) Journal Voucher
 - (v) Credit Note

- (3) Indicate whether the following statements are True (T) or False (F).
 - (i) The General Journal serves as a book of prime entry as well as a Ledger account. ()
 - (ii) The 'debit and credit' relevant to a transaction are recorded in the General Journal with the reason for the entry given in the narration. ()

- (4) You are given the following information relating to Samanalee's business:
 - (i) Balances on 2015/01/01

	Rs.
Machinery	40,000
Furniture	25,000
Stock of goods	18,000
Cash	60,000
Debtors	40,000
Creditors	50,000
Capital	?

- (ii) Purchased furniture on credit for office use valued at Rs.16 000.
- (iii) Sale of a machine costing Rs.18 000 to Sapumali for Rs.22 000.
- (iv) A payment of Rs.8 000 being staff salaries has been recorded in the Miscellaneous expenses account.

Required:

Preparation of

- (i) General Journal
- (ii) Relevant ledger accounts

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

Competency Level 4.8 : Indicates relationship between Control accounts and Subsidiary Ledgers.

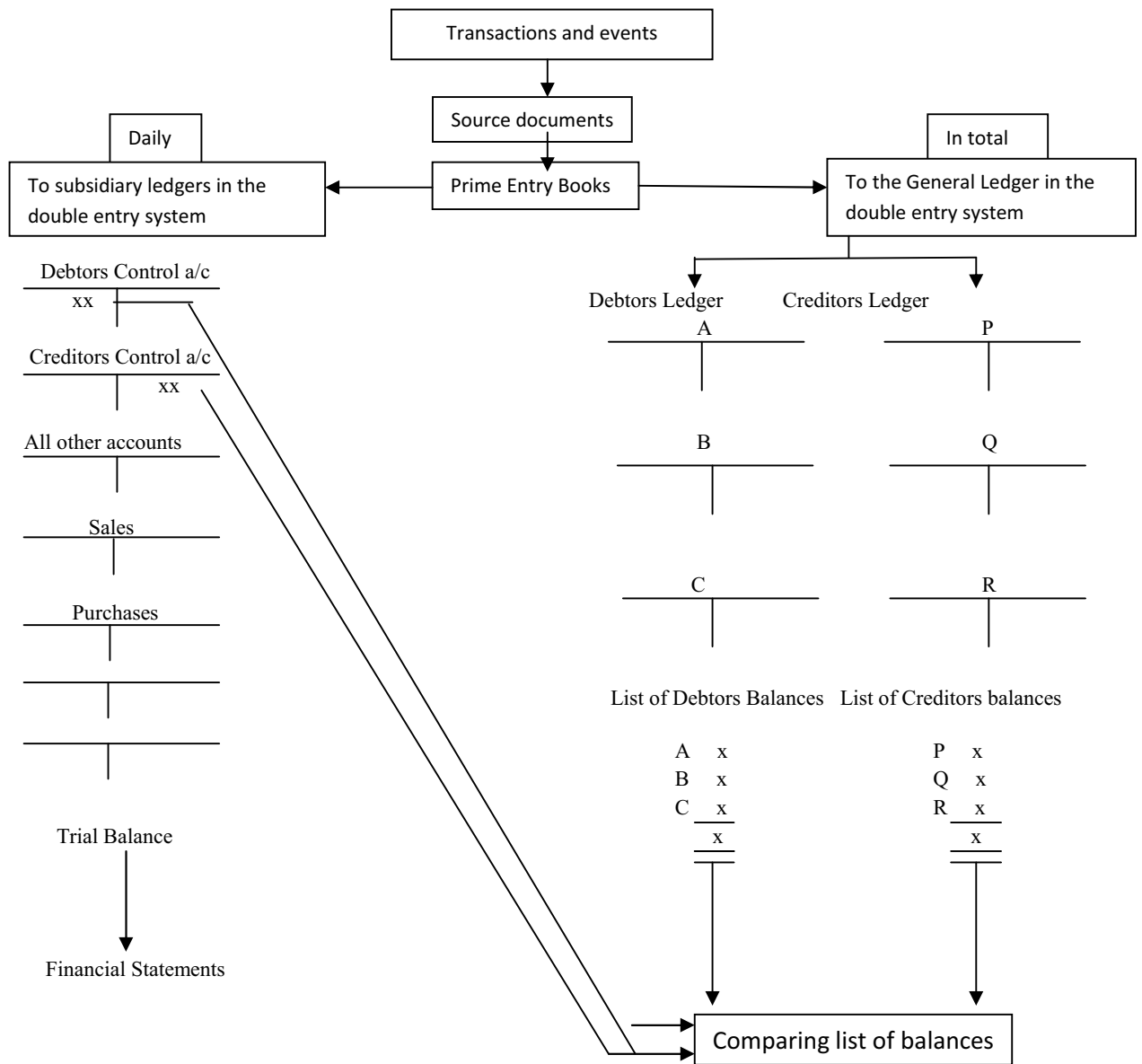
No. of periods : 07

Learning outcomes :

- Explains subsidiary ledgers and their need to maintain them.
- Prepares Debtors and Creditors Subsidiary Ledgers.
- Discloses the relationship between the subsidiary ledgers and the General Ledger.
- Explains Control accounts
- Compares Control accounts and subsidiary ledger balances.

Basic Terms and Concepts:

Concept Map



Teaching - Learning Process:

Engagement:

Develop a conversation with the students about a business in the city that markets goods on easy payment terms. Discuss with the students that in a business like this the accounts in the ledger will consist mainly of debtors and creditors accounts and that it is possible to maintain these personal accounts of the debtors and creditors in separate ledgers called subsidiary ledgers.

When the number of customers/suppliers increase rapidly it becomes complex to record all the transactions and at the same time problems as given below can arise.

- The General Ledger can get unnecessarily long.
- The likelihood of making errors when transactions are posted becomes greater.
- The Trial Balance will become extremely long.
- The preparation of the financial statements will become complex causing delays.
- In order to overcome the above problems some control mechanism becomes necessary.
- A suitable method to overcome these problems is to maintain account with the use of subsidiary ledgers.
- That is by having Control Accounts in the General Ledger to which will be posted the totals from the subsidiary ledgers at regular intervals. Control accounts can be created in the General Ledger according to the requirements of the business.

Eg: For Debtors - Debtors Control a/c
 For Creditors - Creditors Control a/c

Proposed Instructions for Learning:

Activity 01

- Given below is information about the credit sales of Jayangani's business for the month of January 2017.

Rs.000's					
Name	Credit Sales	Returns inwards	Cash receipts	Discount allowed	Bad debts
Ajantha	1400	160	300	40	100
Wickrema	850	20	400	30	0
Sandali	500	150	250	100	0
	2750	330	950	170	100

Divide the students to several groups and give the above information as a Worksheet for action

- Get them to record the transactions in the books of prime entry.
 - Then, get them to transfer the information to the General Ledger and subsidiary ledgers.
 - Guide them to prepare the Debtors Control a/c in the General Ledger.
 - Prepare a list of Debtors balances from the Debtors subsidiary ledger.
- Present the student findings to the whole class as a whole, together, and in a creative manner.
 - Along with the presentation of student findings direct the student discussion to cover the following points to understand the relationship between the prime books and the ledger accounts.
 - The relationship between the prime books and subsidiary ledgers.
 - The relationship between the prime books and General Ledger.
 - To understand the relationship between the personal ledger (subsidiary ledger) and the Control Account.
 - Posting the Personal ledger (subsidiary ledger) from the prime books as individual entries.
 - Posting the General Ledger from the books of prime entry will be done following double entry principles.
 - Show that on a given date, the balance in the Control account in the General Ledger will agree with the total of the list of debtor balances in the subsidiary ledger.

Model solution:

General Ledger :

Sales Journal			Rs.'000s	
Date	Invoice No.	Customer	Value Rs.	Ledger Folio
		Ajantha	1400	
		Wickrema	850	
		Sandali	500	
		Posted the general Ledger	2750	

Returns Inwards Journal			Rs.'000s	
Date	Credit Note No.	Customer	Value Rs.	Ledger Folio
		Ajantha	160	
		Wickrema	20	
		Sandali	150	
		Posted the General Ledger	330	

Cash Receipts Journal					Rs.'000s	
Date	Receipt No.	Details	Discount allowed	Total Rs.	Analysis	
					Receipts from debtors	Ledger Folio
		Ajantha	40	300	300	
		Wickrema	30	400	400	
		Sandali	100	250	250	
			170	950	950	

Sales a/c	
	Debtors Control a/c 2750

Returns Inwards a/c	
	Debtors Control a/c 330

Discount allowed a/c	
	Debtors Control a/c 170

Bad Debts a/c	
	Debtors Control a/c 100

Debtors Control a/c	
Rs.'000s	Rs.'000s
Sales a/c	2750
	Returns Inwards 330
	Discount allowed 170
	Cash 950
	Bad debts 100
	Balance c/f 1200
Balance b/d	1200

Debtors Ledger

Ajantha's a/c		Rs. '000s	
Sales	1400	Cash	300
		Discount allowed	40
		Returns Inwards	160
		Bad debts	100
		Balance c/f	800
	1400		1400
Balance b/f	800		

Wickrema's a/c		Rs. '000s	
Sales	850	Returns Inwards	20
		Cash	400
		Discount allowed	30
		Balance c/f	400
	850		850
Balance b/f	400		

Sandali's a/c		Rs. '000s	
Sales	500	Returns Inwards	150
		Cash	250
		Discount allowed	100
	500		500

List of balance from the
Debtors Ledger

	Rs. '000s
Ajantha	800
Wickrema	400
Sandali	0
	1200

General Journal				
Date	Journal Folio	Details	Debit	Credit
		Bad debts a/c	100	
		Debtors Control a/c		100
		<i>Being Rs.100 bad debts written off</i>		

A Trial Balance can be prepared with the balances in the General Ledger as at 31 January, 2017.

Jayangani's Enterprise			
Trial Balance as at 2017/01/31		Rs.'000s	
	Ledger Folio	Debit	Credit
Sales a/c			2750
Returns Inwards a/c		330	
Discount allowed a/c		170	
Bad debts a/c		100	
Debtors Control a/c		1200	
Cash a/c		950	
		2750	2750

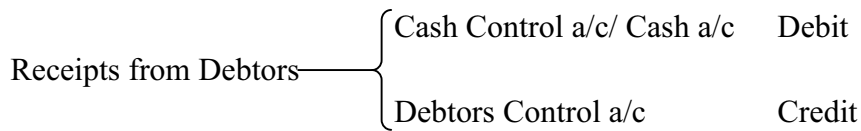
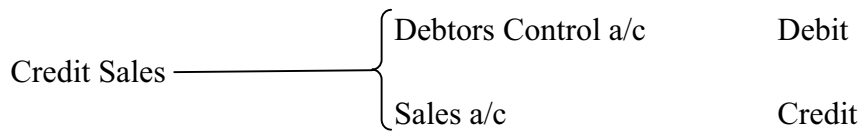
Guidance to clarify subject matter:

- As numerous problems can arise in businesses that have several similar types of transactions, in addition to the General Ledger, it is possible to maintain subsidiary ledgers. The subsidiary ledger will be posted as 'single entry' only. Eg: Debtors Ledger.
- After balancing the accounts in the subsidiary ledger, a list of balances can be obtained. While the double entry principles are followed in making entries in the General Ledger, in transactions involving both debtors and creditors, a control account is made use of.
- A format of the Debtors Control account is as follows:

Debtors Control a/c			
Debit	Rs.	Credit	Rs.
4/1 Balance b/d	xx	4/1 Balance b/d	xx
Total Credit sales	xx	Returns Inwards	xx
Reversal of Discount allowed	xx	Discount allowed	xx
Interest charged to Debtors	xx	Cash	xx
		Bad debts	xx
Returned cheques	xx	Transfers from Sales Ledger to Purchases Ledger (Contra)	xx
Bad debts recovered	xx	Balance c/f	xx
Balance c/f			
	xxx		xxx
Balance b/d	xx	Balance b/d	x

- Recording of transactions in accounts in the General Ledger follow double entry principles.

Eg:

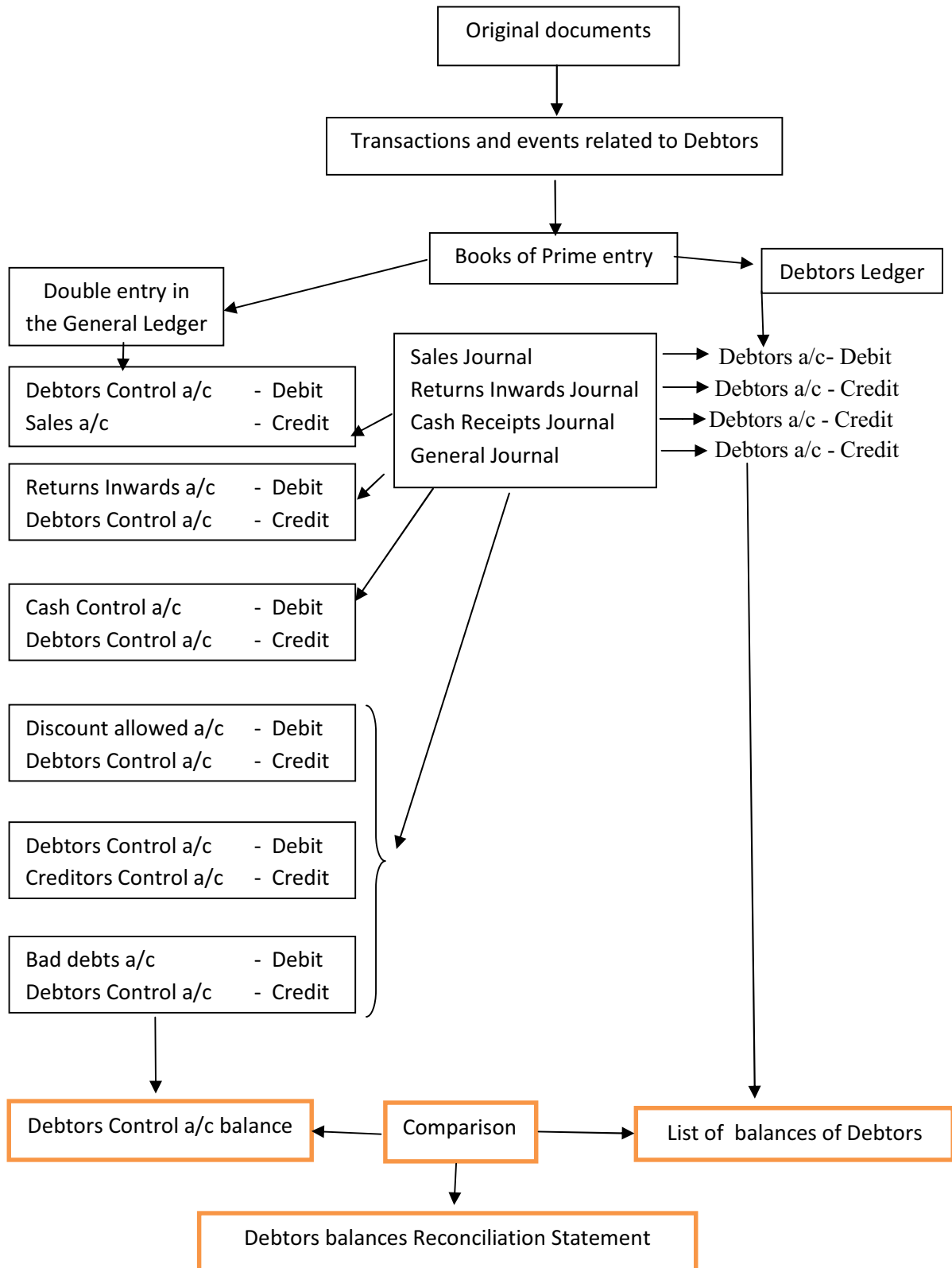


- There are Control accounts in the General Ledger in respect of the Debtors and Creditors accounts in the subsidiary ledgers.
- As the double entry is completed in the General Ledger it is possible to extract a Trial Balance from the General Ledger.
- As the double entry is not completed within the subsidiary ledger it is not possible to extract a Trial Balance from the subsidiary ledger.
- The balance in the Control Account in the General Ledger must agree with the total of the list of balances extracted from the subsidiary ledger.
- If the balances do not agree, it will be necessary to prepare a comparison document to find out where an error has been made.

Eg: Debtors balances comparison document:

During the Learning Teaching Process direct the attention of the students to the following Flow chart.

Debtors' Sub Ledger and Debtors Control account



Activity 02

After completing 'Activity 01' engage the students in a brain storming session to check their grasp of the studies so far. During this session, their ideas about the following terms.

General Ledger, Subsidiary Ledger, Debtors Control account, Debtors Subsidiary Ledger, List of Debtor balances.

Items to be included when posting transactions and events in the General Ledger and Subsidiary Ledgers.

- After the brain storming session, recall that in a business organisation that has a large number of debtors it is likely that a subsidiary ledger will be maintained and hand over the Activity 02 worksheet among the groups.

Activity 02 - Work sheet

The creditors and details of transactions done in the month of April 2017 in Nimmi's business is given below:				
Creditor	Credit Purchases	Returns Outwards	Cash payments	Discount received
Disna	3000	300	1800	200
Nimeshika	2000	200	900	100
Maheshi	1000	100	450	50
Total	6000	600	3150	350

- Divide the class into groups and hand the above worksheet to them.
- Hand over the worksheet below to be able to get back the student findings:

Prime books in Nimmi's business

Purchases Journal

Rs.'000s

Date	Creditor	Amount

Goods Returns Journal

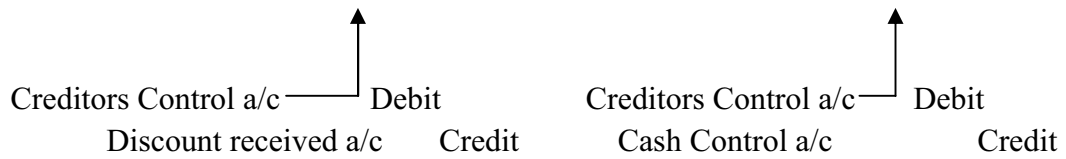
Rs.'000s

Date	Creditor	Amount

<i>Purchases a/c</i>	<i>Debit</i>
<i>Creditors Control a/c</i>	<i>Credit</i>

<i>Creditors Control a/c</i>	<i>Debit</i>
<i>Returns Outwards a/c</i>	<i>Credit</i>

Cash Payments Journal					
Date	Details	Discount received	Amount	Payment Analysis	
				Cash Purchases	Credit Purchases



General Ledger of Nimmi's business

Creditors Control a/c	Purchases a/c
Returns Outwards a/c	Discount Received a/c

Creditors subsidiary Ledger of Nimmi's business

Disna's a/c (Creditor)	Nimesha's a/c						
Maheshi's a/c (Creditor)	List of Creditors						
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td>Disna</td><td> </td></tr> <tr><td>Nimeshika</td><td> </td></tr> <tr><td>Maheshi</td><td> </td></tr> </table>	Disna		Nimeshika		Maheshi	
Disna							
Nimeshika							
Maheshi							

- After the groups have been given the worksheets give them the following instructions:
 - To record the transactions in the Prime books
 - To post the transactions to the General Ledger and subsidiary ledger
 - To make a list of the balances in the personal accounts in the subsidiary ledger
- Provide an opportunity for the groups to present their findings.

Guidance to clarify subject matter:

- When posting transactions and events to the General Ledger, the double entry principle is always followed. When entering transactions and events to the subsidiary ledger it uses the single entry method.
- Because the double entry method is used for the General Ledger it is possible to extract a Trial Balance.
- In the subsidiary ledger we obtain a list of balances as only the single entry method is used to record transactions and events.
- On a particular date, the balance in the Creditors Control a/c in the General Ledger should agree with the list of balances obtained from the subsidiary ledger.
- **Prepare an activity that will enable the students to record the transactions relating to creditors in the ledger and balance it, making use of the format and understanding obtained in the preparation of the debtors' ledger.**

Activity 03

Present Activity 03 to the students when Activity 02 is completed. Here, through a question and answer session or a brain storming session inquire about the students' knowledge of Debtor/Creditor control accounts and subsidiary ledgers. It is necessary at this point to carry on a discussion to test the knowledge of the students about the following points.

- Obtaining information about transactions/events to prepare the control accounts.
- Obtaining information about transactions/events to record in the personal accounts in the subsidiary ledgers.

Distribute the following worksheets to the groups.

Activity 03 - Worksheet

The balance in the Debtors Control a/c of Lakshitha's business on 2017/03/31 was Rs.128,000/-. On this date the list of balances in the Debtors subsidiary ledger totalled Rs.121,000/- An audit of the accounts revealed the following errors:

1. An invoice in respect of a credit sale of Rs.12,000 to Thushan has been omitted from the books.
2. When adding the Returns Inwards Journal the total was under cast by Rs.3,000.

3. Madhawa paid cash Rs.15,000 and this has been entered in the Cash receipt journal as Rs.1,500.
4. Discount allowed to Sumudu of Rs.500 was recorded in the Cash payment journal but has been omitted from Sumudu's account.
5. Waruni's balance of Rs.4,500 has not been included in the list of balances.

It is necessary to hand over Activity (03) worksheet together with the following two assignment papers to the groups:

Assignment paper No.01

Complete the following on the basis of the errors that have occurred.

Error	Whether error is made in the General Ledger or subsidiary ledger	Method of making the correction in the General Ledger (double entry)
1		
2		
3		
4		
5		

Assignment paper No.02

Prepare a reconciliation statement to reconcile the Debtors Control a/c balance with the total of the List of balances of debtors.

Reconciliation Statement		Rs.'000s
Revised balance in the Debtors Control a/c (+)		
(-)		
Balance as per Debtors subsidiary ledger		121,000

Make the necessary corrections in the Debtors Control a/c of Lakshitha's business.

Revised Debtors Control a/c			
Balance b/f	128,000		

Assessment and Evaluation Criteria

- 1) From the statements below select what is not an objective for the maintenance of a subsidiary ledger
 - (i) To prevent the General Ledger becoming excessively large.
 - (ii) To minimize the possibility of errors.
 - (iii) The Trial Balance not being too long.
 - (iv) To assist management decision making.
 - (v) To minimize the cost of maintaining accounts.

- 2) Consider the following transactions that took place in Sanduni's business during the month of January 2017 and answer the questions below:

Debtor	Balance on 2017/1/1	Total Sales	Credit Sales out of Total sales	Returns Inwards	Cash received	Discount allowed
Ashen	20,000	400,000	80%	30,000	90,000	10,000
Rashini	30,000	500,000	70%	40,000	180,000	20,000
Pasindu	40,000	600,000	50%	30,000	180,000	20,000
Ravidu	(10,000) credit	700,000	60%	20,000	300,000	20,000
Total	80,000	2,200,000		120,000	750,000	70,000

Required:

1. Receipts Journal, Sales Journal, Returns Inwards Journal
 2. Relevant account in the General Ledger
 3. The relevant accounts in the Debtors subsidiary ledger and list of balances.
- 3)
- (i) To write 4 advantages of maintaining a subsidiary ledger.
 - (ii) To indicate the problems that could arise if a large business organisation does not have subsidiary ledgers for debtors and creditors.
 - (iii) To indicate the source documents and books of prime entry that are associated with individual transactions. Use the following format for this purpose.

	Transaction	Source document	Prime book
1	An opening balance	Journal Voucher	General Journal
2	Credit purchases		
3			
4			
5			
6			
7			
8			
9			
10			

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

Competency Level 4.9 : Prepare financial statements after balancing ledger accounts.

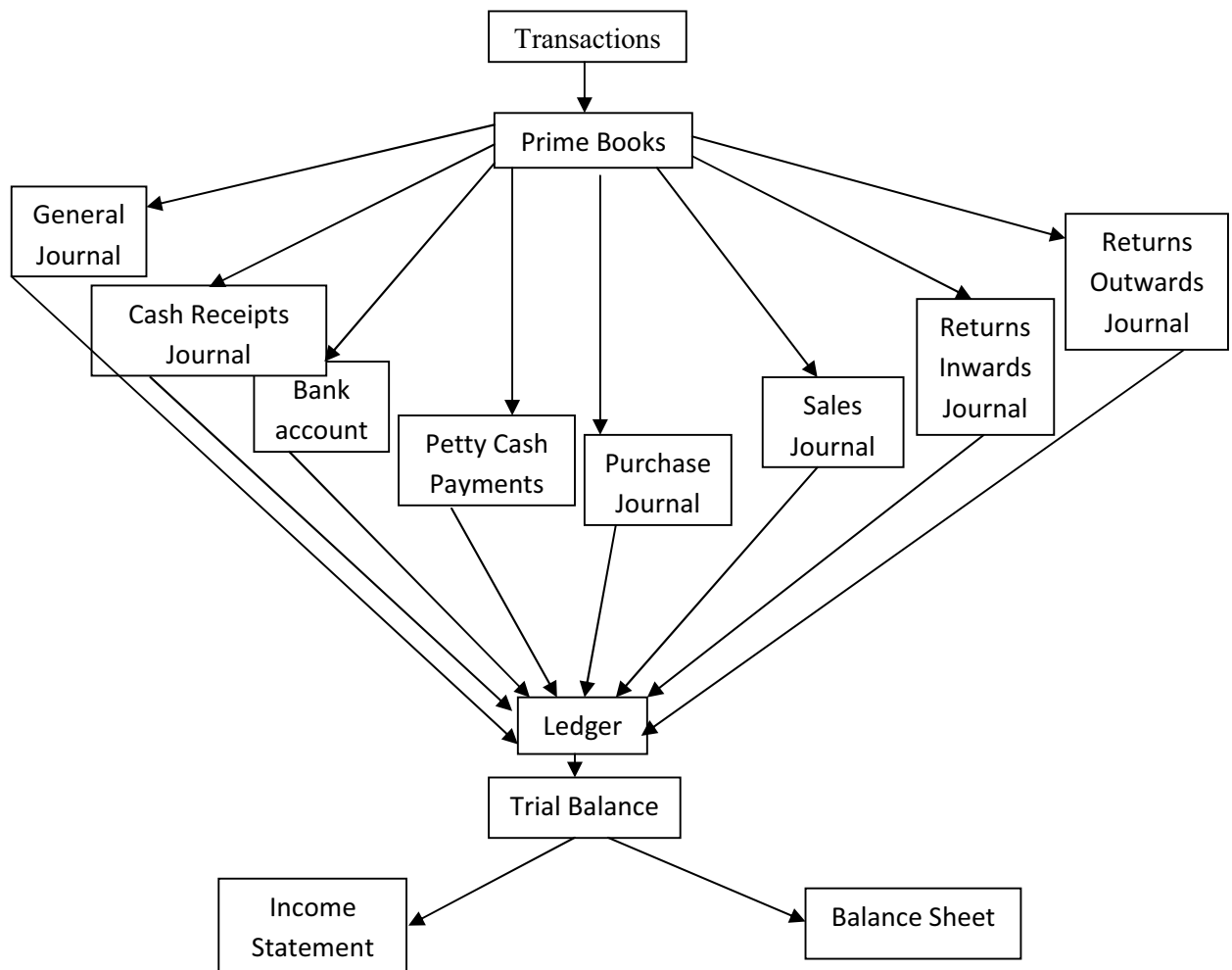
No. of periods : 13

Learning outcomes :

- Prepares Trial Balance after balancing ledger accounts.
- Prepares Financial Statements by using information in the Trial Balance.

Basic Terms and Concepts:

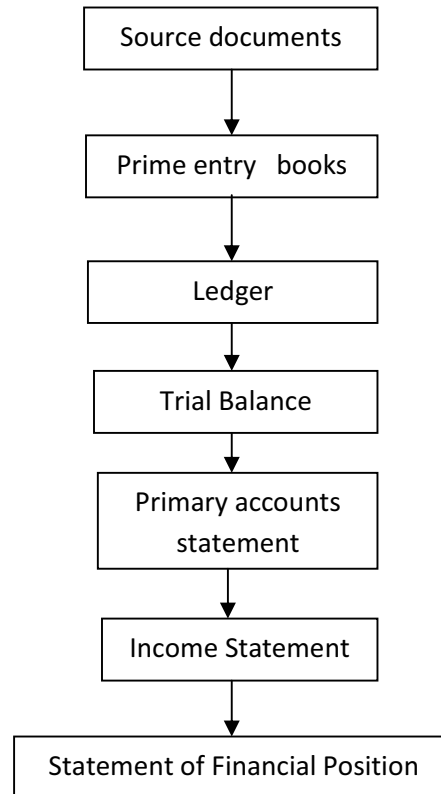
Concept Map



Learning Teaching Process:

Engagement:

Present to the students a flow chart of the Accounting Process and lead a discussion that brings out the points below:



- Transactions must be first entered in the books of prime entry and consider what are the relevant source documents.
- Relevant ledger accounts
- Balancing ledger accounts
- Preparation of a document that contains all the ledger account balances (Trial Balance)
- Preparing a document that states the financial results of the period (Income Statement)
- Preparing a statement that states the financial position as at the last date of the period (Statement of Financial Position)

Proposed Instructions for Learning:

- Provide the following information to all the students.

Activity 01:

All the transactions of Hansalee Enterprise for the month ending 2017.03.31 were as follows. All transactions in this business are carried out through the bank account.

		Rs.
2017.03.01	Investment to start the business	300,000
2017.03.02	Cash purchases	80,000
2017.03.03	Payment of shop rent	4,000
2017.03.08	Obtaining bank loan	200,000
2017.03.10	Cash Sales	42,000
2017.03.12	Cash received from Cyril	4,800
	Discount allowed	200
2017.03.15	Paid Albert (creditor) by cheque	5,700
	Discount received	300
2017.03.16	Imprest paid to the Petty Cashier	2,000
2017.03.16	purchases (paid by cheque)	8,000
2017.03.19	Payment to Beeta (creditor) by cheque	7,600
	Discount received	400
2017.03.20	Paid (by cheque) bank loan instalment	4,000
2017.03.22	Cash Sales	45,000
2017.03.24	Received cheque from Jagath	12,000
2017.03.26	Received cash from Jagath	7,600
	Discount deducted (discount allowed)	600
2017.03.31	The Petty Cash was reimbursed by cheque	

(2) Details about the purchase of trade goods on credit

Date	Invoice No.	Details	Amount Rs.
2017.03.02	420	Alpha	34,000
		Trade discount 10%	
2017.03.08	318	Beeta	40,000
		Trade discount 5%	
2017.03.15	423	Alpha	20000
2017.03.23	324	Beeta	48000

Other information:

- (i) 2017.03.12 Purchase of office furniture valued at Rs.150,000 from Kumara Co.
- (ii) 2017.03.31 Purchased Furniture from Coorey Co. – Rs.88,000.

(3) Information about returns outwards

Date	Debit Note No.	Details	Amount Rs.
2017.03.10	1	Albert (expired items)	6,000
2017.03.28	2	Beeta (goods not in accordance with order) purchased on 23/3/2017	7,000

(4) Trading goods sold on credit and Returned inwards

Date	Invoice No.	Credit Note No.	Details	Amount Rs.
2017.03.07	1		Cyril (Discount allowed 10%)	28,000
2017.03.12		1	Cyril (Expiry date is passed)	5,000
2017.03.15	2		Jagath (Discount allowed 10%)	45,000
2017.03.22		2	Jagath (Colour different to order)	6,000
2017.03.27	3		Cyril	15,000

(5) Transactions regarding Petty cash payments (Rs.)

3/17	Entertainment expenses	180	3/24	Postage	160
3/18	Postage	220	3/25	Cleaning	80
3/20	Purchase stamps	120	3/28	Stationery	115
3/22	Cleaning expenses	150	3/30	Stationery	85

- Invite the students to study the above information re the transactions of the business.

Hand the following books of prime entry to the students:

1. Cash Receipts Journal
2. Cash Payments Journal
3. Petty Cash Payments Journal
4. Purchases Journal
5. Returns Outwards Journal
6. Sales Journal
7. Returns Inwards Journal
8. General Journal

- Give instructions for each student group to record the relevant transactions in the respective primary book.
- Exchange the primary books completed by each group among all the groups and guide them in the preparation of the ledger.
- Give advice to all groups on how to extract a Trial Balance as at 2017.03.31.
- Allow them to prepare the income statement for the period ending 2017.03.31.
- Get them to prepare a Statement of Financial Position as at 2017.03.31
- Check whether the answers of each group are correct.

Guidance to clarify subject matter:

- Transactions recorded in the books of prime entry will be posted to the individual accounts in the General Ledger.
- The ledger accounts will be balanced and the resulting balances used to prepare the Trial Balance.
- The 'Income' and 'Expense' accounts in the Trial Balance will be utilized to calculate the financial results for the period, through the preparation of the Income Statement for the period.
- The balances in the 'Assets' and 'Liabilities' accounts in the Trial Balance will be used to prepare the Statement of Financial Position as at the last date of the period.

Assessment and Evaluation Criteria

01. Prepare a 'table' to indicate the prime entry book and source document to record the following transactions:
 - i. Cash receipts and payments
 - ii. Deposit of cash and cheques in the bank current account
 - iii. Purchase on credit of trading goods
 - iv. Sales on credit of trading goods
 - v. Returns outwards of trading goods
 - vi. Returns inwards of trading goods
 - vii. Petty cash payments
 - viii. Purchase of property, plant and equipment on credit for the use of the business.
02. Selecting the item that can be identified as a financial statement.
 - i. Cash receipt journal
 - ii. Trial balance
 - iii. Income Statement
 - iv. Petty cash payment journal
 - v. General Ledger
03. Engage in an exercise that will disclose how transactions are recorded in books of prime entry, ledger account, Trial balance etc.

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

Competency Level 4.10 : Rectifies the errors that occur in recording transactions

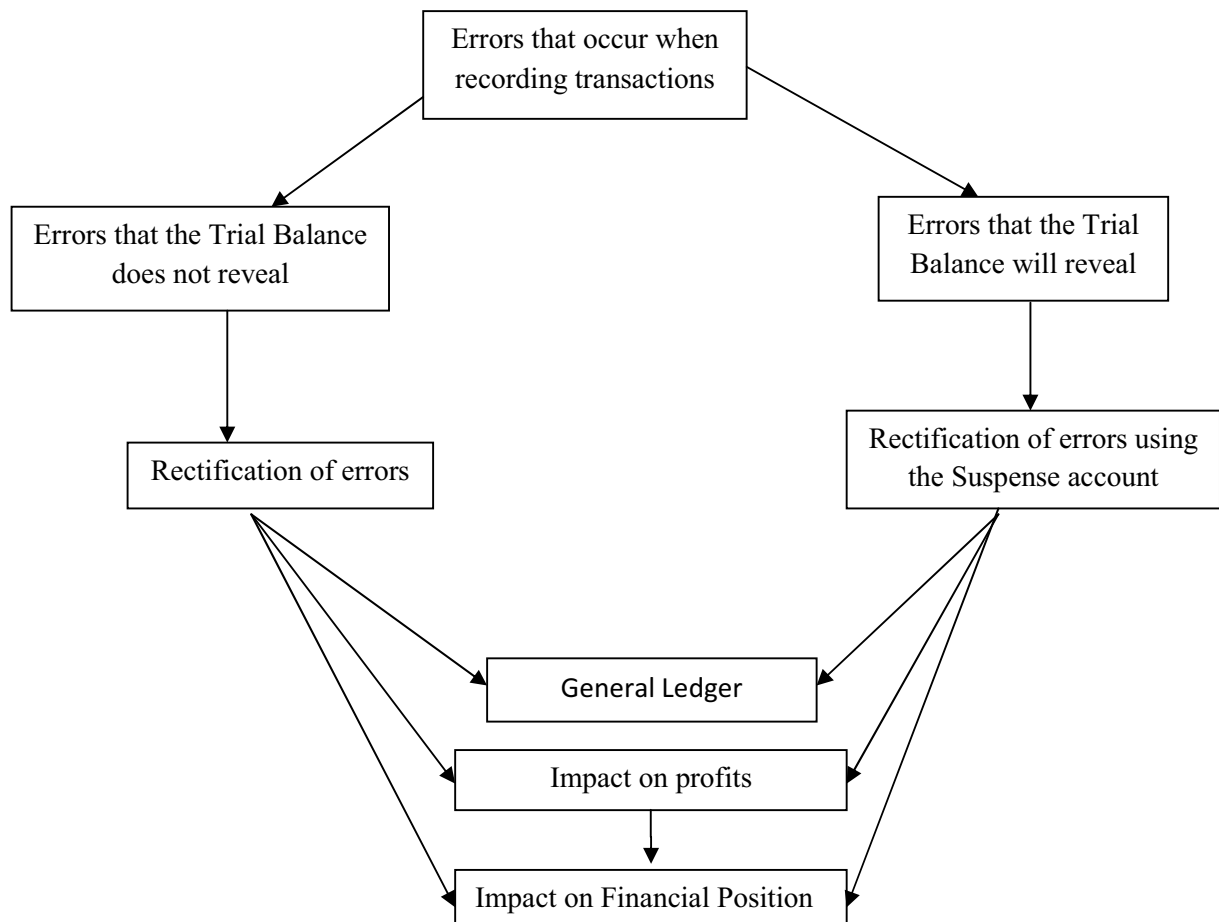
No. of periods : 12

Learning outcomes :

- Explains that errors may occur in recording transactions.
- Presents errors not revealed from a Trial Balance.
- Presents errors revealed from a Trial Balance.
- Uses General Journal to rectify errors.
- Indicates the impact on Financial performance and the Financial Position after rectifying the errors.

Basic Terms and Concepts:

Concept Map



Learning Teaching Process:

Engagement:

- Build up a discussion centering around some inappropriate behavioural patterns that are emerging in the school or likely to emerge.

Eg: A student attending class sporting a modern hair style.

Discuss about how this erroneous behaviour affects the students' good conduct and ethical values and how it can have a negative impact on their educational activities and the necessity of behaving in accordance with the values of good conduct and ethical values.

Similarly, in accounting too there are commonly accepted fundamental traditional concepts and if these are not followed, the stakeholders of the business will receive incorrect information and make it impossible for them to make correct decisions. Therefore, it becomes necessary to correct such errors.

Proposed Instructions for Learning:

- Divide the students to four groups and give them the following worksheet.

Assignment Sheet

The transactions for the 1st week in January 2017 for Lochana's business were as follows:

	Rs.'000s
1 Cash Sales	9,000
2 Purchase for cash	3,000
3 Payment of staff salaries	80
4 Drawings by the owner	50
5 Purchase of motor vehicle	2,500
6 Motor vehicle running expenses	15
7 Building rent income	60

These transactions were recorded by the Trainee Accounts Clerk of the business in the following manner.

Cash account		Rs.'000s	
(1) Sales	90,000	(2) Purchases	3,000
(2) Building rent income	60	(3) Staff salaries	80
(7) Building rent income	60	(5) Motor vehicle	250
		(7) Motor vehicle running expenses	15
		Balance c/d	86,775
	<u>90,120</u>		<u>90,120</u>
Balance b/f	<u>86,775</u>		

Sales a/c		Rs.'000s	
Balance c/d	90,000	(1) Cash	90,000
	<u>90,000</u>		<u>90,000</u>
		Balance b/f	90,000

Purchases a/c				Staff Salaries			
	(Rs.)		(Rs.)		(Rs.)		(Rs.)
Cash	300	Balance c/d	300	Balance c/d	80	(3) Cash	80
	<u>300</u>		<u>300</u>		<u>80</u>		<u>80</u>
Balance b/f	300			Balance b/f	300		80
						Balance b/f	80

Motor vehicle a/c				Rs.'000s	Building rent income a/c				Rs.'000s
(5) Cash	250	Balance c/d	265		Balance c/d	120	Cash	60	
(6) Cash	15		<u>265</u>			<u>120</u>	Cash	60	
	<u>265</u>							<u>120</u>	
Balance b/f	265						Balance b/f	120	

Using the above account balances the following Trial Balance has been prepared:

Rs. Rs.

Account Name	Folio Ref	Debit	Credit
Cash		86775	
Sales			90000
Purchases		300	
Staff salaries			80
Motor vehicles		265	
Building rent income			120
Suspense a/c		2860	
		<u>90200</u>	<u>90200</u>

Credit side total	90,200
Debit side total	<u>(87,340)</u>
Suspense a/c	<u>2,860</u>

Guide the students to be able to identify the errors that the Trial balance reveals and the ones that it does not reveal.

- At the time the students present their findings direct the discussions to bring up the following points.
 - Encourage their ideas about the transactions that have been entered.
 - Ask for their ideas about the correctness of the transaction entries.
 - Direct the discussion along the following points.
 - That the following errors have been made in posting the entries in Lochana's business.
 - No.1 The double entries increasing by an equal amount.
 - No.2 The double entries posted with two different values.
 - No.3 The transaction being entered on the same side of the account.
 - No.4 The transaction being completely omitted.
 - No.5 The double entries reducing by an equal amount.
 - No.6 The posting of entries in an account not relevant to the transaction.
 - No.7 The same transaction being posted twice.
- Where transactions are incorrectly recorded, and may have an impact in the balancing of the Trial Balance, the incorrect recording of some transaction may not have an impact in balancing the Trial Balance.
- Provide guidance on how to identify such incorrect entries in recording transactions and their values.

Activity 02:

- Divide the students in to suitable groups and assign the following topics:
 - 1) Errors that are not disclosed in the Trial Balance
 - 2) Errors that are revealed by the Trial Balance.
- Direct them to separate the errors found in the last activity according to each topic.
- Instruct each group to record the transactions they received in a table as in the following format.

Double entries currently recorded	Correct form of the double entry	Relevant journal entry to make the correction
1.		
2.		

- Direct the groups to exchange their transaction lists' and complete the above table.
- Explain clearly, the account used to make corrections when the trial balance does not balance.
- Direct them to make the corrections through the Suspense account.
- Direct them to reconcile the answers with the table they have completed.

All figures are in
Rs.000

	Transaction no. and the double entry in the ledger at present	The correct double entry relevant to the transaction	The journal entry to make the necessary correction
1	Cash a/c dr 90,000 Sales a/c cr 90,000	Cash a/c dr 9,000 Sales a/c cr 9,000	Sales a/c dr 81,000 Cash a/c cr 81,000
2	Purchases a/c dr 300 Cash a/c cr 3000	Purchases a/c cr 3,000 Cash a/c cr 3,000	Purchases a/c dr 2,700 Suspense a/c cr 2,700
3	Salaries a/c cr 80 Cash a/c cr 80	Salaries a/c dr 80 Cash a/c cr 80	Salaries a/c dr 160 Suspense a/c cr 160
4	Double entry not recorded	Drawings a/c dr 50 Cash a/c cr 50	Drawings a/c dr 50 Cash a/c cr 50
5	Motor vehicle a/c dr 250 Cash a/c cr 250	Motor vehicle a/c dr 2,500 Cash a/c cr 2,500	Motor vehicle a/c dr 2,250 Cash a/c cr 2,250
6	Motor vehicle a/c dr 15 Cash a/c cr 15	Motor vehicle running expenses dr 15 Cash a/c cr 15	Motor vehicle running expenses dr 15 Motor vehicle a/c cr 15
7	Cash a/c dr 60 Rent Income a/c cr 60	Cash a/c dr 60 Rent Income a/c cr 60	Rent Income a/c dr 60 Cash a/c cr 60

Suspense a/c			
	Rs.		Rs.
Trial Balance	2,860	Purchases	2,700
Difference		Staff wages	160
	<u>2,860</u>		<u>2,860</u>

Guidance to clarify subject matter:

- When posting transactions, mistakes may be made for various reasons.
- Mistakes may be made at different occasions when entries are posted.
- While every transaction has a correct double entry, posting the correct entry will ensure a balancing Trial Balance.

Mistakes that occur when posting transactions can be divided into two main categories as follows:

- 1) Where errors are revealed by the Trial Balance.
- 2) Where errors are not revealed by the Trial Balance.

- When there are errors that do not affect the Trial Balance we find that the Trial Balance still balances.
- Whichever way an error is made it is necessary to use the General Journal to make the necessary correcting entries.

The errors that are not revealed by the Trial Balance can be stated as follows:

- A source document related to a transaction being omitted from the primary book.
- Recording of transactions contrary to accounting fundamentals.
- The value of a transaction being recorded in the **account** with an amount that is higher or lower than the original value.
- Where a posting error is compensated by an error of similar value in another transaction.
- Posting the double entries relevant to a transaction twice in the **accounts**.
- Errors that are not revealed by the Trial Balance must be discovered and recorded in the General Journal to correct them and then posted to the General Ledger.
- When the Trial Balance does not balance, it is because some error has occurred. These are **errors that are revealed by the Trial Balance** and the “**balancing figure**” is posted to a ‘**Suspense**’ account temporarily until the reasons for the difference is discovered.
- When the errors are corrected the ‘Suspense’ account will once again become zero.
- Errors that are revealed by the Trial Balance can be categorised as follows:
 - The value of a transaction being posted to the two accounts as two different amounts.
 - One side of a double entry in the transaction being omitted.
 - Errors that occur when balancing an account in the ledger.
 - The double entries of a transaction being posted to the same side in the two accounts.
 - Errors that occur when preparing the Trial Balance.
- While the errors that are made when posting the transaction impact the financial results, once the errors are corrected, accurate financial results can be produced.
- In order to arrive at the accurate financial results a profitability reconciliation statement is prepared.
- The reconciliation is prepared taking into account only the errors that impact income and expenses.

Assessment and Evaluation Criteria:

- 1) Selecting the example of an error from below that does not affect the balancing of the Trial Balance.
 - i. Total of Cash sales of Rs.15,000 in the Cash receipt journal transferred to the Sales a/c as Rs.1,500.
 - ii. Cash purchases of Rs.12,000 recorded as Rs.1,200 in the Cash payments journal.
 - iii. Cash receipts of Rs.8,000 from Amal posted on the debit side of both the cash control a/c and Amal’s a/c
 - iv. Goods returned to Nishadi (creditor) valued at Rs.1,400 entered in the Returns Outwards Journal as Rs.1,400 and entered in Nishadi’s a/c as Rs.140.
 - v. The total of Rs. 60 000 of the Debtors column in the Cash Receipts Journal not being recorded in the Cash Control a/c.

- 2) Selecting the error that does not affect net profit.
- i. Discount allowed undercasted by Rs.2000 in the Discount allowed column in the Cash receipt journal.
 - ii. Cash sales of Rs.35,000 entered in the Cash Receipt Journal and Sales a/c as Rs.53,000.
 - iii. The purchases a/c in the ledger being overcast by Rs.6,000 when balancing the account.
 - iv. Rs.4,000 paid for travel expenses being debited to the Stationery a/c as Rs.4,00.
 - v. The balance in the Drawings a/c of Rs.1,500 has not been taken in to the Trial Balance.
- 3) Indicate whether the following statements are True (T) or False (F).
- i. When the value of a transaction is recorded in the book of prime entry at a higher value there is no effect on the balancing of the Trial Balance ()
 - ii. The non-recording of drawings of goods by the owner in the books has no impact on profitability. ()
 - iii. After a difference in the Trial Balance is transferred to a Suspense a/c and after the correction of errors the Suspense a/c balance becomes zero ()
 - iv. The reasons for a balance in the Suspense a/c do not impact on profits ()
 - v. What is relevant to the correction of net profit are only changes to income and expenses. ()
- 4) Given below are the accounting errors that occurred in Muditha's business for the year ending 2017/03/31.
- i. An invoice for Rs.30,000 in respect of credit sales to Ashan has not been recorded.
 - ii. Repairs to buildings costing Rs.12,000 has been debited to the Buildings a/c.
 - iii. Payment of Rs.2,000 for electricity has been posted twice.
 - iv. Purchase of a stock of goods for Rs.18,000 on credit from Pasindu has been entered in the Purchases Journal as Rs.8,100.
 - v. A cash sale of Rs.4,000 has been correctly entered in the Cash Receipt Journal but not recorded in the Sales a/c, while a payment of Rs.24,000 to Ravindu has been correctly recorded in the Cash Payments Journal but debited to Ravindu's a/c as Rs.20,000.

Required:

1. Show the Journal entries to make the necessary corrections.
2. If the draft accounts of Muditha's business show a net profit of Rs.128,000 for the year ended 2017/03/31, prepare a statement correcting the net profit.

Competency 5.0: : **Uses accounting concepts by analyzing the basis of Financial accounting**

Competency Level 5.1 : Analyses Accounting concepts

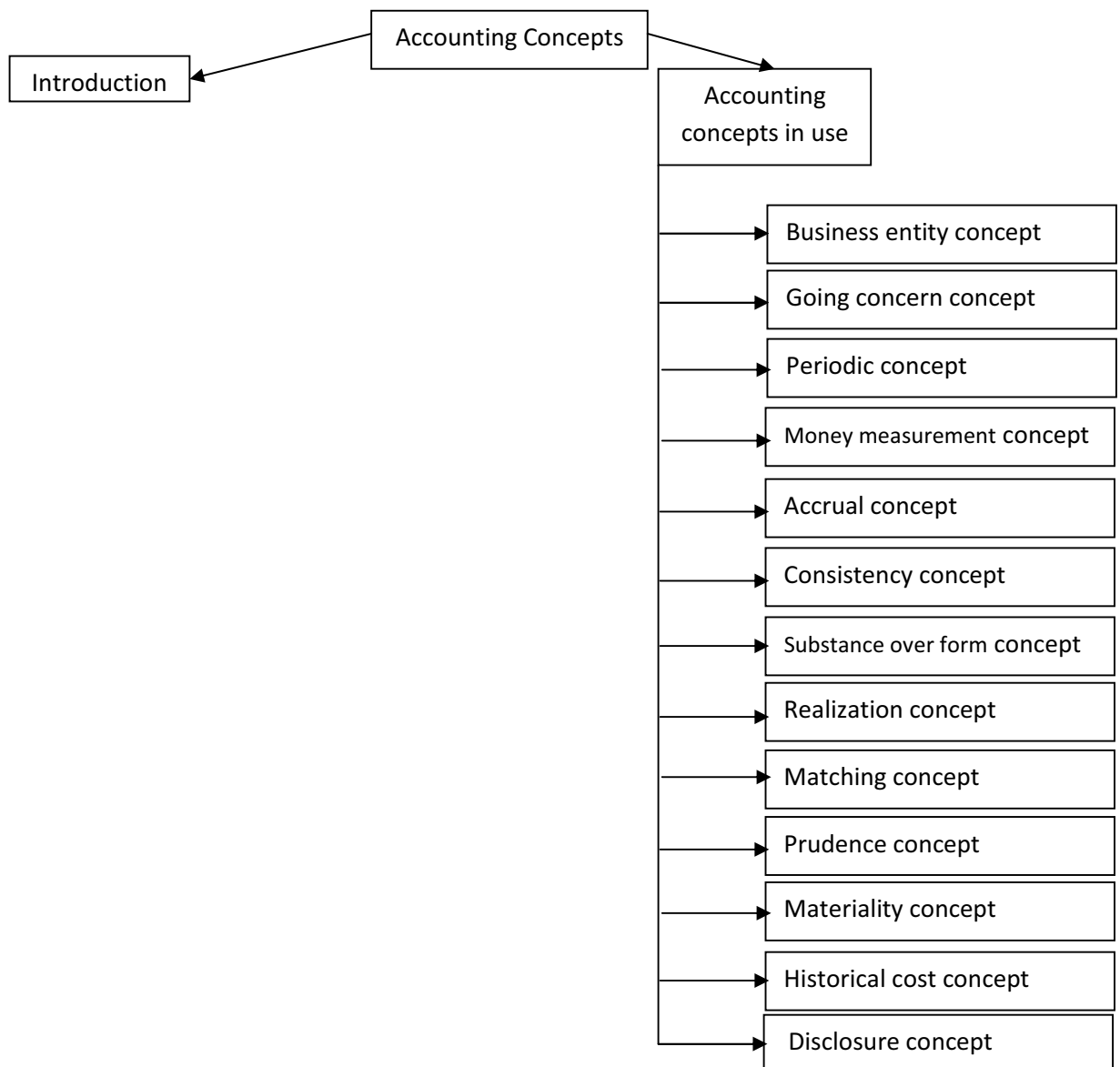
No. of periods : 02

Learning outcomes :

- Explains accounting concepts.
- Explains that accounting concepts must be adhered to in financial accounting.

Basic Terms and Concepts

Concept Map



Learning Teaching Process:

Guidelines to Clarify Subject Matter:

- The assumptions that are made in the preparation and presentation of financial statements are known as Accounting Concepts.
- The accounting information prepared by businesses must have a uniform nature. Accounting concepts are adhered to, to ensure this happens.
- There are a large number of accounting concepts observed in financial accounting. Accounting information contained in accounts of different business entities that are prepared observing these concepts is comparable.
- Given below are the accounting concepts that are followed in the preparation of accounting information.
 - Business entity concept
 - Going concern concept
 - Periodicity concept
 - Money measurement concept
 - Accrual concept
 - Consistency concept
 - Substance over form concept
 - Realization concept
 - Matching concept
 - Prudence concept
 - Materiality concept
 - Historical cost concept
 - Disclosure concept
- There is a relationship between the above accounting concepts used in the recording of transactions and presentation of financial statements.
- Similarly, the recording of one transaction incorporates several of the above accounting concepts.

Recording of depreciation - Matching concept
Prudence concept
Going concern concept
Periodicity concept
Money measurement concept
are relevant

Recording of stocks - Prudence concept
Matching concept
Money measurement concept
are relevant

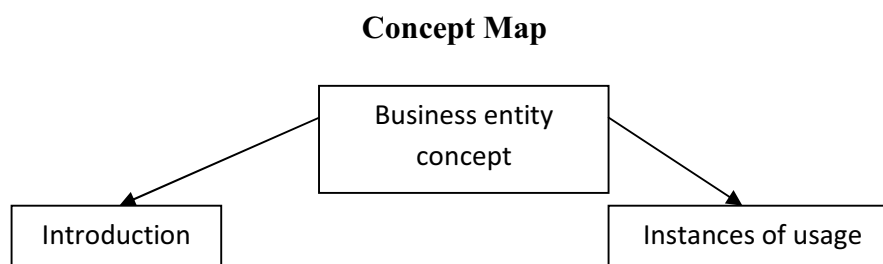
Recording of expenses	-	Matching concept
	-	Periodic concept
	-	Accrual concept
	-	Money measurement concept
		<i>are relevant</i>
Recording of income	-	Realization concept
	-	Accrual concept
	-	Matching concept
	-	Periodic concept
	-	Money measurement concept
		<i>are relevant</i>
Property, Plant & Equipment	-	Historical cost concept
	-	Going concern concept
	-	Disclosure concept
	-	Money measurement concept
		<i>are relevant</i>

Assessment and Evaluation Criteria:

- Naming the accounting concepts observed in recording accounting information.
- Presenting examples of relationships between accounting concepts.

- Competency 5.0:** : **Uses accounting concepts by analyzing the basis of Financial accounting.**
- Competency Level 5.2** : Analyses the Business / Accounting entity and the entity concept.
- No. of periods** : 02
- Learning outcomes** :
- Explains the application of the Business entity concept in preparing financial statements.

Basic Terms and Concepts:



Learning Teaching Process:

Engagement:

- Conduct a discussion while posing the following questions to the class.
 - Is the business and its owner one individual?
 - What are the transactions the owner of a business might carry out with the business?
 - How are such transactions recorded in the books of the business?
Eg: when the business owner withdraws money from the business for himself.

Proposed Instructions for Learning:

- Make arrangements to give the following two events to two student groups.

Event 01:

Kumara used his savings of Rs.100,000 to set up a retail trading shop in the front section of his house. While purchasing requirements for the business with this money, goods for resale was also purchased on credit. Further, Kumara pays Rs.2,000 each month towards the electricity bill of his house.

Provide answers to the following questions.

- Who started the business?
- Who are the owners of the business?
- How much money was invested to commence the business?
- What happens to the money that Kumara invested in the business when he takes money to pay his house electricity bill?

Competency 5.0: : **Uses accounting concepts by analyzing the basis of Financial accounting.**

Competency Level 5.3 : Applies going concern concept.

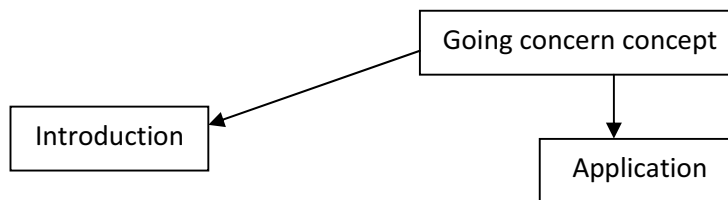
No. of periods : 04

Learning outcomes :

- Explains the going concern concept and its relevance.
- Explains how the going concern concept affects accounting.

Basic Terms and Concepts:

Concept Map



Guidelines to Clarify Subject Matter:

- Financial statements are prepared on the assumption that the business entity will continue its operations for the foreseeable future, is what is meant by the ‘Going concern concept’.
- It is assumed here that there is no danger of the business closing down or limiting its operational activities.

Instances when this concept becomes applicable:

- Assets - Categorising as Current assets and Non-current assets
- Liabilities - Categorising as Current liabilities and Non-current liabilities
- Not showing the Assets at realizable value in the Statement of Financial Position.
- Annual depreciation of property, plant and equipment.

Assessment and Evaluation Criteria:

- Explaining the going concern concept
- Showing the application of the going concern concept with examples of its application taken from the financial statements
- If there is uncertainty about the continued existence of the business “there is no need to separate assets and liabilities”. State if this is ‘True’ or ‘False’?

Competency 5.0: : **Uses accounting concepts by analyzing the basis of Financial accounting.**

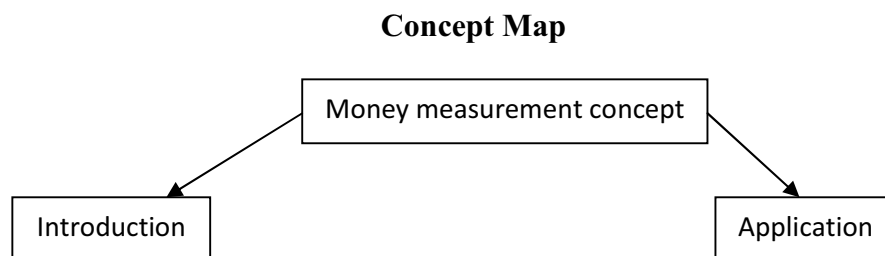
Competency Level 5.4 : Applies the money measurement concept.

No. of periods : 02

Learning outcomes :

- Explains money measurement concept and its relevance.
- Shows the application of the money measurement concept.

Basic Terms and Concepts:



Learning Teaching Process:

Engagement:

- Ask students for suggestions of transactions and events that can be measured in money terms and those that cannot and lead a discussion to create awareness of the following points.
 - To become aware that in a business there are transactions and events that can and cannot be measured in money terms and that they must be identified as such.
 - Only transactions that can be measured in money terms are included in the financial statements. Explain that however even transactions not measurable in money terms are necessary for management decision making.

Proposed Instructions for Learning:

- Draw the attention of the groups to the topic they receive from among the following:
 - **Transactions and events that can be measured in money terms**
 - **Transactions and events that cannot be measured in money terms.**

- Give copies of the following lists to the groups and encourage them to study them closely.

- The owner gives a motor vehicle worth Rs.1,000,000 to the business
- The Sales income of the business is Rs.650,000
- The business has been set up in an environmental friendly manner
- The business has recruited a number of staff members
- Customer behaviour patterns are closely monitored
- It has been decided to write off Rs.1,000 from debtors receivables.

- Give instructions to explain the topic each group has received
- Guide them to identify the transactions and events relevant to the topic from the given list
- Instruct them to write down any additional transactions and events that are not included in the list but relevant to the topic
- Encourage them to write down with reasons, whether the transactions and events relevant to the topic that have been chosen will be included in the financial statements or not
- Give instructions to explain how these transactions are important to the business
- Give an opportunity for each group to present their findings to the whole class.

Guideline to Clarify Subject Matter:

- Will identify from among the transactions and events of a business only those that can be measured in money terms and record them in financial statements.
- Events that are not measurable in money terms assist in making decisions to carry on the business.
- Any of these transactions are measured in that country's monetary unit and included in the financial statements.

Assessment and Evaluation Criteria:

- Write down 10 transactions and events that take place in a business
- Identifying financial and non financial transactions
- Stating whether the statement "*Transactions that are not financial based are not required to a business*" is True or False.

Competency 5.0: : **Uses accounting concepts by analyzing the basis of Financial accounting.**

Competency Level 5.5 : Applies the periodic concept.

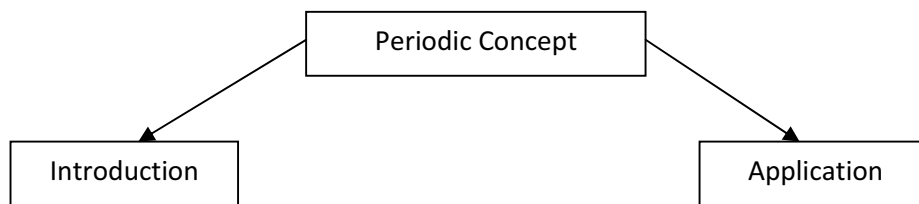
No. of periods : 02

Learning outcomes :

- Explains periodic concept and its relevance.
- Shows the application of the periodic concept.

Basic Terms and Concepts:

Concept Map



Learning Teaching Process:

Engagement:

- Introduce to the students the date of commencement of a business as 2016/01/01 and inform them to indicate the “annual accounting period” while initiating a discussion that bring out the following points.
 1. In order to calculate the operational result it is necessary to first be able to identify the accounting year.
 2. Only the transactions relevant to the accounting year are to be matched to that year.

Proposed Instructions for Learning:

- From among the transactions that can take place in a business give to each group one of the following transactions.
 1. During the year ending 2017/03/31 stocks worth Rs.60,000 was purchased, of which Rs.20,000 worth of stock was sold during the same year.
 2. A telephone bill of the business for Rs.7,000 relevant to the last month of the financial year was received only on 2017/04/30 - one month after the end of the period.
- Give necessary advice for a proper understanding of the transaction relevant to the group.
- On the assumption that the accounting year is 12 months provide guidance to write the period relevant to the transaction.
- Give advice to note down the impact of the transaction on the accounting period.
- Inquire about the matching double entry for the transaction.

Guidance to Clarify the Subject Matter:

- The **periodic concept** provides the basis for dividing the continuous lifetime of the business into periods and prepares the financial statements for each period.
- When presenting the elements of the financial statements it is necessary to observe the periodic concept.
- The financial statements are prepared according to the periodic concept.

Example: ----- Enterprise
 Income Statement for the year ending 2016/03/31
 Statement of Financial Position as at 2017/03/31

Assessment and Evaluation Criteria:

- Explaining the periodic concept.
- Recognizing the accounting period from the given transactions.
- Showing examples that identify the periodicity concept within financial statements.
- Indicating whether the statement “The transactions recorded in the Cash account illustrate the periodic concept” is True or False.

Competency 5.0: : **Uses accounting concepts by analyzing the basis of Financial accounting.**

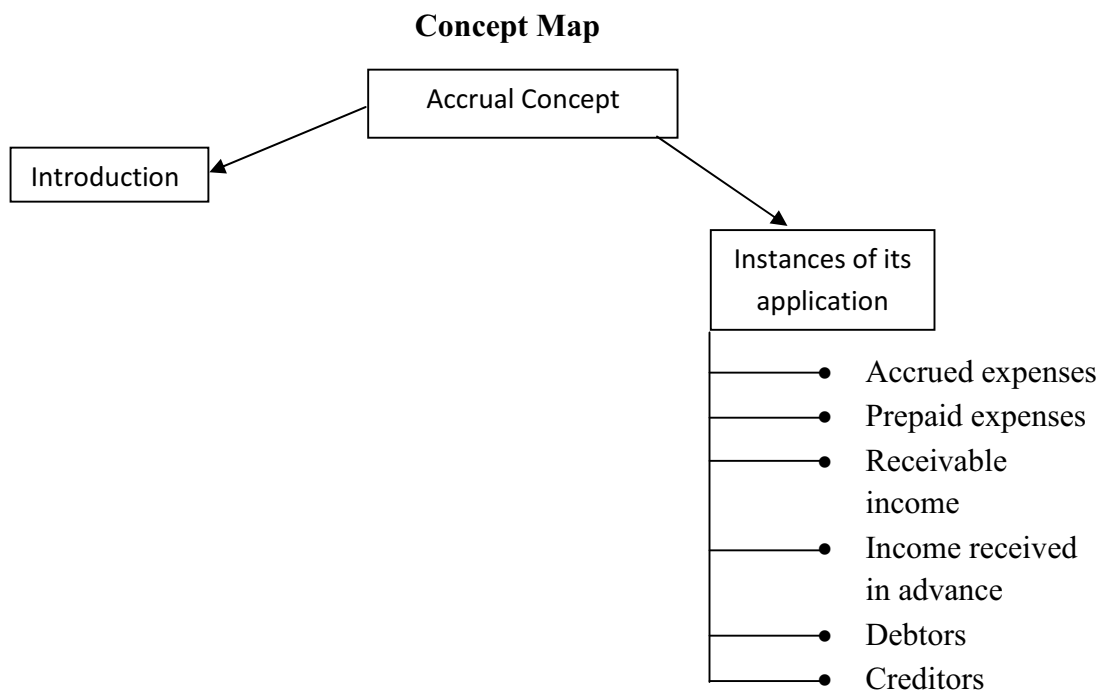
Competency Level 5.6 : Applies the accrual concept.

No. of periods : 05

Learning outcomes :

- Explains the accrual concept and its relevance.
- Shows the application of the accrual concept,

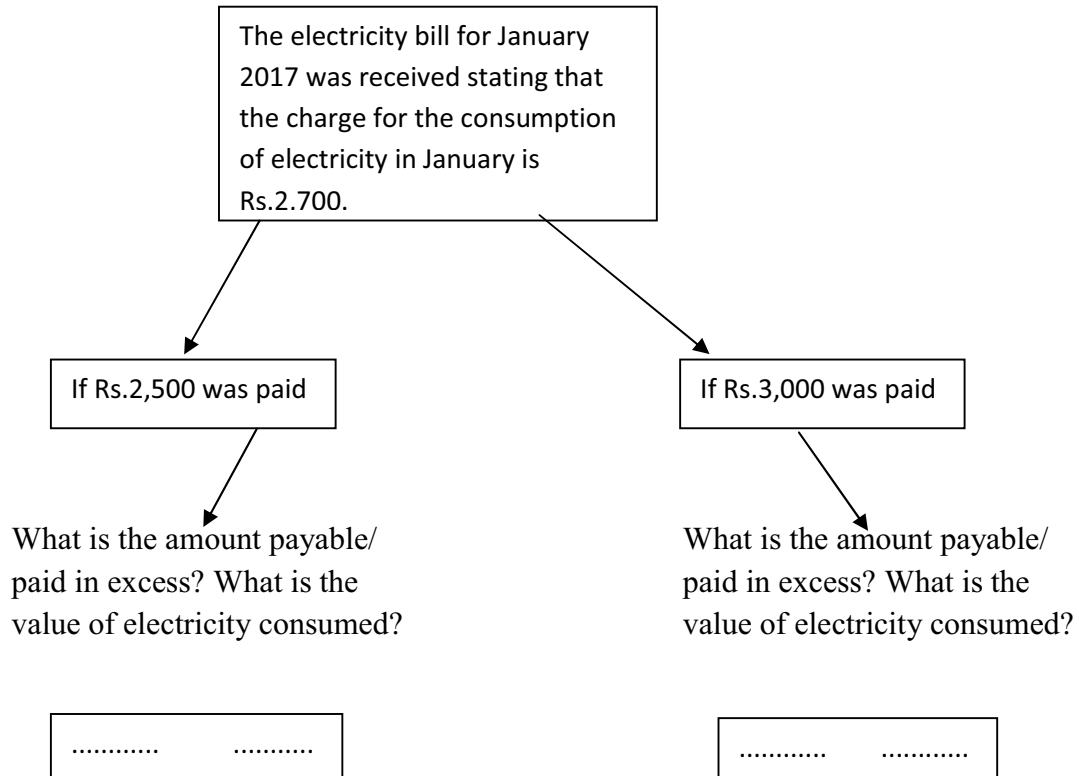
Basic Terms and Concepts:



Learning Teaching Process:

Engagement:

- Present the following notes to the students in an appropriate manner.



Give the above to the students and direct them to fill in the blanks.

- Taking into consideration the students' answers, conduct a discussion to highlight the following points.
 1. To calculate the financial results of the period it is necessary to account for all expenses relevant to the period.
 2. Accordingly, the amounts that need to be paid and payments that have been made in excess must be adjusted to match the period.
 3. Explain that, in a similar way the income that is to be received, and that has been received in excess, too needs to be adjusted to match the period.

Proposed Instructions for Learning:

Distribute the following incidents about the transactions of a business among the student groups:

- Some information that came to light about Kamal's business for the year ending 2017.03.31 is given below:
 1. The total value of the electricity bills received during the year amounted to Rs.38,000. However, the bills state that Rs.35,000 has been paid.
 2. Payment of Rs.20,000 in respect of an annual insurance premium of Rs.18,000.
 3. Receiving rent for 18 months in respect of a shop given on rent of Rs.5,000 per month.
 4. Receiving an amount of Rs.3,000 interest in respect of an investment of Rs.50,000 that should have generated an income of 10%
- Direct the groups to name the expense or income resulting from each of the transactions that they have received.
- Direct them to identify the values as given below:
 - The expense that is payable
 - The income that should be received
 - Payment in advance
 - Income received in advance
- Direct them to identify the correct adjusting double entry from the list below that is necessary in respect of each item of information.

		Debit	Credit
1	Relevant expense a/c	x	
	Relevant payables a/c		x
2	Prepaid expense a/c	x	
	Relevant expense account		x
3	Income receivable a/c	x	
	Relevant receivables a/c		x
4	Relevant income a/c	x	
	Income received in advance a/c		x

- Substitute the values of the transaction you received in the identified double entry above.
- Give an opportunity for the group findings to be presented to the whole class.

Guidance to Clarify Subject Matter:

Accruals Concept:

- This concept ensures that when preparing accounts for a business for a specific period of time, all income relevant to that period whether received or not are accounted for as income and all expenses incurred during the period whether paid or not must be recognised as expenses.
- The accruals concept is important in being able to reveal accurately the financial results for the period.

Instances when the Accruals Concept is applied:

- Accrued expenses / Payable expenses
- Prepaid expenses / Payments in advance
- Income receivable / Accrued income
- Income received in advance / Income received for the future
- Debtors
- Creditors

Accrued expenses:

- Expenses that have been incurred during the period but has not been paid for as at the last day of the period are known as accrued expenses. This is a liability. When accounting for the operating results the accrued expenses must be adjusted.
- Relevant double entry / adjusting entry.

Relevant expense account	Debit
Accrued expenses account	Credit

Example: The value of electricity bills paid up to the year ending 2017/03/31 was Rs.14,200. However, the total value of the bills received was Rs.22,000.

The relevant adjusting entry:

Electricity expense a/c	Dr	7,800
Accrued Electricity Bills a/c	Cr	7,800
<i>Being unpaid electricity charges for the year ending 2017/03/31.</i>		

The total electricity expense to be included in the **Income statement** is Rs.22,000. In the In the Statement of Financial Position the **Current Liabilities** should show an amount of Rs.7,800.

- **Payments in advance / Prepayments:**

These are payments made for a period that extends beyond the current accounting period. This is an asset.

The relevant adjusting entry is:

Prepaid expenses a/c	Debit	
Relevant expense a/c		Credit

Example:

Although the insurance expense relevant for the year is Rs.24,000 the amount paid during the year was Rs.25,000.

The relevant adjusting entry is:

Prepaid Insurance a/c	1,000	
Insurance expense a/c		1,000

The Insurance expense to be included in the **Income Statement** is Rs.24,000. In the Statement of Financial Position the **Current assets** should include Rs.1,000.

Income receivable

Income relevant to the financial year but not received as at the last date of the financial year is known as Income Receivable. This must be shown as Income Receivable.

The relevant adjusting entry is:

Income Receivable a/c	Debit	
Relevant income a/c		Credit

Example: A part of the building of the enterprise has been given out on rent at Rs.5,000 per month. During the accounting year Rs.50,000 has been received as rent.

The relevant adjusting entry

Income Receivable a/c	10,000	
Relevant income a/c		10,000

The rent income to be shown in the **Income Statement** is Rs.60,000. The **current assets** in the Statement of Financial Position will show Rs.10,000 as rent receivable.

- **Income received in advance**

Income received in excess of the amount due for the accounting year is known as income received in advance. This is a liability.

Relevant adjusting entry

Relevant income a/c	debit	
Income received in advance a/c		credit

Example: At a time when a part of the building of the enterprise had been given on rent at Rs.5,000 per month a sum of Rs.75,000 was received during the accounting period.

Rent income a/c	15,000	
Income received in advance a/c		15,000

The rent income to be included in the **Income statement** is Rs.60,000. The amount to be shown under **Current liabilities** in the Statement of Financial position is Rs.15,000.

When transactions are recorded under the accruals concept it results in creating debtors and creditors.

Income receivable	}	These are current assets
Prepaid expenses		
Accrued expenses	}	These are current liabilities
Income received in advance		

Debtors and creditors are inputs relevant to the accruals concept.

Develop examples that clarify this concept clearly and give them to the students.

Assessment and Evaluation Criteria:

- Explaining the accruals concept
- Providing adjustments for the transactions given below:

	Paid Rs.	Payable Rs.
Electricity	4,000	2,000
Annual Insurance premium	2,000	200

- Showing the amounts to be included in the Statement of Financial position, having identified the income and expenses relevant to the accounting year.

Competency 5.0: : **Uses accounting concepts by analyzing the basis of Financial accounting.**

Competency Level 5.7 : Applies the realization concept.

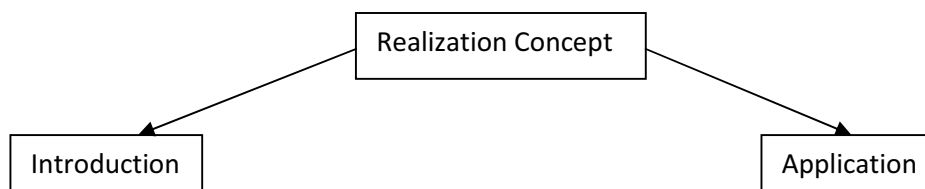
No. of periods : 02

Learning outcomes :

- Explains the realization concept and its relevance.
- Names sources of income.
- Shows the application of the realization concept.

Basic Terms and Concepts:

Concept Map



- The moment/date when the economic benefits and risk of a transaction is transferred to the customer or if it is a product, when ownership is transferred, or if a service the moment when the service is provided, is when income is realized and treating it as such is known as the realization concept.

Application of the concept:

- **Credit Sales:** Even though the money has not been received, the ownership has been exchanged and the benefits and risk has been transferred to the customer. Therefore, it is considered as income.
- Where goods have been sold but they have still not been physically taken away. Here, the ownership has been exchanged. Therefore, it is considered as income.
- Where goods have been supplied on the basis of sale or return: Here, since the ownership of the goods has still not changed it is not recognized as income.

Assessment and Evaluation Criteria:

- Explaining the realization concept.
- Showing at what moment income is shown as having been realized according to the realization concept.
- Showing an instance when the realization concept is ignored. “Recognizing a receipt of an advance against a future sale as income under the realization concept”. Stating whether this statement is True or False.

Competency 5.0: : **Uses accounting concepts by analyzing the basis of Financial accounting.**

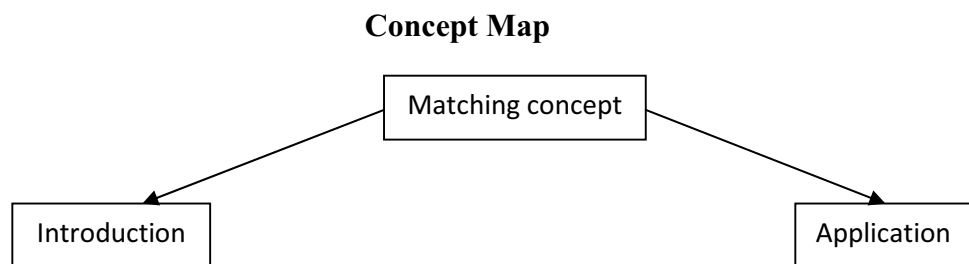
Competency Level 5.8 : Applies the matching concept.

No. of periods : 03

Learning outcomes :

- Explains the matching concept and its relevance.
- Shows the application of the matching concept.

Basic Terms and Concepts:



Guidelines to Clarify Subject Matter:

- In preparing the financial results of a business it is necessary to match the income during the period to the expenses incurred in earning that income is what is meant by the matching concept.
- Example: Comparing / Matching the Sales Income with the Cost of Sales.
- The application of this concept.

1. Matching closing inventory:

Stock a/c	Debit
Trading a/c	Credit
2. Making provisions

Staff compensation a/c	Debit
Provision for staff compensation a/c	Credit
3. All expenses that are not incurred in generating income in the future is considered an expense of the current period.
Damaged inventory:

Damaged goods a/c	Debit
Purchases a/c	Credit

4. Provision for doubtful debts:	Doubtful debts a/c	Debit
	Provision for doubtful debts a/c	Credit
5. Writing off bad debts	Bad debts a/c	Debit
	Debtors Control a/c	Credit
6. Provision for depreciation	Depreciation a/c	Debit
	Provision for depreciation a/c	Credit

Exercises on this concept will be given together with other concepts in the future.

Assessment and Evaluation Criteria:

- Presenting the reasons for recording transactions following the matching concept.
- Revealing the instances when the matching concept is used in financial statements.
- Showing the relevant matching entries and the effect on profits for the following event:

A stock of goods valued at Rs.14,000 got damaged and the insurance company agreed to pay 50% of the value.

Competency 5.0: : **Uses accounting concepts by analyzing the basis of Financial accounting.**

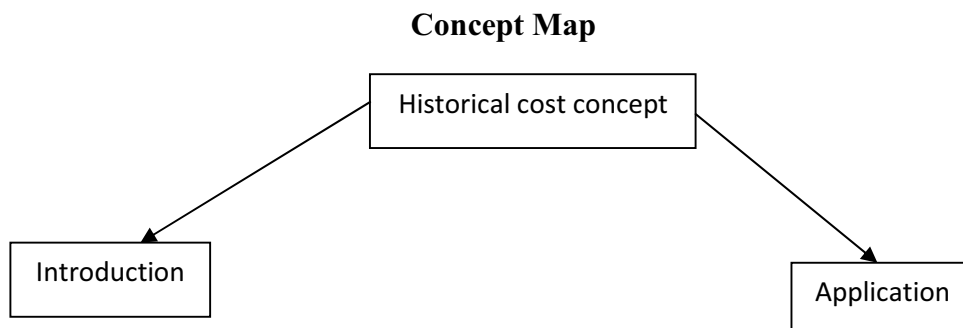
Competency Level 5.9 : Applies the concept of historical cost concept.

No. of periods : 02

Learning outcomes :

- Explains the historical cost concept and its relevance.
- Presents the application of the historical cost concept
- Presents the instances of deviation from the historical cost concept.

Basic Terms and Concepts:



Learning – Teaching Process:

Guidelines to Clarify Subject Matter:

- The assets that an organization possesses and the costs incurred, and the true cost of exchange on the date of acquisition, must be recorded in the books is what is meant by the historical cost concept.
- When recording at cost: confirmation about
 - Trustworthiness and
 - Convenience, takes place.
- Similarly, accounting activities too become easier.
- Instances when a **deviation from the historical cost concept** takes place
 - When property, plant & equipment is recorded at revaluation values
 - When stock is recorded at net realizable value.
- **Application of the concept**
 - When property, plant & equipment is recorded for the first time at cost.
 - When subsequent costs incurred for property, plant & equipment is recorded at cost.

Assessment and Evaluation Criteria

- Explains historical cost concept.
- Presents how the historical cost concept is incorporated into the financial statements.
- Presenting an instance when a deviation from the historical cost concept takes place.

Competency 5.0: : **Uses accounting concepts by analyzing the basis of Financial accounting.**

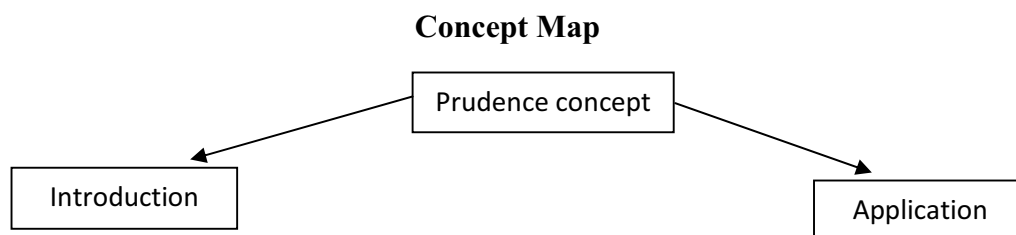
Competency Level 5.10 : Applies the prudence concept.

No. of periods : 04

Learning outcomes :

- Explains the prudence concept and its relevance.
- Gives examples for the prudence concept.
- Presents the application of the prudence concept.

Basic Terms and Concepts:



Learning Teaching Process:

Engagement:

- Ask the students the following questions and develop answers through discussion.
 - Should income and profits to be received in the future be accounted for?
 - Should provisions be made for all known liabilities?
 - Should stock be recorded at cost or net realizable value?

Proposed Instructions for Learning:

- Give the following adjustments and events to the groups.
 - Provision for doubtful debts.
 - Provision for depreciation.
 - Recording of inventory.
- Give the following to the groups.
 - Introduce the prudence concept.
 - Explain the adjustment you have received.
 - Select the events relevant to the adjustment.
 - Write the answers to the questions contained in the events.
- Present the answers to the class.

Event 01

In Thushara's business the debtors balance as on 2017/03/31 was Rs.50,000. A provision of 5% for doubtful debts must be made as on this date. Taking this information into consideration complete the table below:

Impact on debtors	Situation	Adjustment entry	Impact on account with the provision for doubtful debts	Impact on profit
	Making a provision for doubtful debts for the first time			
	If there was a balance of Rs.2,000 in the Provision for doubtful debts a/c on 2016/04/01			
	If the balance in the Provision for doubtful debts a/c on 2016/04/01 was Rs.3,200			
	If the balance in the Provision for doubtful debts a/c on 2016/04/01 was Rs2,500			
	In each of the above situations if there was bad debts of Rs.1,000			

Event 02

Information about the property, plant and equipment assets accounts of Susith's business as on 2016/04/01 is given below:

Asset	Cost Rs.	Annual depreciation	Depreciation upto 2016/04/01
Buildings	500,000	10%	100,000
Motor Vehicles	200,000	40%	80,000
Computer	160,000	25%	20,000
Machinery	80,000	20%	24,000

Taking the above information into consideration, complete the table below:

Asset	Annual depreciation	Useful lifetime	Cumulative depreciation to 2017/03/31	Carrying value on 2017/03/31	Journal entry to account for depreciation
Buildings					
Motor Vehicles					
Computers					
Machinery					

Event 03

The cost of inventory in Kumarage's business as at 2016/03/31 was Rs. 160,000. Complete the following table if the,

1. Net realizable value was Rs. 130,000
2. Net realizable value was Rs. 180,000

Cost	Net Realizable value (Rs)	Relevant double entries	The amount entered in the Trading account (Rs)	The amount shown in the Statement of Financial Position (Rs)	Impact on profit (Rs.)

Guidance to Clarify Subject Matter:

The prudence concept contributes to the preparation of the financial statements to show the operating results, financial position and cash flow of the accounting entity in the best manner.

The following can be considered as the situations when this concept is applied

- Making a provision for doubtful debts
- Making a provision for depreciation
- In recording a reduction in the value of stocks.
- Making a provision for Workmen's compensation.

The adjusting entries to the above adjustments can be stated as follows:

- | | | | |
|---------------------------------|----------|---|---|
| 1. Doubtful debts a/c | - Debit | } | Making a provision for the first time |
| Provision for doubtful debts | - Credit | | |
| | | | |
| 2. Doubtful debts a/c | - Debit | } | Adjustment for increase in the provision for doubtful debts |
| Provision for doubtful debts | - Credit | | |
| | | | |
| 3. Provision for doubtful debts | - Debit | } | Adjustment for decrease in the provision for doubtful debts |
| Doubtful debts a/c | - Credit | | |

4. Bad & doubtful debts a/c	-Debit		
		}	Adjustment for bad and doubtful debts
Provision for doubtful debts	- Credit	}	

- The account balances after the adjustments, must be correctly included in the financial statements.
- In addition to the Prudence concepts there are other concepts connected to the above adjustments. Eg: Matching concept, Realization concept.

Assessment and Evaluation Criteria:

- Explains the prudence concept.
- Presenting situations when the prudence concept is used.
- Presenting journal entries for the following adjustments:
 - The debtors as at 2015/03/31 was Rs. 40,000. To make a provision of 5% for doubtful debts.
 - The property and plant balance is Rs. 400,000. Depreciate 10% in the straight line method.
 - “Recording stock at lower of cost or net realizable value contradicts the prudence concept.” Stating if this is True or False.

Competency 5.0: : **Uses accounting concepts by analyzing the basis of Financial accounting.**

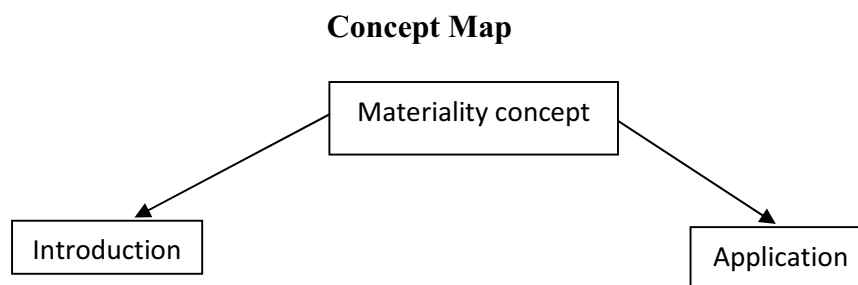
Competency Level 5.11 : Applies the materiality concept.

No. of periods : 02

Learning outcomes :

- Explains the materiality concept.
- Explains the application of the materiality concept.

Basic Terms and Concepts:



- In accounting, materiality depends on to what extent, and whether some information may impact upon the decision making ability of interested parties on accounting information. Accordingly, is some accounting transaction recorded as an asset or as an expense or as some other item? A decision on this is taken according to the materiality concept. Materiality is the level of importance of the particular item. It will depend on the size of the activities and their nature. This is known as the materiality concept.

Application of the Concept:

- Purchase of a puncher or stapling machine for the business will be written off as expenses in the income statement.
- A loan given to a director of a company, however small it may be, must be disclosed separately.

Assessment and Evaluation Criteria:

- Explaining the materiality concept
- Writing a transaction that is most suitable to the materiality concept
- State whether, even though having a useful life of 4 years it is reasonable to write off the cost of 5 file covers as an expense at the point of purchase itself.

Competency 5.0: : **Uses accounting concepts by analyzing the basis of Financial accounting.**

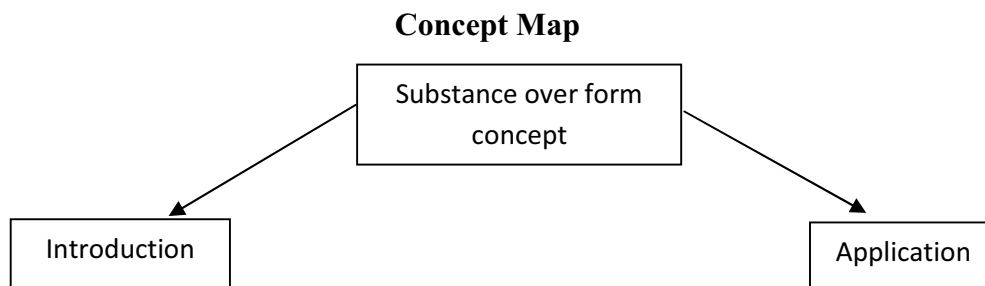
Competency Level 5.12 : Applies the substance over form concept.

No. of periods : 02

Learning outcomes :

- Explains the substance over form concept and its relevance.
- Presents the situations where substance over form concept is used.

Basic Germs and Concepts:



Learning - Teaching Process:

- Give the students the following questions about a motor vehicle obtained on financial lease by a business and conduct a discussion.
 - Who uses this motor vehicle?
 - Who is the legal owner of the vehicle? And Why?
 - Who derives the income from this motor vehicle?
 - Who takes the risks as a result of the use of this motor vehicle?
- Considering the answers of the students give them the following facts:
- **Even though the property does not legally belong to the business, if the receipt of economic benefits is by the business and it bears any risks associated with the asset, then it is recognized as an asset of the business.**

Proposed Instructions for Learning:

- Give the following transactions of a business to the individual groups:
 1. A motor vehicle valued at Rs. 1,850,000 was obtained on 2016/04/01 on finance lease terms from Lanka Motors Company having made an initial deposit of Rs. 250,000.
 2. A motor vehicle valued at Rs. 2,000,000 was obtained on finance lease terms from Caldera Co. Ltd. having made an initial deposit of Rs. 100,000.
- After allowing the groups to do a careful study of the transaction they have received give them the following questions.
 - Who is the legal owner of the asset?
 - Name two economic benefits that this asset will derive and indicate who receives it.
 - If there is a risk associated with this asset who bears it?
 - How will this asset be recorded in the company's books? What is the value that will be recorded and what are the entries to record it?
 - Give an opportunity to present the answers to the class.

Guidelines to Clarify Subject Matter:

- Assets obtained on finance leases must be recognized in the buyer's books as assets.
- When accounting for a transaction it must be based not on the legal nature of the transaction but its essence and reality, is what is meant by the substance over form concept.
- According to the definition of an asset even where there is no ownership of the asset, the ability to control it is a sign of it being an asset of the business.
- Direct the students to study the definition of an asset carefully and become aware of the badges of ownership.

Assessment and Evaluation Criteria:

- Explain the substance over form concept.
- Give an example of an occasion when the substance over form concept is used.

Competency 5.0: : **Uses accounting concepts by analyzing the basis of Financial accounting.**

Competency Level 5.13 : Applies the disclosure concept.

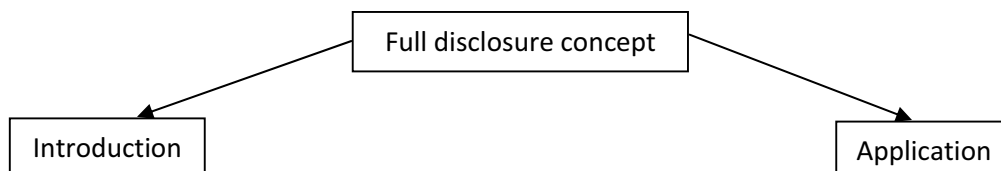
No. of periods : 02

Learning outcomes :

- Explains the disclosure concept and its relevance
- Shows instances of uses of the disclosure concept.

Basic Terms and Concepts

Concept Map



Guidance to Clarify the Subject Matter:

- All accounting information that is relevant to an interested party must be disclosed in the financial statements as per this concept.

Application of the Full disclosure concept:

- Disclosing the cost and accumulated depreciation with regard to property, plant and equipment.
- In the income statements of public limited companies, in calculating the profit before tax disclosing all items that need to be disclosed (depreciation, Loan interest etc.).
- Disclosure of stock classifications.

Assessment and Evaluation Criteria:

- Explaining the Full disclosure concept
- Present examples of occasions when the full disclosure concept is adopted.

Competency 5.0: : **Uses accounting concepts by analyzing the basis of Financial accounting.**

Competency Level 5.14 : Applies consistency concept.

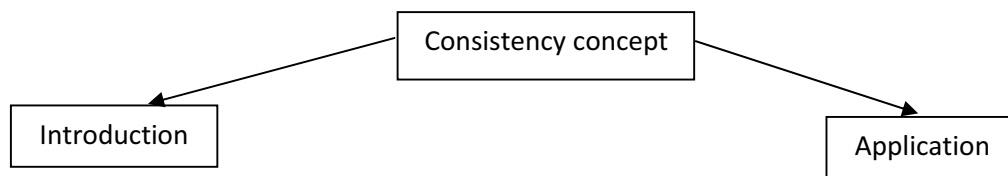
No. of periods : 02

Learning outcomes :

- Explain the consistency concept and its relevance.
- Present the application of the consistency concept.

Basic Terms and Concepts:

Concept Map



Guidance to Clarify Subject Matter:

- The bases, traditions, policies used in the preparation and presentation of financial statements must never be changed is what is stated by the consistency concept.
- As a result of using a stereotype, comparisons can be made in the following manner.
 - The same company's accounts over a number of years.
 - With the financial statements of similar organizations.
- Two occasions when the policies that a business has followed consistently, can be changed are given by the accounting standards (Accounting policies, changes in estimates and errors).
 - Because of a requirement of another accounting standard.
 - Where a change in policy will result in the financial statements being more truthful and a more reasonable.

Application of the Concept:

- Following the First-in-First-Out (FIFO) method of stock valuation followed in previous accounting periods continuing to be followed in this accounting period too.
 - Property and plant initially recognized at cost, later on being recorded at the revalued price contravenes consistency.

Assessment and Evaluation Criteria:

- Explaining the consistency concept.
- Explaining the advantages of the consistency concept.
- Giving examples of situations when the consistency concept is applied.

In respect of the transactions and events given below, state the most suitable accounting concept in the respective space.

	Transaction / Event	Concept/s
1	Making a provision of 5% for doubtful debts.	
2	A machine obtained on a Finance Lease being shown under Non-current assets in the Statement of Financial Position.	
3	The assets and liabilities in the Statement of Financial Position has been categorized current and non-current.	
4	Accrued expenses and prepaid insurance charges are shown in the Statement of Financial Position as current liabilities and current assets.	
5	Rs.2,000 bad debts has been deducted from debtors and shown as an expense.	
6	The Statement of Financial Position stating that it is upto 2016.03.31.	
7	Stock being recorded at lower of cost or Net-realizable value.	
8	Stating the business name "Silva Traders" on top of the Statement of Financial Position,	
9	A land purchased 5 years ago for Rs. 500,000 being shown in the current year Statement of Financial Position at a value of Rs. 500,000.	
10	Property, plant & equipment being depreciated annually by 10%.	

Punsanda Enterprise (A)			
(B) Statement of Financial Position up to 2017.03.31			
			(C)Rs.'000s)
	Cost (Rs.) (D)	Accumulated depreciation (Rs.)	Net Value (Rs.)
Non-Current Assets (E)			
Land & Buildings	5,000	1,800	3,200
Motor Vehicle	3,000	(M)900	2,100
Machinery & Equipment	2,000	400	1,600
	10,000	3,100	6,900
(F) Current Assets			
(G) Stock			
Debtors		1,300	
Prepaid shop rent (H)		2,000	
Cash		300	
		2,400	6,000
TOTAL ASSETS			12,900
Equity & Liabilities			
2016.04.01 Capital (I)		6,000	
Add: Net Profit (J)		1,400	7,400
Non-Current Liabilities			
Bank Loan (repayable in 3 years)		2,000	
Lease creditors(K)		600	2,600
Current Liabilities			
Bank loan - current		1,000	
Lease creditors - current		300	
Trade creditors		1,200	
Accrued electricity charges(L)		400	2,900
			12,900

Notes: 1. The cost of stocks was Rs,1,500,000 while the realizable value is Rs.1,300,000.

2, Depreciable non-current assets are depreciated on cost as per company policy.

State the accounting concepts followed in the preparation of the Statement of Financial Position designated by the letters below:

- A : _____
- B : _____
- C : _____
- D : _____
- E : _____
- F : _____
- G : _____
- H : _____
- I : _____
- J : _____
- K : _____
- L : _____
- M : _____

Assessment:

If the following statement are right mark (√) or if it is wrong mark (x).

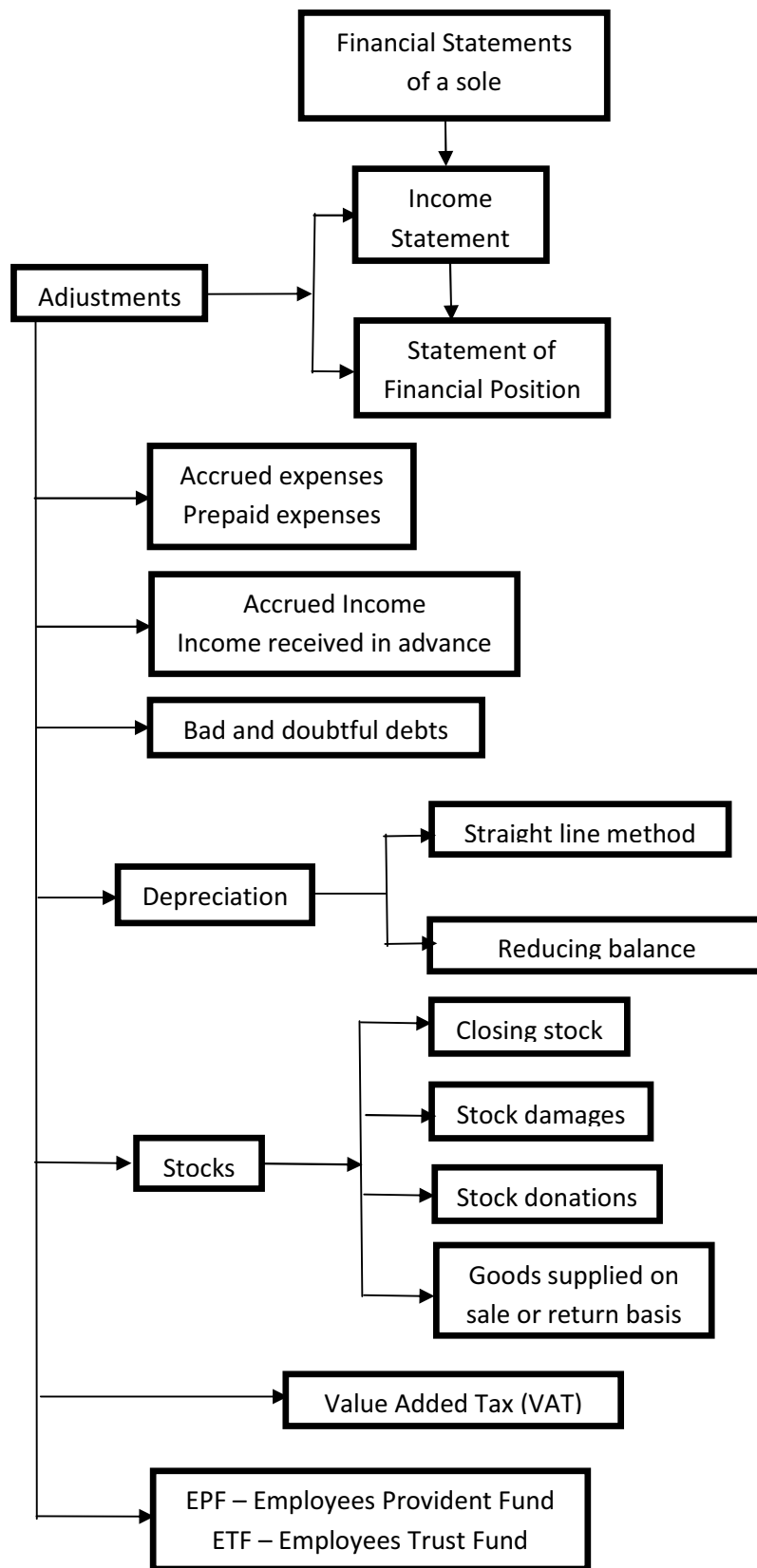
- 1) In accounting when business transactions and events are recorded it is considered that the business has a separate identity distinct from its owners. ()
- 2) From among the transactions and events that take place in a business the ones that can be measured in money terms are selected and recorded in Financial statements. ()
- 3) Financial statements are prepared based on the assumption that the business activities will carry on uninterrupted into the future. ()
- 4) The continuous life-time of the business is divided into individual periods and Financial statements prepared for each period. ()
- 5) In accounting all income relevant for the period, whether received in cash or not is recognized as income while all expenses relevant to the period, whether paid or not is recorded as expenses. ()

- State the relevant concept to fill in the blanks in the following statements.
 1. When the owner of the business withdraws goods from the business for his personal use, they will be recorded as drawings based on the _____ concept.
 2. Only the transactions that can be measured in money terms are recorded in the financial statement based on the _____ concept.
 3. The assets and liabilities of a business are separated as current or non-current based on the _____ concept.
 4. The financial statements of a business are prepared based on the _____ concept.

Competency 6.0	:	Prepares financial statement of a sole proprietorship business.
Competency Level 6.1	:	Explains the importance of financial statements of a sole trader business.
6.2	:	Prepares Income Statement and Statement of Financial Position of a sole proprietorship.
No. of periods	:	40
Learning outcomes	:	<ul style="list-style-type: none"> • Names types of financial statements of a sole proprietorship business. • Explains importance of financial statements of a sole trader business. • Adjustment of stocks at the end of the accounting period. • Adjustment of income received in advance and accrued income. • Adjustment of accrued expenses and prepaid expenses. • Accounting for bad debts. • Accounting for provision for doubtful debts. • Adjustment for drawings • Adjustment of depreciation on property plant and equipment. • Adjustment of damaged and donation of goods. • Adjustment for Employees Provident Fund (EPF) contributions. • Adjustment for Employees Trust Fund (ETF) contribution. • Adjustment for Value Added Tax (VAT) • Adjustment for goods supplied on sale or return basis. • Prepares Income Statement for the period and Statement of Financial Position for a particular date.

Basic Terms and Concepts:

Concept Map



Learning Teaching Process:

Engagement:

- Having given the following questions to the students engage them in a discussion.
 - What are the objectives of a business?
 - How are the results of a business measured?
 - What is the Income Statement?
 - What is a Statement of Financial Position?

- Enter the following information on the black / white board.
Total purchases in this business that commenced on 2016.04.01 was Rs. 200,000.
Sales to 2017.03.31 in Saranga's enterprise was Rs. 500,000.
Closing stock as on 2017.03.31 was Rs. 30,000.
Other expenses during the year was Rs. 40,000.

- Direct the students to calculate the profit for Saranga's business for the year to 2017.03.31.

- Enter the following information on the black / white board.

Assets & Liabilities of Namali Company as at 2017.03.31

Land & buildings	Rs. 1,200,000	Bank loan	Rs. 200,000
Stock of goods	Rs. 800,000	Creditors	Rs. 100,000
Debtors	Rs. 150,000		
Cash balance	Rs. 50,000		

- Guide the students to calculate the capital of Namali Co. as at 2017.03.31 using the above information.
- If required, the above information could be used as a group assignment.

Activity 6.1.1

Give the following information to the students and encourage them to engage in it by themselves singly.

Trial Balance of Sumudu's business as at 2017.03.31		
Account Name	Debit	Credit
	(Rs. 000s)	(Rs. 000s)
Sales		20,200
Sales returns	200	
Stock at 2016.04.01	1,500	
Purchases	8,000	
Transport inwards	400	
Loading and unloading charges	300	
Purchase returns		200
Discount received		100
Investment income		400
Advertising expenses	300	
Bad debts	100	
Discount allowed	200	
Staff salaries & wages	500	
Electricity	180	
Building depreciation	80	
Rates	40	
Donations of goods	50	
Loan interest	200	
Bank charges	150	
Land (at cost)	8,000	
Buildings (at cost)	4,000	
Accumulated depreciation - buildings(2017.03.31)		400
Investments	4,000	
Debtors	1,000	
Cash balance	1,800	
Creditors		700
Bank loan		2,000
Capital		7,000
	31,000	31,000

- There were no balance stocks as at 2017.03.31

Required:

1. Prepare the Income Statement of Sumudu's business for the year ending 2017.03.31.
2. Prepare the Statement of Financial Position of Sumudu's business as at 2017.03.31.

Income Statement for the year ending ----- for ----- business			
Income Statement / Profit or Loss Statement			
			(Rs.)
Sales			xxx
Sales returns			(xx)
			xxx
Cost of sales			
Opening stocks		xx	
Purchases	xxx		
Transportation	xx		
Loading & unloading	xx		
	xxx		
Purchase returns	(xx)	xxx	
		xxx	
Closing stocks		(xx)	(xxx)
Gross Profit / Loss			xxx
Other income			
Discount received		xx	
Investment income		xx	
Profit on sale of property, plant & equipment		xx	xx
			xxx
Distribution expenses			
Advertising expenses	xx		
Bad debts	xx		
Discount allowed	xx		
Depreciation of delivery vehicles	xx		
Sales commissions	xx	xx	
Administration expenses			
Staff salaries & wages	xx		
Building rent and rates	xx		
Electricity expenses	xx		
Insurance charges	xx		
Depreciation of furniture	xx		
Depreciation of buildings	xx	xx	
Other expenses			
Stocks written off	xx		
Stock damages	xx		
Donations	xx	xx	
Financial expenses			
Bank charges	xx		
Loan interest	xx		
Overdraft interest	xx	xx	(xxx)
Net profit transferred to Capital account			xxx

The above Income Statement can also be shown as a horizontal account. Then it is called a Trading, Profit & Loss account.

Trading, Profit & Loss account of for the year ending

					(Rs.)
Opening Stock		xxx	Sales		xxx
Purchases	xxx		Sales returns		(xx)
Purchase returns	(xx)				
Transport inwards	xx				
Loading & unloading	xx				
		xxx			
Closing stock		(xx)			
Cost of sales		xxx			
Gross profit c/d		xxx			
		xxx			xxx
Distribution expenses			Gross profit b/f		xxx
Advertising expenses	xx		Other Income:		
Bad debts	xx		Discount received	xx	
Discount allowed	xx		Investment income	xx	
Depreciation of delivery vehicle	xx		Profit on sale of property, plant and equipment	xx	xx
Sales commissions	xx	xxx			xxx
Administration expenses					
Staff salaries & wages	xx				
Building rent and rates	xx				
Electricity expenses	xx				
Insurance charges	xx				
Depreciation of furniture	xx				
Depreciation of buildings	xx	xxx			
Other expenses					
Stock written off	xx				
Stock damages	xx				
Donations	xx	xx			
Financial expenses					
Loan interest	xx				
Overdraft interest	xx	xx			
Net profit taken to capital a/c		xxx			
		xxx			xxx

Statement of Financial Position as at 2017.03.31			
Account Name	Cost	Accumulated Depreciation	Net Value (Rs.)
Non-current assets			
Land	xxx		
Buildings	xxx	xx	xxx
Motor Vehicle	xxx	xx	xxx
Machinery & equipment	xxx	xx	xxx
Furniture & fittings	xxx	xx	xxx
	xxx	xx	xxx
Investments			xxx
Current assets			
Closing stocks		xxx	
Debtors	xxx		
Provision for bad debts	(xx)	xxx	
Prepaid expenses		xx	
Income receivable		xx	
Bank balance		xxx	xxx
TOTAL ASSETS			xxxx
Equity & Liabilities			
Capital		xxx	
+ Net profit		xxx	
- Drawings		(xx)	xxx
Non-current liabilities			
Long term bank loan			xxx
Current liabilities			
Creditors		xx	
Bank overdraft		xx	
Accrued expenses		xx	
Income received in advance		xx	
Cumulated EPF		xx	
Cumulated ETF		xx	
Cumulated VAT		xx	xxx
TOTAL EQUITY & LIABILITIES			xxx

Learning – Teaching Process:

Engagement:

- Give the following Trial Balance as at 2016.03.31 of Devan’s business together with the adjustments and engage them in a discussion.
- Make the students aware that the business commenced on 2015.04.01.

Devan's business		
Trial balance as at 2016.03.31		
Account Name	Debit (Rs.)	Credit (Rs.)
Cash	80,000	
Bank loan		50,000
Sales		57,000
Cost of sales	22,000	
Staff salaries	12,000	
Electricity bill	8,000	
Capital		150,000
Buildings at cost	120,000	
Long term investments	10,000	
Stock at 16/3/31	5,000	
	257,000	257,000

Additional information:

1. As at 2016/03/31 an electricity bill for Rs.2,000 was payable and salaries paid in advance amounted to Rs.4,000.
 2. Annual depreciation of buildings is 10% on cost.
- In a discussion with the students highlight the following points:
 - With the aid of a Trial Balance and adjustments the financial results and financial position can be calculated.
 - The operating profit must be calculated after identifying the income and expenses relevant to the period.
 - Income and expenses must be adjusted according to the **accrual concept**.
That to calculate the operating profit or Loss for the period the Income Statement must be prepared.
 - That the Statement of Financial Position must be prepared to reveal the assets, liabilities and equity as at a given date.
 - That with the aid of the above Trial Balance of Devan’s business it is possible to prepare the financial statements as given below:

Income Statement / Profit & Loss Statement of Devan's business for the year ending 2016/03/31		
	(Rs.)	(Rs.)
Sales	57,000	
Cost of sales	(22,000)	
Gross Profit		35,000
(-) Operating expenses		
Electricity (8,000 + 2,000)	10,000	
Staff salaries (12,000 - 4,000)	8,000	
Depreciation of buildings	12,000	(30,000)
Net Profit to transferred to Capital account		5,000

Devan's business		
Statement of Financial Position as at 2016.03.31		
	(Rs.)	(Rs.)
Non-current assets		
Buildings (120,000 - 12,000)	108,000	
Investments	10,000	118,000
Current assets		
Stocks	5,000	
Salaries paid in advance	4,000	
Bank balance	80,000	89,000
Total Assets		207,000
Equity and Liabilities		
Equity		
Capital	150,000	
+ Net profit	5,000	155,000
Non-current Liabilities		
Bank loans		50,000
Current liabilities		
Electricity bill payable		2,000
Total equity and liabilities		207,000

Proposed Instructions for Learning:

- Instruct the groups to pay attention to the business that each group receives from the following.
 - Subasinha's business
 - Nawaz's business

Trial Balance as at 2017/03/31				
Account Name	Subasinghe's business		Nawaz's business	
	Debit	Credit	Debit	Credit
	(Rs.)	(Rs.)	(Rs.)	(Rs.)
Purchases	80,000		160,000	
Sales		200,000		400,000
Stocks as on 01/04/2016	8,000		16,000	
Sales returns	10,000		20,000	
Advertising	3,000		6,000	
Carriage inwards	2,000		4,000	
Electricity	5,000		10,000	
Salaries & wages	15,000		30,000	
Cash	13,500		27,000	
10% Bank loan		50,000		100,000
Furniture at cost	10,000		20,000	
Land and buildings at cost	150,000		300,000	
Selling expenses	4,000		8,000	
Debtors	10,000		20,000	
Creditors		26,500		53,000
Motor vehicles at cost	75,000		150,000	
Rent income		9,000		18,000
Capital		100,000		200,000
	385,500	385,500	771,000	771,000

Additional information:

The additional information is relevant to both businesses.

1. Stock balance on 2017/03/31 has been valued at Rs.13,000.
2. Goods supplied on sale or return basis having a cost of Rs.5,000 has been recorded as sales. Its selling price is Rs.6,000. It has not been sold as yet.
3. The owner has taken Rs.2,000 worth of goods for personal use.
4. While Rs.5,000 worth of stock has been damaged, the insurance company has agreed to compensate 60%.
5. Write off Rs.1,000 as bad debts and make a provision of 5% of the remainder as doubtful debts.
6. Accrued expenses as at 2017/03/31 were Electricity bill Rs.1,000 and Carriage inwards hire charges of Rs.2,000.

7. There was a prepaid expense of Rs.2,000 for advertising as at 2017/03/31.
 8. Rent income received in advance as at 2017/03/31 was Rs.4,000.
 9. Provide depreciation on Furniture and Motor Vehicles at 5% and 10% respectively on cost.
- Give instructions for the adjustments for the additional information.
 - Make available formats of the financial statements to the students.
 - Show each group how the transactions of the business should be recorded in the financial statements.
 - Direct the students to identify the objectives of the financial statements they have prepared.
 - Having checked the accuracy of the financial statements that have been prepared, give instructions on how to correct any incorrect entries.
 - Give instructions to prepare the financial statements from the Trial Balance for the business that each group did not receive.

Guidelines to Clarify Subject Matter:

- To calculate the financial profit for the period, the adjustment must be made first.
- For this, the income statement / Profit & Loss statement must be prepared.
- To reveal the financial position as at a given date, the Statement of Financial Position must be prepared.
- In preparing financial statements, Accounting concepts, standards and conventions must be considered.
- The Income Statement can be prepared in the vertical or horizontal format.
- The double entries for the adjustments are as follows:

	Adjustment	Double entry		
1	Closing stock	Closing stock a/c Trading a/c / Income Statement	Debit	Credit
2	Drawings of goods	Drawings a/c Purchases a/c	Debit	Credit
3	Donations of goods	Donations of goods a/c Purchases a/c	Debit	Credit
4	Accrued expenses	Relevant expense a/c Accrued expenses a/c	Debit	Credit
5	Accrued income	Accrued Income a/c Relevant income a/c	Debit	Credit
6	Prepaid expenses	Prepaid expenses a/c Relevant expense a/c	Debit	Credit
7	Income received in advance	Relevant income a/c Income received in advance a/c	Debit	Credit
8	Bad debts	Bad debts a/c Debtors Control a/c	Debit	Credit
9	Provision for doubtful debts	Doubtful debts a/c Provision for doubtful debts a/c	Debit	Credit
10	Depreciation of property & plant	Depreciation a/c Accumulated depreciation a/c	Debit	Credit

Goods sent on the basis of Sale or return.

- The business will maintain information about goods sent on 'sale or return' only as a **memorandum**.
- When the trader informs that the goods taken on 'sale or return' basis has been sold or when the time period allowed for its sale has expired, the value of such goods must be accounted for.

Debtors Control Account		Debit	
	Sales account		Credit

- Where the goods have not been sold as the end of the accounting period approaches (and where the expiry date has not passed) the cost of the relevant goods must be added to closing stocks.
- However, if such goods have been recorded as sales by mistake an adjusting entry as follows must be made:

Sales account		Debit	
	Debtors Control account		Credit

- Damaged Stocks**

If a stock of goods obtained for sale has been destroyed due to a fire or other reason the cost of such damaged goods must be recorded as follows:

Damaged stocks a/c		Debit	
	Purchases a/c		Credit

- If the damaged stock has been insured, any agreed compensation can be recorded in the following manner.

Insurance compensation receivable	Debit
Damaged stock a/c	Credit

- Take the balance on the damaged stock a/c to the Income Statement as a stock loss.

The financial statements of Subasingha's business can be presented in the traditional format in the following manner:

Subasingha's business					
Trading, Profit & Loss a/c for the year ended 2017/03/31					
	(Rs.)	(Rs.)		(Rs.)	(Rs.)
Stock at 2016/04/01		8,000	Sales (200,000 - 6,000)	194,000	
+ Purchases (80000-5000-2000)	73,000		Sales returns	(10,000)	184,000
Carriage inwards	4,000				
	<u>77,000</u>	<u>77,000</u>			
		85,000			
- Stock at 2017/03/31		(18,000)			
Cost of Sales		67,000			
Gross profit c/d		<u>117,000</u>			
		<u>184,000</u>			<u>184,000</u>
Distribution expenses			Gross profit b/f		117,000
Advertising	1,000		Other Income		
Depreciation of motor vehicle	7,500		Rental income		5,000
Bad debts	1,000				
Provision for doubtful debts	150				
Selling expenses	4,000	13,650			
Administration expenses					
Financial and other expenses					
Electricity	6,000				
Depreciation of furniture	500				
Salaries & wages	15,000	21,500			
Stock damages	2,000				
Loan interest	5,000				
Bank charges	1,500	8,500			
Net Profit taken to Capital a/c		<u>78,350</u>			
		<u>122,000</u>			<u>122,000</u>

Subasingha's business						
Statement of Financial Position as at 2017/03/31						
Equity				Cost	Accumulated depreciation	Carrying value
2016/04/01 Capital	100,000		Non-current assets			
+ Net Profit	78,350		Land & buildings	150,000		150,000
	178,350		Motor vehicle	75,000	7,500	67,500
- Drawings	(2,000)	176,350	Furniture	10,000	500	9,500
				235,000	8,000	227,000
Non-current liabilities						
10% Bank loan		50,000				
Current liabilities			Current Assets			
Creditors	26,500		3/31 Stocks		18,000	
Accrued hire charges	2,000		Debtors	3,000		
Accrued electricity	1,000		- Provision for doubtful debts	- 150	2,850	
Accrued loan interest	5,000		Insurance compensation receivable		3,000	
Rent received in advance	4,000	38,500	Prepaid advertising		2,000	
			Cash		12,000	37,850
		264,850				264,850

Debtors	10,000
' – Bad debts	(1,000)
Sale or return basis	<u>(6,000)</u>
	<u>3,000</u>

Making a provision for Bad Debts

$$3,000 \times 5/100 = 150$$

This financial statements are currently presented in the **vertical format** as well.

Nawaz's business			
Income Statement for the year ending 2017/03/31			
		(Rs.)	(Rs.)
Sales		394,000	
Sales returns		(20,000)	374,000
Cost of sales			
Stock at 2016/04/01		16,000	
+ Purchases	160,000		
+ Carriage inwards	6,000		
	166,000		
- Stock damages	(5,000)		
- Stock drawings	(2,000)	159,000	
		175,000	
- Stock at 2017/03/31		(18,000)	(157,000)
Gross Profit			217,000
Other Income			
Rent income			14,000
			231,000
Distribution expenses			
Advertising	4,000		
Depreciation of Motor vehicle	15,000		
Bad and doubtful debts	1,650		
Selling expenses	8,000	28,650	
Administration expenses			
Electricity	11,000		
Depreciation of furniture	1,000		
Salaries & wages	30,000	42,000	
Financial and other expenses			
Stock losses	2,000		
Loan interest	10,000		
Bank charges	3,000	15,000	(85,650)
Net profit taken to capital a/c			145,350

Nawaz's business			
Statement of Financial Position as at 2017/03/31			
	Cost	Accumulated depreciation	Carrying value
	Rs.	Rs.	Rs.
Non-current assets			
Land & buildings	300,000		300,000
Motor vehicles	150,000	15,000	135,000
Furniture	20,000	1,000	19,000
	<u>470,000</u>	<u>16,000</u>	<u>454,000</u>
Current assets			
Stock		18,000	
Debtors	13,000		
' - Provision for doubtful debts	(650)	12,350	
Insurance compensation receivable		3,000	
Prepaid advertising charges		2,000	
Cash		24,000	59,350
Total Assets			513,350
Equity & Liabilities			
Capital		200,000	
' + Net profit		145,350	
' - Drawings		(2,000)	343,350
Non-current liabilities			
10% Bank loan			100,000
Current liabilities			
Creditors		53,000	
Accrued transport charges		2,000	
Accrued electricity		1,000	
Accrued loan interest		10,000	
Rent received in advance		4,000	70,000
Total Equity and Liabilities			513,350

- The example below explains the preparation of financial statements in a sole proprietorship that includes Employees Provident Fund (EPF), Employees Trust Fund (ETF) and Value Added Tax (VAT) transactions.
- The Trial Balance of Vimukthi's business as at 2017/03/31 is given below:

Trial Balance		
Account name	Debit (Rs.)	Credit (Rs.)
Land at cost	1,000,000	
Buildings at cost	800,000	
Motor vehicles at cost	1,200,000	
Accumulated depreciation to 2016.04.01		
Buildings		160,000
Motor vehicles		240,000
Purchases	345,000	
Sales		920,000
Stock at 2016.04.01	35,000	
Trade debtors	105,000	
Trade creditors		230,000
Net salaries & wages	72,000	
Other administration expenses	23,000	
12% Bank loan		100,000
Bank loan interest paid	9,000	
Donations	2,000	
Cash	140,000	
Discounts	2,000	14,000
Advertising expenses	6,000	
VAT paid	25,000	
Capital		2,100,000
	3,764,000	3,764,000

Additional information:

When preparing the financial statements the following adjustments must be taken into account.

1. The cost of stock at 2017.3.31 was Rs.120,000 with a realizable value of Rs.100,000
2. Buildings and Motor vehicles are depreciated at 10% per annum.
3. The employees contribution to the Employees Provident Fund (EPF) is 10% while the employer's contribution is 15%. The Employees Trust Fund (ETF) rate is 3%. Provision has not been made for the current year.
4. Purchases and Sales include 15% VAT.
5. Bad debts of Rs.5,000 must be written off while a provision for bad debts has to be made of 10% of the remainder.
6. Other administration expenses include Rs.3000 paid in advance as insurance charges.

Required:

1. The Income Statement for the year ending 2017.03.31
2. The Statement of Financial Position as at 2017.03.31

Vimukthi's Trading Business			
Profit & Loss a/c for the year ending 2017.03.31			
		(Rs.)	(Rs.)
Sales			800,000
Stock at 2016/04/01		35,000	
+ Purchases (300,000 - 5,000)		295,000	
Stock available for sale		300,000	
- Stock at 2017.03.31		(120,000)	
Cost of Sales			(210,000)}
Gross Profit			590,000
Other income			
Discount received		14,000	14,000
			604,000
Distribution expenses			
Depreciation of motor vehicle	120,000		
Bad debts	5,000		
Doubtful debts	10,000		
Discount allowed	2,000		
Advertising expenses	6,000	143,000	
Administration expenses			
Depreciation of buildings	80,000		
Salaries & wages	80,000		
EPF expenses	12,000		
ETF expenses	2,400		
Administration expenses	20,000	194,400	
Financial expenses			
Loan interest	12,000	12,000	
Other expenses			
Stock write-offs	20,000		
Donations	2,000	22,000	(371,400)
Net profit transferred to Capital a/c			232,600

Workings:

$$\begin{array}{rclcl} \text{With VAT} & = & \text{VAT} & + & \text{Without VAT} \\ 115 & = & 15 & + & 100 \end{array}$$

$$\text{VAT on Sales} = \frac{920,000}{115} \times 15 = 120,000$$

$$\text{VAT on Purchases} = \frac{345,000}{115} \times 15 = 45,000$$

VAT a/c			
Cash	25,000	Sales	120,000
Purchases	45,000		
Balance c/d	50,000		
	<u>120,000</u>		<u>120,000</u>
		Balance b/f	50000

Purchases a/c			
Balance b/d	345,000	VAT	45,000
		Trading a/c	300,000
	<u>345,000</u>		<u>345,000</u>

Sales a/c			
VAT	120,000	Balance b/d	920,000
Trading a/c	800,000		
	<u>920,000</u>		<u>920000</u>

Provision for doubtful debts :

Debtors	105,000
Less: Bad debts	<u>-5,000</u>
Balance	100,000

$$\text{Provision } 10\% = 100,000 \times 10/100 = \underline{10,000}$$

Vimukthi's Trading business			
Statement of Financial Position as at 2017.03.31			
			(Rs.)
	Cost	Accumulated depreciation	Carrying value
<u>Non-current assets</u>			
Land	1,000,000		1,000,000
Buildings	800,000	240,000	560,000
Motor Vehicles	1,200,000	360,000	840,000
	3,000,000	600,000	2,400,000
<u>Current assets</u>			
Stock at 2017/03/31		100,000	
Prepaid insurance		3,000	
Trade debtors	100,000		
Provision for doubtful debts	(10,000)	90,000	
Cash		130,000	
Petty Cash		10,000	333,000
TOTAL ASSETS			2,733,000
<u>Equity and Liabilities</u>			
Capital		2,100,000	
+ Net profit		232,600	
- Drawings		(5,000)	2,327,600
<u>Non-current liabilities</u>			
12% Bank loan		100,000	100,000
<u>Current liabilities</u>			
Trade creditors		230,000	
EPF payable		20,000	
ETF payable		2,400	
VAT payable		50,000	
Accrued loan interest		3,000	305,400
Total Equity & Liabilities			2,733,000

Workings:

$$\begin{array}{rclcl} \text{Gross wages} & = & \text{EPF} & + & \text{Net wages} \\ 100 & = & 10 & + & 90 \end{array}$$

1st method

$$\text{EPF Employees contribution} = \frac{72000}{90} \times 10 = 8,000$$

EPF Employer's contribution	=	$\frac{80,000}{100}$	x 15	=	12,000
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ETF Contribution		
80,000	x	$\frac{3}{100}$. = 2400

Salaries & wages a/c			
Cash	72,000	P & L	80,000
EPF payable	8,000		
	<u>80,000</u>		<u>80,000</u>

EPF expense A/c			
EPF payable	12,000	P & L	12,000
	<u>12,000</u>		<u>12,000</u>

ETF Expense a/c			
ETF Payable a/c	2,400	P & L	2,400
	<u>2,400</u>		<u>2,400</u>

EPF Payable a/c			
		Wages	8,000
		EPF expense	12,000
Bal c/f	20,000		
	<u>20,000</u>		<u>20,000</u>
		Bal b/d	20,000

ETF Payable a/c			
		ETF expense a/c	2,400
Bal c/f	2,400		
	<u>2,400</u>		<u>2,400</u>
		Balance b/d	2,400

Assessment and Evaluation Criteria

- Naming the financial statements that is prepared to calculate the operating results of a sole proprietorship.
- Presents the double entries related to the following adjustments:
 - Electricity charges payable
 - Insurance premium paid in advance
 - Rent income received in advance
 - Receivable interest income
- Calculating the operating results of a sole proprietorship from the given information.
- Stating the manner in which Cost of Sales is calculated.
- You are given the following information about Amila’s business as at 2017.03.31

	Rs.
Stock (2017.03.31)	150,000
Debtors	120,000
Sales	850,000

Goods costing Rs.60,000 has been invoiced to customers at Rs.75,000 for supplies on sale or return basis. It is understood that 60% of the goods, whose due date of return has not yet expired, has been sold as at 2017.03.31.

Under each of the following instances calculate the account balances.

1. Where only a nominal entry has been made for the supplies.
2. Where it has been recorded as credit sales when the items were first issued.

	Stock at 2017.03.31	Debtor value	Sales value
1.			
2.			

Competency 7.0: : **Prepares financial statements of a manufacturing business.**

Competency Level 7.1 : Calculates cost of production of a manufacturing business.

Competency Level 7.2 : Takes decisions in accordance with financial statements of a manufacturing business.

No. of periods : 10

Learning outcomes :

- Presents need for calculating cost of production.
- Explains elements of cost of production.
- Explains types of stocks in a manufacturing organization.
- Calculation of work-in-progress in cost of production.
- Calculation of cost of production.
- Calculates cost of sales using cost of production.
- Prepares financial statements of a manufacturing organization.
- Discloses elements of the cost of production through production cost statement.

Learning Teaching Process:

Engagement:

- Make the following information regarding the expenses relevant to business enterprises, available to students in an appropriate manner.

List of expenses relevant to two businesses		Furniture manufacturing business
1 Logs transportation charges		
2 Purchase of logs		
3 Purchasing materials		
4 Machine operator's wages		
5 Return of logs		
6 Electricity for workshop		
7 Depreciation of machinery		
8 Opening work-in-progress		
9 Closing work-in-progress		
10 Carpenter's wages		
11 Workshop wages		
12 Return of materials		
13 Cost of carriage inwards of materials		
14 Repair of sewing machines		
15 Painting expenses		
16 Designing costs		
17 Packing expenses		
18 Administration expenses		
19 Repairs of Machinery		
20 Selling expenses		

- Give instructions to write down the expenses relevant to each business in the appropriate box.
- Check what the students have entered and advise on what corrections need to be made, if any.

Proposed Instructions for Learning:

- Based on the information of the two businesses given above divide the students to two groups.
- Give instructions to list out the expense items in the manner given below:

Furniture manufacturing business	(Rs.)		Garment manufacturing business	(Rs.)
Cost of transporting timber	10,000		Purchasing materials	200,000
Purchasing timber	250,000		Machine operators' wages	90,000
Machine operators' wages	70,000		Factory electricity costs	10,000
Returning timber	10,000		Depreciation of machinery	8,000
Workshop electricity costs	4,000		Opening work-in-progress	20,000
Depreciation of machinery	5,000		Closing work-in-progress	22,000
Opening work-in-progress	20,000		Factory wages	15,000
Closing work-in-progress	18,000		Returns of materials	20,000
Carpentry technicians' wages	80,000		Carriage inwards of materials	12,000
Workshop wages	15,000		Repairs of sewing machines	8,000
Cost of painting	5,000		Cost of designing	14,000
Cost of designing	14,000		Packaging expenses	12,000
Machinery	50,000		Sewing machines	100,000
Opening stock of timber	20,000		Opening stock of materials	22,000
Closing stock of timber	15,000		Closing stock of materials	15,000
Opening finished goods	25,000		Opening stock of finished goods	18,000
Closing finished goods	10,000		Closing stock of finished goods	8,000
Sales income	600,000		Sales income	850,000

- Explain that costs relevant to production only must be identified and then the total production cost calculated.
- Through the use of a manufacturing account that highlights the production cost elements, calculate the total production cost while carrying on a discussion with the students. It is given below.

Furniture manufacturing business	(Rs.)		Garment manufacturing business	(Rs.)
Cost of transporting timber	10,000		Purchasing materials	200,000
Purchasing timber	250,000		Machine operators' wages	90,000
Machine operators' wages	70,000		Factory electricity costs	10,000
Returning timber	10,000		Depreciation of machinery	8,000
Workshop electricity costs	4,000		Workshop maintenance	6,000
Depreciation of machinery	5,000		Workshop insurance	5,000
Workshop insurance	8,000		Factory wages	15,000
Workshop maintenance	4,000		Returns of materials	20,000
Carpenter wages	80,000		Carriage inwards of materials	12,000
Workshop wages	15,000		Repairs of sewing machines	8,000
Painting expenses	5,000		Packaging expenses	12,000
Designing expenses	14,000		Cost of designing	14,000
Additional information			Additional information	
Machinery	50,000		Sewing machines	100,000
Opening work-in-progress	20,000		Opening work-in-progress	20,000
Closing work-in-progress	18,000		Closing work-in-progress	22,000
Opening stock of timber	20,000		Opening stock of materials	22,000
Closing stock of timber	15,000		Closing stock of materials	15,000
Opening finished goods	25,000		Opening stock of finished goods	18,000

- Explain clearly that it is necessary to identify the expenses that are relevant to production in order to calculate the total production cost.
- Provide them a separate table that contains the opening raw materials, work-in-progress, and finished goods and also their closing balances and sales income.
- While discussing with students about the calculation of total cost of production prepare a manufacturing account ensuring that the elements of manufacturing cost is given the necessary consideration.

This manufacturing account is given below:

Furniture manufacturing business		
Manufacturing account and Income statement for the year ended 2017.03.31		
	(Rs.)	(Rs.)
Opening stock of timber		20,000
- Timber purchases	250,000	
+ Returns of timber	(10,000)	
	240,000	
- Carriage inwards of timber	10,000	250,000
		270,000
Closing stock of timber		(15,000)
Cost of materials consumed		255,000
Machine operators' wages	70,000	
Carpenters' wages	80,000	
Costs of designing	14,000	164,000
PRIME COST		419,000
Production overhead cost:		
Factory insurance	8,000	
Factory maintenance cost	4,000	
Factory electricity	4,000	
Machine depreciation	5,000	
Factory wages	15,000	
Cost of painting	5,000	41,000
		460,000
Opening work-in-progress	20,000	
Closing work-in-progress	(18,000)	2,000
Total cost of production taken to Trading account		462,000
Sales income		600,000
Opening finished goods	25,000	
Production costs	462,000	
	487,000	
Closing finished goods	(10,000)	477,000
Gross profit		123,000

- Now direct the students to prepare the manufacturing account and Income Statement for the Garment manufacturing business.

Guidelines to Clarify Subject Matter:

- The necessity to prepare a manufacturing account
 - Calculating the total manufacturing cost
 - Controlling manufacturing costs
 - Taking manufacturing decisions

- Presenting a paper that identifies the prime cost and manufacturing overhead costs separately.
- Stating the connection between the manufacturing account and Income statement.
- Preparing a manufacturing account from given information.

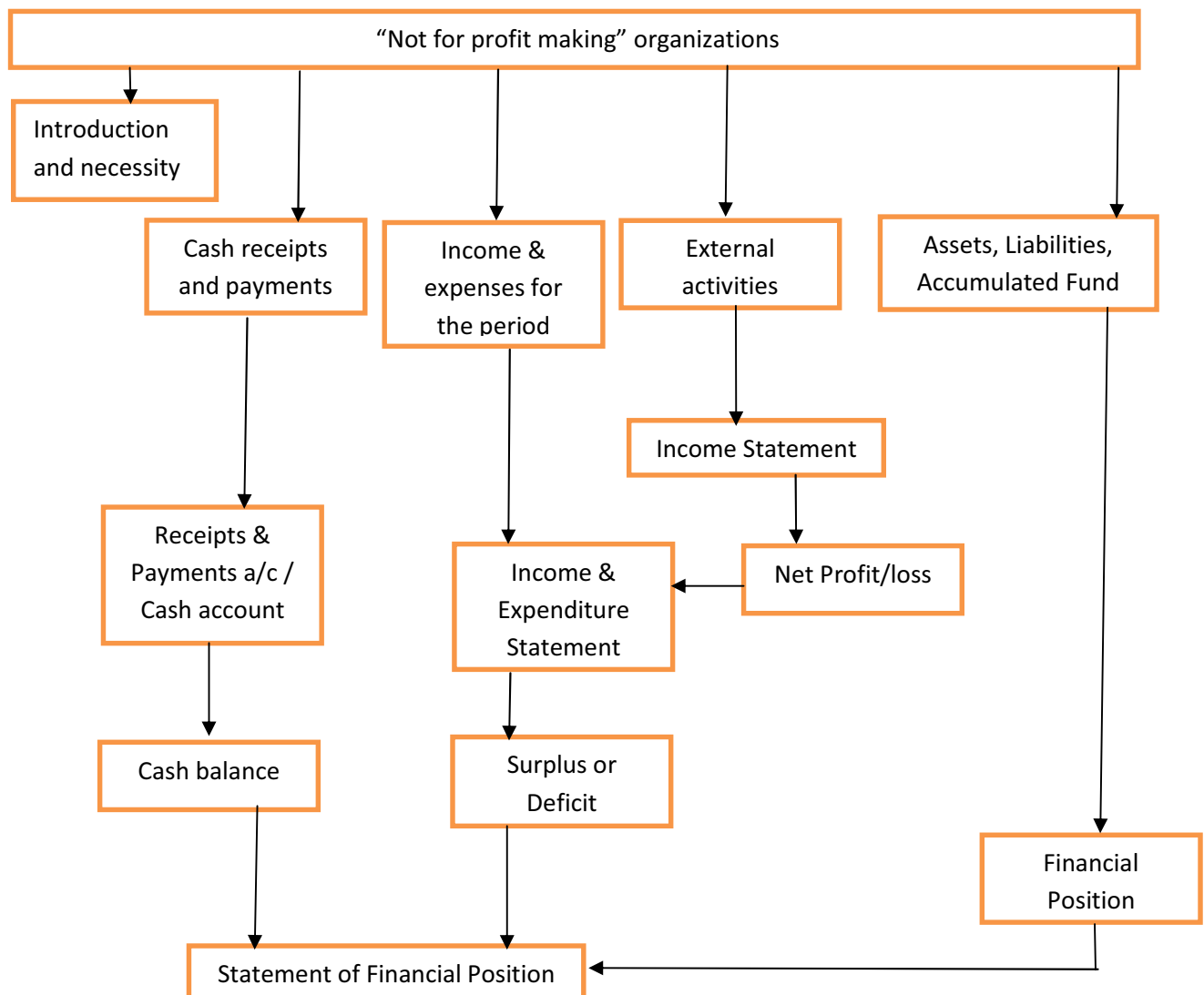
KEY TERMS

Key terms	මූලික පද	பிரதான பதங்கள்
Cost of production	නිෂ්පාදන පිරිවැය	உற்பத்திக் கிரயம்
Elements of cost of production	නිෂ්පාදන පිරිවැය මූලිකාංග	உற்பத்திக் கிரயக் கூறுகள்
Material cost	ද්‍රව්‍ය පිරිවැය	பொருட் கிரயம்
Labour cost	ශ්‍රම පිරිවැය	கூலிக் கிரயம்
Direct material cost	සෘජු ද්‍රව්‍ය පිරිවැය	நேர்பொருட் கிரயம்
Direct labour cost	සෘජු ශ්‍රම පිරිවැය	நேர்கூலிக் கிரயம்
Direct other costs	සෘජු වෙනත් පිරිවැය	நேர் ஏனைய கிரயங்கள்
Indirect material cost	වකු ද්‍රව්‍ය පිරිවැය	நேரில் பொருட் கிரயம்
Indirect labour cost	වකු ශ්‍රම පිරිවැය	நேரில் கூலிக் கிரயம்
Indirect other costs	වකු වෙනත් පිරිවැය	ஏனைய நேரில் கிரயங்கள்
Production overhead costs	නිෂ්පාදන පොදු කාර්ය පිරිවැය	உற்பத்தி மேந்தலைகள்
Prime cost	ප්‍රාථමික පිරිවැය	முதன்மைக் கிரயம்
Total cost of production	මුළු නිෂ්පාදන පිරිවැය	மொத்த உற்பத்திக் கிரயம்

Competency 8.0:	:	Prepares financial statements of a “not for profit making” organization.
Competency Level 8.1	:	Clarifies the need for the maintenance of accounts in a ‘not for profit’ organization.
8.2	:	Reveals financial position and performance of a ‘not for profit’ organization
No. of periods	:	16
Learning outcomes	:	<ul style="list-style-type: none"> • Explains ‘not for profit making’ organization. • Explains importance of maintaining accounts. • Explains accounts maintained in a not for profit organization. • Prepares subscription account. • Accounting for life membership fee. • Explains accounting for donations. • Explains and calculates accumulated fund. • Prepares financial statements of a not profit-making organization.

Basic Terms and Concepts:

Concept Map



Learning Teaching Process:

Engagement

- Inquire from students what societies and clubs exist in the areas they live in and explain their main objectives.
- Taking as an example an organization that does not have profit as an objective, present to the students a list of the likely transactions they may engage in.

Example: The transactions and information about Shakthi Sports Club which commenced in the year 2016, is given below:

All figures in Rs.

No. of members - 200	
• Annual subscription fee per member	100
• Payments for electricity	1,000
• Purchase of newspapers	300
• Entertainment expenses	250
• Donations received	15,000
• Cleaning of sports ground	2,000
• Communication expenses	1,500
• Wages payable	8,000
• Stationery expenses	2,500
• Sports competition expenses	12,000
• Renovation of sports ground (fencing)	15,000
• Receipts for hire of grounds	80,000
• Proceeds of sale of old newspapers	200
• Canteen income	20,000
• Canteen expenses	12,000
• Subscription fees received for the year	18,000
• Purchase of furniture on credit	20,000

- Explain to the students that even though profit is not an objective in the Sports club, since economic transactions are taking place, accounts must be maintained in order to keep the members informed.

Proposed Instructions for Learning:

- From the topics below get them to pay attention to the topic each group has received.
 - **Cash account** (Receipts & Payments account)
 - **Income Statement** (Income & Expenditures account)
- Give a list of the transactions of the Sports Club used earlier for student engagement to the two student groups.
- After allowing them to do a careful study of the transactions provide guidance for them to be able to identify the transactions relevant to each topic
- Get them to prepare the account/s according to the topic they have received from the transactions identified with each topic.
- Give an opportunity for the accounts reports prepared by each group to the rest of the class
- If there are any errors in the preparations of the accounts give advice to correct them at the same time.

- Inquire from the two groups what the final results of the calculations is and show how they are connected to the Statement of Financial Position.
- Get the students to prepare a table of the differences between the two accounts statements
- From among the transactions of the Sports Club included in each statement, give them an opportunity to explain why the other transactions have not been included in the statement prepared by each group.
- Inquire what extra activities the Sports Club has engaged in and get them to arrive at the profitability of such activities and explain how they are recorded.

Guidelines to Clarify Subject Matter:

- Organizations that do not have a profit objective.
- Organizations whose objective is the welfare and wellbeing of its members are identified as organizations that do not have profit making as an objective.
 - Sports clubs, organizations
 - Death donation societies
 - Youth organizations
 - Religious organizations
 - Other Clubs etc.
- The need to maintain accounts.
 - Even though profit is not an objective, these organizations engage in economic activity. They also obtain fees from members. Since they engage in economic activities, in order to be able to provide members with accurate information there is a need to maintain accounts.
- Accounts and Reports prepared by organizations that do not have a profit objective.
 - Cash account
 - Membership fees account
 - Income statement
 - Statement of Financial Position
 - Preparing income statement to calculate the results of the external activities
- Since the main source of income of organizations that do not have profit as an objective, is membership fees, it is necessary to maintain a membership fees account.
- The following can be stated as the information incorporated in the membership fees account.

• As at the beginning of the year	—	Unpaid subscription fees
	—	Prepaid subscription fees
• As at the end of the year	—	Unpaid subscription fees
	—	Prepaid subscription fees
• Subscription fees received during the year		
• Subscription fees in respect of the current year		

- **Cash Account / Receipts and Payments Account**

The monetary values received by the organization and paid out by the organization during the period are **summarized** and entered in the account known as the Cash account. This is prepared on a **cash basis**.

- **Income Statement / Income and Expenditures Account**

The document prepared with the income and expenditure for the period is the Income Statement. This is prepared on the **accrual basis**. The result is identified as a **surplus** or **deficit**.

Where the income for the period exceeds the expenditure this is known as a **surplus**. When this surplus is collected over a period it is known as the **accumulated fund**. If the income received during the period is less than the expenditure incurred then the result is called a **deficit**.

- **Accumulated Fund**

This will increase with a surplus and decrease with a deficit. On a given date, the total liabilities will be deducted from total assets to arrive at the figure for the accumulated fund.

- **External activities**

To fulfil the objective of growth and development of organizations that do not have profit as an objective, beside its main objective it may engage in other activities that are profit motivated.

Example:

- Carrying on a canteen
- Conducting sports competitions
- Having dance and exhibition events

The results of these events must be calculated separately and included in the Income statement.

Life membership fees

Payments from members who become life members by making a once and for all payment of membership fees for the life time, are known as '**life membership fees**'. Since this is a one-time payment some amount as decided by the society will be considered as income for the year with the remainder very often being maintained in a separate fund for distribution for future years.

Donations

Not for profit organizations often receive various types of donations. These donations can be classified into two categories as **General donations** and **Special donations**. General donations are the ones that support the daily activities of the organization.

Accounting for General donations:

Cash a/c	Debit
General donation a/c	Credit

That is, General donations are recorded as income for the current year. If the donation received is for a specific purpose then it can be identified as a **special donation**.

We can take as an example a donation of a motor vehicle valued at Rs.20 lakhs.

Such a special donation is not usually taken as an income for the current year. Therefore, as per this example, this donation can be accounted for as follows:

Motor Vehicle account	Debit
Donations account	Credit

Proportionate portions of the balance in the Donations account can be taken as income for the year. This is a decision that must be taken by the management of the organization. In this manner when a portion is taken as income,

Donations account	Debit
Income & Expenditure account	Credit

The balance in the Donations account must be shown below the Accumulated Fund balance in the Statement of Financial Position.

Example: The receipts and payments of Sumaga Welfare Society for the year ending 2017/03/31 were as follows:

Cash account / Receipts and Payments account			
	(Rs.)		(Rs.)
Cash in hand on 2016/04/01	50000	Maintenance fees	20000
Membership fees	50000	Food for the canteen	60000
Canteen receipts	100000	Telephone charges	10000
Life membership fees	60000	Employee wages	70000
Joining fees	20000	Stationery	15000
From hire of assets	55000	Canteen expenses	8000
		Printing expenses	10000
		Newspapers	2000
		Sports expenses	12000
		Repayment of bank loan	20000
		Balance on 2017/03/31	108000
	335000		335000

Balances as at 2016/04/01

	Rs.
Buildings	100,000
Sports ground	250,000
Furniture	50,000
Bank loan	200,000

Other information:

1. While the life membership scheme commenced on 2016/04/01 a sum of Rs.40,000 was recognized as income for the year.
2. From the joining fee only Rs.2,000 is recognised as income for the year.
3. The annual membership fee is Rs.1,000. The number of members as at 31.03.2017 is 50. During the current year, while 15 new members were enrolled 5 of them were life members. The life membership fee is Rs.12,000 each.
4. The membership fees received includes Rs.7,000 in respect of the year 2015/2016 and Rs.5,000 in respect of the year 2017/2018.
5. While the food stock in the canteen as at 2016/04/01 was Rs.12,000 there was a stock of Rs.10,000 as at 2017/03/31. As on that day the value of furniture had decreased by 10%.
6. Of the total wages 20% is in respect of the canteen staff.

Let us prepare the following for the year ended 2017/03/31:

1. Membership fees account
2. Results of the external activities
3. Income Statement
4. Accumulated fund as at 2016/04/01
5. Statement of Financial Position as at 2017/03/31

Membership Fees account			
	Rs.		Rs.
2016/04/01 Balance b/f	7,000	Receipts & Payments	50,000
Income & expenses	45,000		
2017/03/31 Balance c/f	5,000	2017/03/31 Balance c/f	7,000
	<u>57,000</u>		<u>57,000</u>
2017/04/01 Balance b/f	7,000	2017/04/01 Balance b/f	5,000

Canteen Income Statement for the year ended 2017.03.31			
	Rs.	Rs.	Rs.
Canteen Income			100,000
Canteen Cost of Sales			
Opening stock	12,000		
Purchases	60,000		
	<u>72,000</u>		
Closing stock	- 10,000	62,000	
Canteen wages		14,000	
Canteen expenses		8,000	84,000
Canteen profit: transferred to the Income Statement			16,000

Sumaga Welfare Society			
Income Statement for the year ending 2017/03/31			
		Rs.	Rs.
Income:	Membership fees	45,000	
	Asset hire charges	55,000	
	Canteen profit	16,000	
	Entrance fees	2,000	
	Life membership fees	4,000	122,000
Expenses	Maintenance fees	20,000	
	Telephone charges	10,000	
	Staff wages	56,000	
	Stationery	15,000	
	Printing expenses	10,000	
	Newspapers	2,000	
	Sports expenses	12,000	
	Furniture depreciation	5,000	130,000
Deficit c/d to the Accumulated Fund			(8,000)

Accumulated Fund as at 2016/04/31			
		Rs.	Rs.
Assets	Buildings	100,000	
	Sports grounds	250,000	
	Furniture	50,000	
	Food stocks	12,000	
	Outstanding members	7,000	
	Cash	50,000	469,000
Liabilities	Bank Loan	200,000	(200,000)
	Accumulated Fund		269,000

Sumaga Welfare Society		
Statement of Financial Position as at 2017/03/31		
	Rs.	Rs.
Non Current Assets		
Buildings	100000	
Sports grounds	250000	
Furniture	45000	395000
Current Assets		
Food Stocks	10000	
Membership fees receivable	7000	
Cash	108000	125000
		520000
Equity & Liabilities		
Accumulated Fund	269000	
Deficit	(8000)	261000
Non-Current Liabilities		
Bank Loan		180000
Current Liabilities		
Membership fees received in advance		5000
		520000

Provide similar examples as above and guide the students to solve them.

Assessment and Evaluation:

- Name the accounts prepared by a 'not for profit' organization.
- Explain clearly the necessity for the maintenance of accounts in a 'not for profit' organization.
- Provide exercises as below.

2016/04/01	Membership fees receivable	Rs.6,000
	Membership fees received in advance	Rs.1,000
2017/03/31	Outstanding membership fees	Rs.4,000
	Membership fees received in advance	Rs.1,000
	Membership fees during the year	Rs.40,000

Prepare the Membership Fees account.

- State four differences between cash account and an Income statement prepared by a 'not for profit' organization.
- Explain what the 'Accumulated Fund' is and state the circumstances in which it will change.

KEY TERMS

Key terms	මූලික පද	பிரதான பதங்கள்
Not for profit making Organization	ලාභ අරමුණු කර නොගත් සංවිධාන	இலாப நோக்கற்ற அமைப்புகள்
Member fee / Subscription	සාමාජික මුදල්	அங்கத்தவர் சந்தா
Receipts and payments account	ලැබීම් හා ගෙවීම් ගිණුම	பெறுவனவு கொடுப்பனவு கணக்கு
Life membership fee	යාවජීව සාමාජික මුදල්	ஆயுள் சந்தாக் கட்டணம்
Income and expenditures account	දාදායම් හා වියදම් ගිණුම්	வருமான செலவினக் கணக்கு
Surplus	අතිරික්තය	மிகை
Deficit	ඌණතාව	குறை
Consolidated fund	සමුච්චිත අරමුදල	திரண்ட நிதி
General donation	සාමාන්‍ය පරිත්‍යාග	பொது நன்கொடை
Special donation	විශේෂ පරිත්‍යාග	விசேட நன்கொடை

Competency 9.0: : **Financial Statements are prepared even where an organization has incomplete records.**

Competency Level 9.1 : Explains 'Incomplete records' and presents the reasons for it.

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

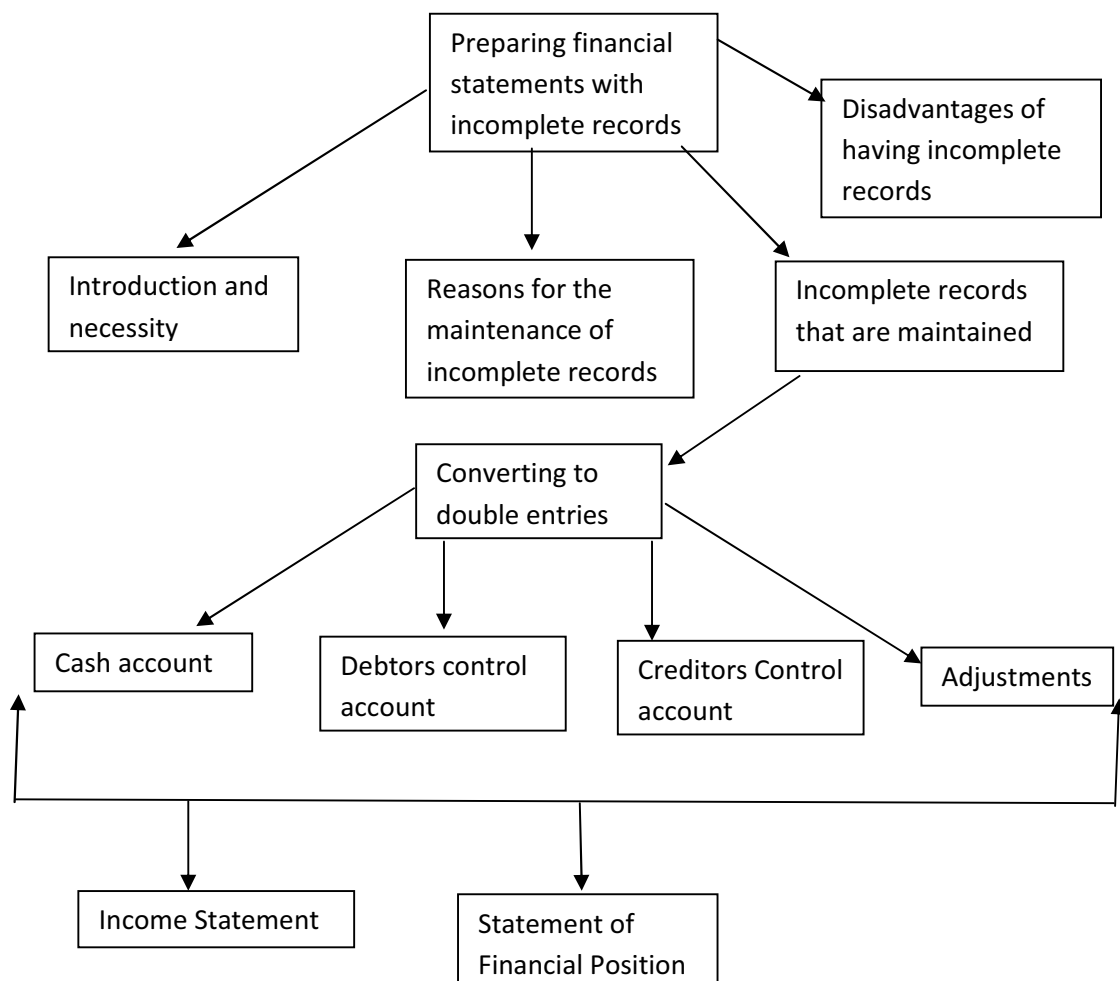
No. of periods : 14

Learning outcomes

- Explains the reasons for incompleteness.
- Explains how conversion of incomplete records to double entry takes place.
- Prepares financial statements by using completed records

Basic Terms and Concepts:

Concept Map



Learning Teaching Process:

Engagement:

- Present the information below on “Sagara Enterprise” in a suitable manner to the class.

“Sagara Enterprise”

Sagara is intending to open another business location. He went to the bank to try to fulfil the financial requirements. The bank manager however stated that in order to provide the required loan he requires the financial statements for the last two years. Sagara informed the bank manager that he only has the bank statements that he receives each month and a **summary** of all the credit transactions.

- Ask the students for their views and ideas about ‘Sagara Enterprise’ and engage them in a discussion that highlights the following points.
 - The non maintenance of transaction records in a methodical manner and the resultant problems confirm that it is an incomplete recording system.
 - That there are reasons why small scale business persons make an interest to maintain incomplete records.
 - Highlighting the importance and necessity to record transactions correctly and methodically.

Proposed Instructions to assist Learning:

- Take necessary steps to ensure that the students receive a copy of annexure 9.1.1 containing information about “Isuru Enterprise”, as a sole enterprise.
- Give an opportunity to closely study details about this business.
- Discuss the details of Isuru Enterprise and provide guidance to prepare the following documents and accounts:
 - Calculating the capital at the beginning
 - Calculation of depreciation (for the machinery and furniture)
 - Debtors Control a/c
 - Creditors Control a/c
 - Cash a/c
 - Income Statement
 - Statement of Financial Position
- Check if the reports and accounts prepared by the students have been done in the following manner.

- Calculating the capital as at 2016/04/01

	Rs.	Rs.
Machinery & equipment	120,000	
Furniture & fittings	80,000	
Stock of goods	30,000	
Debtors	45,000	
Cash	15,000	290,000
Accrued operating expenses	3,000	
Creditors	27,000	(30,000)
Capital		260,000

- Calculating the depreciation

	Machinery & equipment Rs.	Furniture & fittings Rs.
Balance at 2016/04/01	120,000	80,000
(+) Purchases	80,000	-
	<u>200,000</u>	<u>80,000</u>
(-) Disposals	-	(10,000)
	<u>200,000</u>	<u>70,000</u>
Balance at 2017/03/31	(180,000)	(60,000)
Depreciation	<u>20,000</u>	<u>10,000</u>

Debtors Control a/c					
		Rs.			Rs.
01/04/2016	Balance b/f	45,000		Cash	240,000
	Sales	252,000		Discount allowed	4,000
			31/03/2017	Balance c/f	53,000
		297,000			297,000
01/04/2017	Balance b/d	53,000			

Creditors Control a/c					
		Rs.			Rs.
	Discount received	5,000	01/04/2016	Balance b/f	27,000
	Cash	203,000		Purchases	199,000
31/03/2017	Balance c/d	18,000			
		226,000			226,000
			01/04/2017	Balance b/d	18,000

Isuru Enterprise		
Income statement for the year ending 2017/04/01		
	Rs.	Rs.
Sales		252,000
(+) Cost of sales		
2016/04/01 stock	30,000	
Purchases	199,000	
	229,000	
2017/03/31 stock	(40,000)	(189,000)
Gross Profit		63,000
(+) Other income		
Discount received	5,000	
Gain on furniture disposals	2,000	7,000
		70,000
(-) Expenses		
Operating expenses	18,000	
Discount allowed	4,000	
Depreciation of machinery	20,000	
Depreciation of furniture	10,000	
Loan interest	5,000	(57,000)
Net Profit transferred to Capital account		13,000

Isuru Enterprise
Statement of Financial Position as at 2017/03/31

	Rs.	Rs.
Non-current assets		
Machinery & Equipment	180,000	
Furniture & fittings	60,000	240,000
Current assets		
Stocks	40,000	
Debtors	53,000	93,000
		333,000
Equity		
Capital		260,000
Additional capital		15,000
		275,000
Net profit		13,000
(-) Drawings		(6,000)
		282,000
Current liabilities		
Debtors	18,000	
Accumulated expenses	4,000	
Cash (Bank OD)	29,000	51,000
		333,000

Cash account			
	Rs.		Rs.
2016/04/01 Balance b/f	15,000	Payments to creditors	203,000
Receipts from debtors	240,000	Purchase of machinery	80,000
Sales of furniture	12,000	Operating expenses	17,000
Bank Loan	50,000	Payment of bank loan	55,000
Capital	15,000	Drawings	6,000
2017/03/31 Balance c/d	29,000		
	361,000		361,000
		Balance c/d	29,000

Guidelines to Clarify Subject Matter:

- Calculating the capital based on the assets and liabilities at the commencement of the accounting period.
- Having maintained a cash book it is possible to arrive at the following data:
 - Cash sales
 - Receipts from debtors
 - Cash purchases
 - Payments to creditors
 - Cash drawings
 - Cash balance
 - Bank deposits
- By maintaining the Debtors Control account, it is possible to obtain details of the following items:
 - Debtors opening balance
 - Credit sales balance
 - Receipts from debtors
 - Closing debtors balance
- By maintaining the Creditors Control account, it is possible to obtain details of the following items:
 - Opening balance of Creditors
 - Credit purchases
 - Payments to creditors
 - Closing balance of creditors
- Considering the opening balance of fixed assets and the closing balance of fixed assets it is possible to derive the total amount of depreciation for the accounting period.
- In the preparation of the trading account, with adjustment to the stock, cost of sales and gross profit adjustments net profit can be arrived at.

- To calculate the above results an income statement too could be provided.
- Revealing the assets, liabilities and equity under different categories.

Assessment and Evaluation Criteria:

- To give reasons for the maintenance of incomplete records
- State three items that can be found in the Cash account through the conversion of incomplete records to double entries.
- At the beginning of the accounting period the value of property, plant and equipment was Rs. 380,000. The value at the end of the year was Rs.350,000. Stating as what the difference is considered if any assets have not been purchased or sold during the period.

Annexure 9.1.1		
Information on Isuru enterprise		
• Assets and Liabilities are given below:		
Item	2016/4/1	2017/3/31
Machinery & equipment	120000	180000
Furniture & fittings	80000	60000
Stock of goods	30000	40000
Debtors	45000	53000
Cash	15000	-
Accumulated operating expenses	3000	4000
Creditors	27000	18000
Additional information		
• During the year machinery valued at Rs.80,000 was obtained while furniture and fittings valued at Rs.10,000 was sold for Rs.12,000.		
• Operating expenses paid by cash is Rs.17,000.		
• During the year a bank loan of Rs.50,000 was obtained and settled with the payment of Rs.55,000		
• The owner has made drawings of Rs.6,000 while investing Rs.15,000 as capital.		
• During the accounting period Rs. 240,000 was received from debtors while discount allowed was Rs.4,000. When payment was made to creditors the discount received was Rs.5,000.		
• During the period sales of goods was done with a profit margin of 33% on cost.		

KEY TERMS

Key terms	මූලික පද	பிரதான பதங்கள்
Incomplete records	අසම්පූර්ණ සටහන්	நிறைவில் பதிவுகள்
Debtors control account	නියෝජිත පාලන ගිණුම	கடன்பட்டோர் கட்டுப்பாட்டுக் கணக்கு
Creditors control account	නියෝජිත පාලන ගිණුම	கடன் கொடுத்தோர் கட்டுப்பாட்டுக் கணக்கு

Competency 10.0: : **Prepares financial statements of a partnership business.**

Competency Level 10.1 : Explains legal environment of a partnership business.

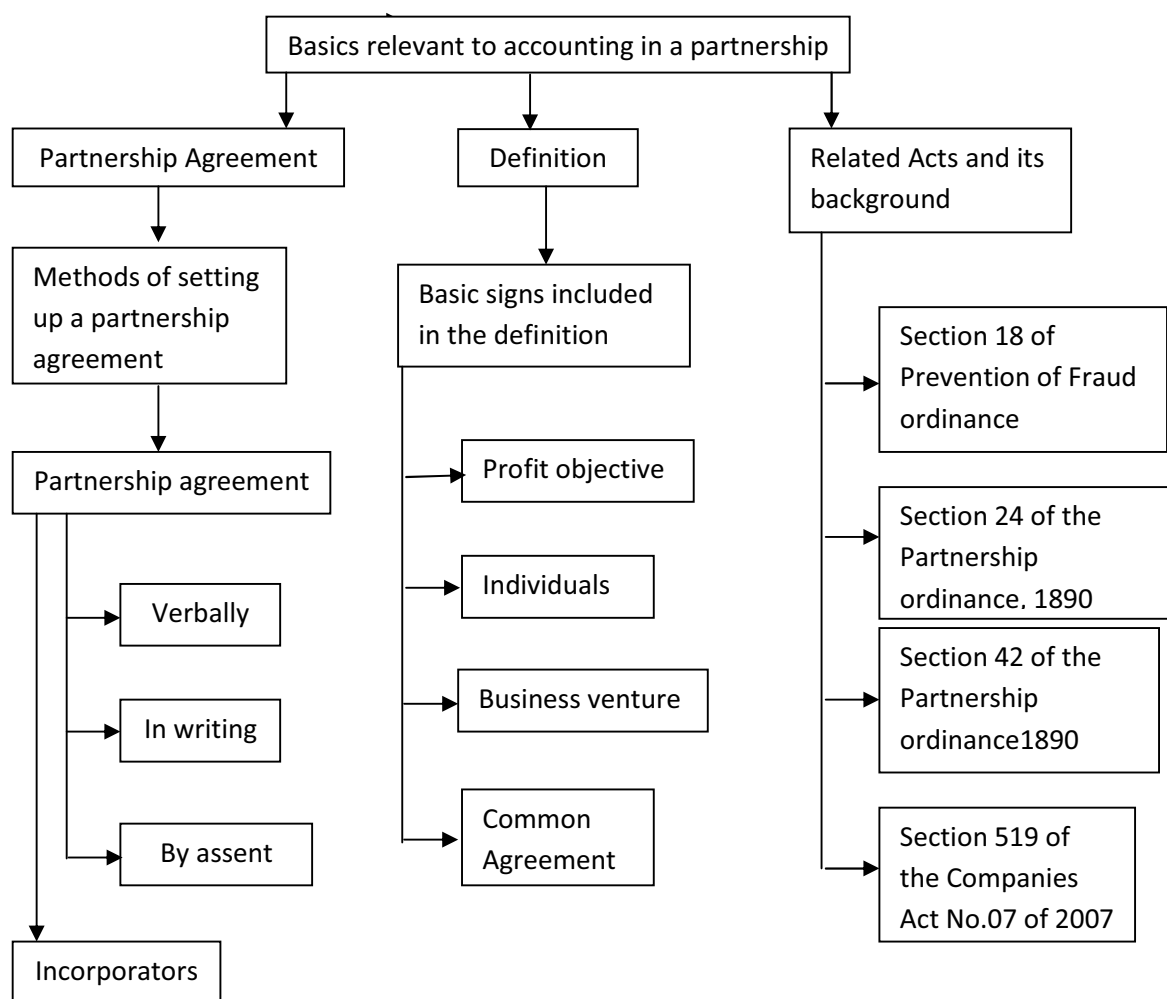
No. of periods : 05

Learning outcomes :

- Explains partnership business.
- Explains partnership agreement and rules with regard to partnership accounting.
- Discuss the importance of Section 18 of No.07 of 1840 Prevention of Fraud Ordinance on the prevention of fraud.
- Discuss the importance of Section No.24 and 42 of the Partnership Ordinance of 1890
- Explain how the Partnership Ordinance affects the facts which are not included in a partnership agreement.
- Reasons for the importance of Companies Act No.07 of 2007 to partnership businesses.

Basic Terms and Concepts:

Concept Map



Learning Teaching Process :

Engagement:

With an investment of Rs500,000 from Kavindu and Rs.300,000 from Ravindu set up a partnership business that provides services in a building to develop the reading habit. Kavindu's role is that of the Managing Partner. Meanwhile they agreed that Ravindu will be paid Rs. 60,000 for the use of his building. In an accounting year the fees charged from readers was Rs. 250,000. Expenses amounted to Rs. 70,000. When it was time to divide the profits Ravindu was of the view that profits must be shared equally to which Kavindu disagreed.

- Present this problem to the students and engage them in a discussion to highlight the following:
 - That several individuals can get together and start a partnership business in the expectation of making profits.
 - To enable the solving of problems that may arise, the importance of having some agreement between them.
 - That a partnership agreement overrides the provisions in the Partnership Acts.

Proposed Instructions for Lesson Preparation:

- Give each of the following topics to the respective groups with a request to focus their attention to it.
 - The elements and definition of partnership business
 - Other legal provisions that impact partnership businesses
 - The partnership agreement and what it contains
 - What actions need to be taken where there is no partnership agreement
- Issue annexure 10.1.1 to the students for their practice.
- Lead the groups to identify the partnership business from the annexure, relevant to the topic they have received.
- Give necessary instructions to the groups to be able to explain the details relevant to their topic
- Allow the groups to make presentations to the class about their findings.

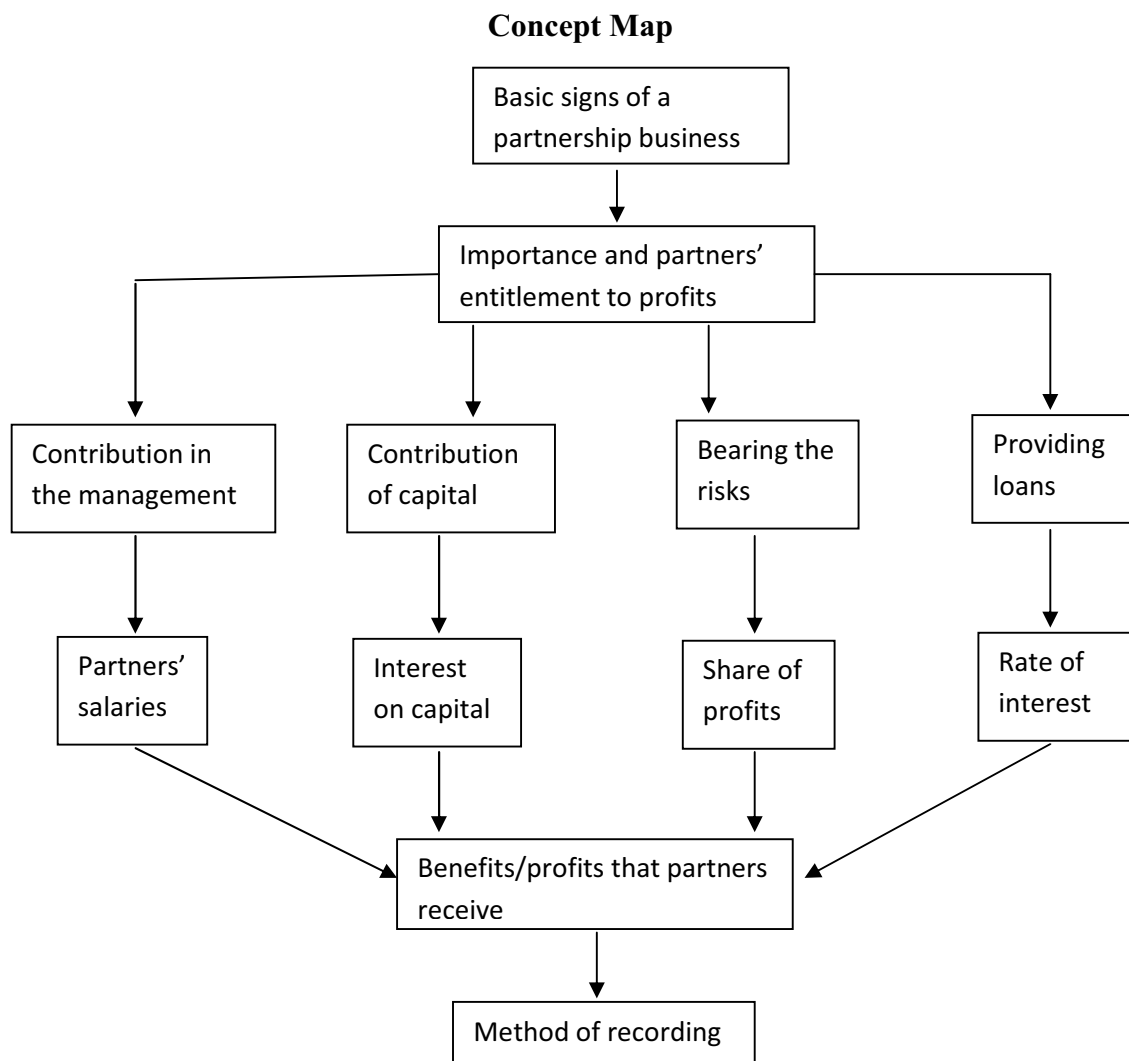
Annexure 10.1.1	
Leaflet containing information about the partnerships	
Amara - Wimal Partnership business	Ranga - Tharanga Partnership business
•What is the method of contributing capital?	•Companies Act No.7 of 2007
•The method of sharing profits and losses	•Registration of Business Names Act No.6 of 1918
•Whether or not interest is paid on capital.	•Prevention of Frauds Ordinance No.7 of 1840
•Are the shareholders who are also management staff entitled to a salary?	•Sections 24 & 42 of the Partnership Act 1890
Ravi - Sarath Partnership business	Indu - Bindu Partnership business
•Interest is not payable on capital	•The relationship between persons carryin on business is carried on with a common profit objective
•Profits / losses must be shared equally	•Individuals
•A minimum of 5% annual interest payable on loans provided by partners	•A business activity
•Shareholders are not entitled to a salary	•Profit objective
	•Common relationship (agreement)

Guidelines to Clarify Subject Matter:

- According to the Partnership Act, **a partnership business is the relationship between two or more individuals who wish to carry on business with the objective of making profits.**
- Some of the main characteristics that a partnership business should have are included in the above definition.
 - Individuals
 - Common agreement
 - A business
 - Profit making objective
- Some legislation that cover the carrying on of business as a partnership are given below:
 - Partnership Act of 1890
 - Section 519 of the Companies Act No.7 of 2007
 - Section 7 of 1840 Prevention of Frauds Ordinance
 - Section 6 of the 1918 Registration of Business Names Ordinance
- While the ideal situation would be to have an agreement for a partnership business, there are several ways to commence a partnership business
 - In writing
 - Verbally
 - By the actions of the partners
- Several conditions that could be included in a partnership agreement are given below:
 - The basis of contribution in the capital
 - The contribution of the partners in the management of the business
 - The profit sharing ratio
 - Entitlement to interest on capital
 - Entitlement to partnership salaries
 - How goodwill is to be recorded
 - The method of payment of interest on loans to the partnership given by the partners
- Where there is no agreement in writing or regarding a condition that has not been included in an agreement, partnership disputes must be resolved according to Section 24 of the Partnership Ordinance. Some relevant parts of Section 24 of the Partnership Ordinance are given below:
 - In whichever ratio contributions to the capital may have been made, **profits/losses must be shared equally.**
 - In respect of loan funds provided to the partnership business in addition to the capital, the partner lending the capital is **entitled to a minimum 5% annual interest on the loan.**

- Competency 10.0:** : **Prepares financial statements of a partnership business.**
- Competency Level 10.2** : Evaluates special transactions of partnership businesses.
- No. of periods** : 05
- Learning outcomes** :
- Explains different ways of partners’ participation in the partnership business.
 - Indicates returns for the partners according to their levels of participation.

Basic Terms and Concepts:



Learning Teaching Process:

Engagement:

- While inquiring from the students how partners contribute to the partnership business conduct a discussion that highlights the following:
 - Explain that persons having special abilities, having financial strength, having clever management abilities join partnerships.
 - Explain that their contribution results in being reasonable in various ways.
 - In order to increase the level of contribution of partners to the business it necessary that they be compensated reasonably.

Proposed Instructions for Learning:

- Hand over the following partnership agreement conditions to each of the groups and draw their attention to it.
 - Payment of a salary of Rs.40,000 to each of the three partners engaged in the management of the partnership business.
 - The capital invested by the partners is respectively Rs.500,000, Rs.400,000 and Rs.300,000. However, there is no payment of interest.
 - Distribution of profits and losses equally between the partners
 - Payment of interest at the rate of 10% per annum for loans provided besides the investment of capital.
- Discuss the returns the partners will receive for their contribution to the business.
- After a study of the agreement conditions, encourage the students to provide answers to the following:
 - Analyse the advantages and disadvantages that accrue to the partners from each of these conditions
 - Give instructions to be able to make a brief introduction about the returns that will accrue to those who make an investment in a partnership business.
 - Give an opportunity to explain whether it is possible to obtain a higher rate of interest for loans supplied to a partnership business over and above the minimum as stated in the Partnership Ordinance.
 - Encourage the groups to show how the returns **relevant to the condition** they have received will be recorded.
 - Encourage the groups to present their findings to the class as a whole.

Guidelines to Clarify Subject Matter:

- A contribution to the partnership business can be made through supplying capital, participation in the management, bearing risks and through providing loans.
- It is appropriate to pay interest on the capital because the partner has invested capital in the partnership having forgone the opportunity to invest in another business.
- Similarly, returns are appropriate for the contribution to the management and bearing of risks.
- According to the partnership agreement a partner receives interest for supplying capital, a salary for the participation in the management, and a share of profits for the risk taken.
- The interest for loans given are also returns that the partner receives.
- According to the services provided the partnership business may have diverse returns.
- The returns that the partnership gives the partners is a distribution from the profits that has been earned.
 - Interest on capital
 - Partners' salaries
 - Share of profits
- While these returns are not considered as expenses, they are considered as **distributions of profits**.
- Interest on loans provided to the partnership by the partners is considered a business expense. The reason for this is because the loan is utilized for business activities.

Assessment and Evaluation Criteria:

- Do you think it is reasonable to pay interest on the capital supplied by the partners?
- Is the division of profits according to the level of risk taken?
- Stating how the payment of salaries for partners can be made in a more reasonable manner.
- Write two advantages a business derives from the partners.

KEY TERMS

Key terms	இலக்கியம்	பிரதான பதங்கள்
Capital interest	பிரதான பதங்கள்	மூலதன வட்டி
Loan interest	கடன் பதங்கள்	கடன் வட்டி
Partner's salary	பங்காளர் சம்பளம்	பங்காளர் சம்பளம்
Profit share	இலாபப் பங்கு	இலாபப் பங்கு

Competency 10.0: : **Prepares financial statements of a partnership business.**

Competency Level 10.3 : Reveals the partners equity.

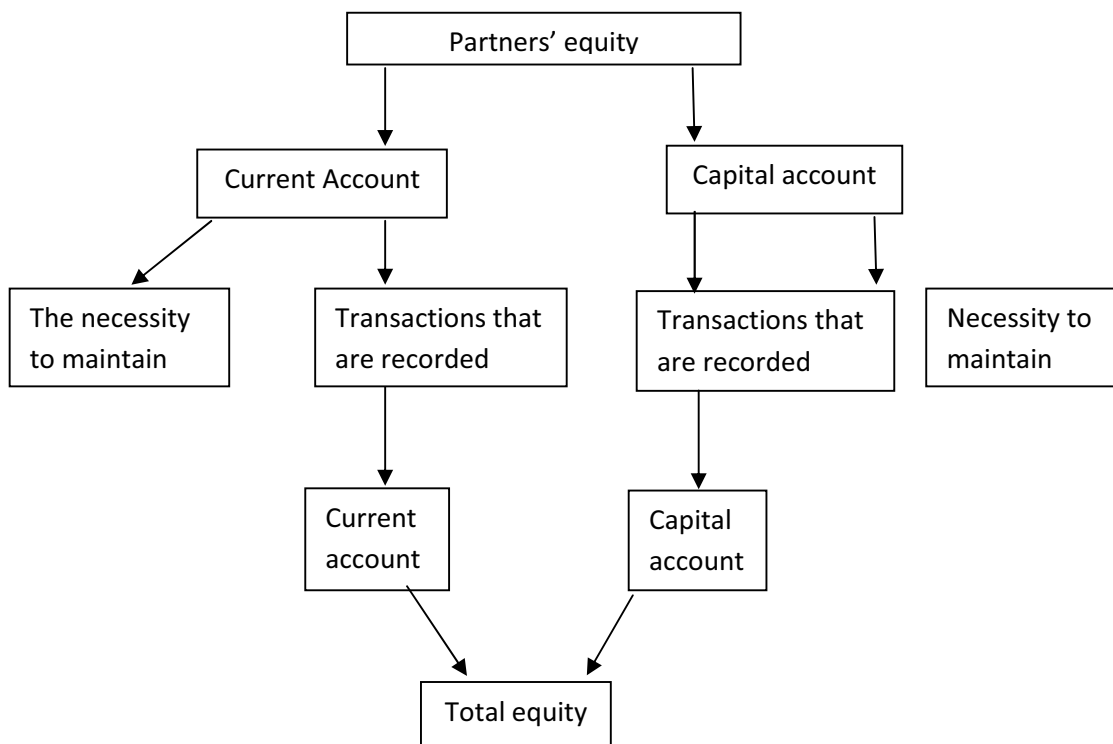
No. of periods : 05

Learning outcomes :

- Names the types of accounts maintained in order to indicate partners' equity.
- Explains the need for preparing capital and current accounts.
- Classifies separately transactions recorded in current and capital accounts.
- Prepares current and capital accounts according to data provided.
- Disclose total equity of partners.

Basic Terms and Concepts:

Concept Map



Learning Teaching Process:

Engagement:

- Give the following questions to the students and seek their views/
 - What procedures should a person follow to become a partner in a business?
 - What are the advantages of becoming a partner?
 - What are the methods that the assets of a partnership can be taken for the partners' personal use?
 - How can a partner make a personal contribution to the partnership business?
- Conduct a discussion to highlight the following:
 - That a partner receives a variety of benefits and that he contributes in a variety of ways to receive these benefits.

Proposed Instructions for Learning:

- Give the following information sheet containing the conditions that govern the partnership business of Ranga, Tharanga and Suranga and draw their attention to its contents.

Information sheet on Ranga, Tharanga and Suranga's partnership business.

The conditions of the partnership agreement are as follows:

- The capital account balances at the beginning of the year will be entitled to a 10% annual interest.
- While Ranga and Tharanga are entitled to receive a monthly salary of Rs. 20,000 each, and Suranga is to receive Rs. 15,000 per month.
- Any loans provided by the partners will receive interest at the rate of 10% per annum.

- Provide guidance to fill in the blanks with the correct values.

Capital a/c balances (Rs.)	Interest on capital	Effect on equity (Rs.)
Ranga 400,000	_____	_____
Tharanga 300,000	_____	_____
Suranga 200,000	_____	_____

	Partnership salaries (Rs.)	Total Salary (Rs.)	
Ranga	20,000	_____	}
Tharanga	20,000	_____	
Suranga	15,000	_____	

- Ranga has provided a loan of Rs.100,000. The net profit after deducting the interest is Rs.900,000. What is the profit share of each partner?

Ranga	}
Tharanga	.....
Suranga	.....

- The resulting equity of each partner, resulting from these transactions

Ranga	}
Tharanga	.....
Suranga	.....

- If the drawings of each partner respectively is Rs.120,000, Rs.100,000 and Rs.80,000 what is the impact and amount that affects equity?

	Impact	Amount (value)	Closing equity
Ranga
Tharanga
Suranga

- Give instructions to fill in the blanks in the information sheet after discussion among each group.
- Give instructions for the group leader to present to the class, the fixed equity and variable equity values recorded in the table.
- Give instructions to record the information presented, in the capital and current accounts.

Capital account							
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
Description	Ranga	Tharanga	Suranga	Description	Ranga	Tharanga	Suranga

Current account							
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
Description	Ranga	Thranga	Suranga	Description	Ranga	Thranga	Suranga

Guidelines to Clarify Subject Matter:

- It is essential to prepare the Capital a/c and Current a/c of the partners to enable the calculation of the equity for the preparation of the Financial statements.
- While the fixed equity is recorded in the capital account, emphasis is on the following items:
 - Opening balance in the capital account
 - Additional capital
 - Withdrawals of capital as agreed
- The variable equity is recorded in the Current a/c. It includes the following items.
 - Interest on capital
 - Partnership salaries
 - Drawings
 - Share of profit or loss
 - Interest for loans provided
 - Business expenses borne by the partners
- While the capital account and current must be maintained separately it can be in subsidiary columns.
- The totals of the Capital account balances and Current account balances represent the total equity.
- The loans provided by partners is not a part of equity and must be considered as a liability.
- Give the following exercises to the students.
Eg: The provisions in the partnership agreement between Ruvitha, Rasika and Ruchira are given below:
 - From the beginning of the accounting period a 10% interest per annum is payable on the capital a/c balances
 - All partners are entitled to a partnership salary of Rs.30,000 per month.

- For loans provided in excess of the capital a 10% rate of interest per annum is payable. Profits and losses are to be shared equally.
- The account balances of the partners as at 2016/04/01 is as follows (Rs.000's)

	Ravi	Mani	Sunnya
Capital	5,000	4,000	4,000
Total equity	5,400	4,200	3,700
- Each partner has drawings as follows for the year ending 2017/03/31

Ravi	Rs.480,000
Mani	Rs.500,000
Sunny	Rs.320,000
- As on 2016/04/01 the balance on Raskika's loan account was Rs.200,000.
- The partnership business has earned a net profit of Rs.2,580,000 for the year ending 2017/03/31 before the deduction of loan interest.
- Each partner invested Rs.1,000,000 on 2017/03/30 and this money was utilized on the same day for the purchase of a machine.

Required: Prepare

- Current accounts and Capital accounts of the partners.

Partners' Capital accounts							(Rs.000s)
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
Description	Ruvitha	Rasika	Ruchira	Description	Ruvitha	Rasika	Ruchira
Balance c/f	6000	6000	5000	Balance b/f	5000	4000	4000
				Machinery a/c	1000	1000	1000
	6000	6000	5000		6000	5000	5000

Partners' Current accounts							(Rs.000s)
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
Description	Ruvitha	Rasika	Ruchira	Description	Ruvitha	Rasika	Ruchira
Balance b/f			300	Balance b/f	400	200	
Drawings	480	500	320	Partners' salaries	360	360	360
Balance c/f	840	540	300	Interest on capital	500	400	400
				Loan interest		20	
				Share of profit	60	60	60
	1320	1040	920		1320	1040	820
				Balance b/f	840	540	200

Workings:		
	Rs.	Rs.
Net Profit		2,580,000
Less: Loan interest	20,000	
Interest on capital	1,300,000	
Partners' salaries	1,080,000	(2,400,000)
Divisible profits		180,000
Share of profits:		
Ruvitha	60,000	
Rasika	60,000	
Ruchira	60,000	(180,000)
		0

Assessment and Evaluation Criteria:

- Stating 4 transactions that will be recorded in the Current account of a Partnership business.
- Stating the anticipated objectives of maintaining the capital account on a fixed basis.
- To present your views on the situation where the interest on a loan taken by a partner is added to the profits of the partnership business.

KEY TERMS

Key terms	ஆங்கிலச் சொற்கள்	பிரதான பதங்கள்
Current accounts	சம்பளம் கணக்கு	நடைமுறைக் கணக்குகள்
Capital accounts	முதுகணக்கு	மூலதனக் கணக்குகள்
Equity	சமீகம்	உரிமையாண்மை

Competency 10.0: : **Prepares financial statements of a partnership business.**

Competency Level 10.4 : Prepares the income statement of the partnership and appropriates the profits or losses among partners.

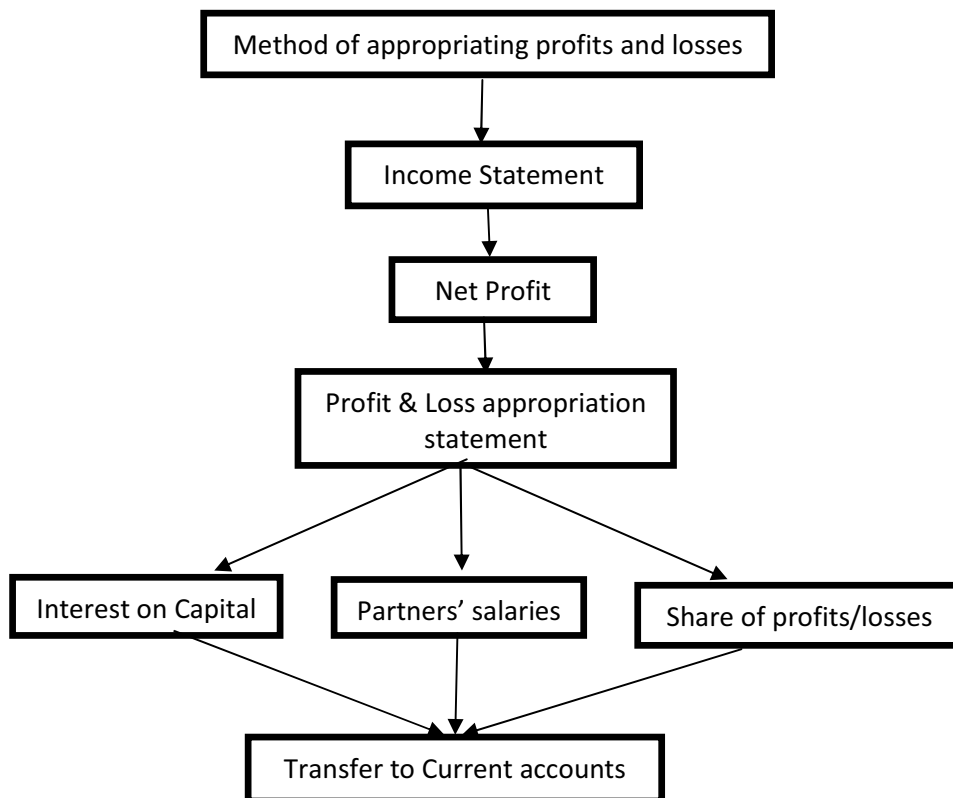
No. of periods : 20

Learning outcomes :

- Calculates financial performance (profit/loss) of a partnership business.
- Indicates the method of distribution of profits/losses among partners.
- Prepares Income Statement
- Transfer of appropriated items to current accounts.

Basic Terms and Concepts:

Concept Map



Learning Teaching Process:

Engagement:

- How is the Net profit earned shared among the partners in a partnership business?
Discuss this with the students to bring out the following points.
 - If there is a partnership agreement, interest on capital, partnership salaries and profit sharing must be done according to the terms of the agreement.
 - Where there is no partnership agreement, the procedures stated in Section 24 of the Partnership Ordinance 1890 must be followed.
 - That a profit/loss appropriation statement is prepared to divide the net profit earned among the interest on capital, Partners' salaries, and profit entitlement of each partner.
 - That the items included in the appropriation statement is transferred to the respective partners' current accounts.

Proposed Instructions for Learning:

- From among the information of the two businesses given below get the students to concentrate on the business they have received.
 - Prabha business (Pramitha and Bharatha)
 - Ravi business (Ravi and Vindhana)
- Give an opportunity for the groups to study the information in annexure 10.4.1 relevant to the business they have received.
- Direct them to calculate the profits for the partnership business
- Give instructions to prepare the relevant double entries in respect of interest on capital, partners' salaries according to the terms of the partnership agreement
- Direct them to show the divisions of profits/losses and to note down the relevant double entries.
- Direct them to follow the format given in sharing the profits of the partnership business.
- Give instructions to prepare the profit & loss appropriation statement and the current accounts for each group's business.
- Arrange for the groups to present the accounts they have prepared to the class.
- Confirm the accuracy of the accounts that have been prepared and get the students to evaluate them.

A Guideline to Clarify Subject Matter:

- To calculate the operating results of a partnership business, the Income Statement is prepared.
- Since the ownership of a partnership business belongs to several persons, the net profit must be distributed among the partners (should be appropriated).

- The following items relevant to the accounting period are included in the appropriation statement as per the terms of the partnership agreement.
 - Interest on capital
 - Partners' salaries
 - Share of profit/loss
- The relevant double entries for the above items are:
 - Debit Profit & Loss appropriation a/c
 - Credit Partner's Current a/c
- If the partners have made any drawings the Current a/c must be debited
- The Current a/c is used to complete the double entries from the Profit & Loss appropriation account and to show the partners' variable equities.
- With the above information, the Income Statement, Profit & Loss appropriation a/c and the Partners' Current a/c for the Prabha business can be prepared in the following manner.

Annexure 10.4.1

Information about two enterprises to the year ending 2016/03/31				
Prabha Enterprise				Ravi Enterprise
Rs. '000s				Rs. '000s
1000	Pramitha	Capital	Rashmi	1200
800	Bharatha		Vindana	1000
200	Pramitha	Current a/c	Rashmi	300
100	Bharatha		Vindana	200
150	Pramitha	Drawings	Rashmi	100
50	Bharatha		Vindana	100
2500		Sales		3000
1000		Cost of sales		1300
200		Administration expenses		300
100		Distribution expenses		150
90		Other expenses		80
50		Financial expenses		70
500	Pramitha	Loans given to the business	Rashmi	300
10%		Interest on the loans		0
5%		Interest on capital		0
10		Partners' salaries		0
700	Bharatha	Loans taken from the business		
10%		Interest on loan taken		
2 : 1	Pramitha:Bharatha	Profit sharing ratio		

In the traditional manner, the accounts of a partnership business can be prepared in the horizontal format.

Profit & Loss appropriation a/c				Rs.	
Interest on Capital	A	x		Net profit b/d	xxx
	B	x	xx		
Partnership salaries	A	x			
	B	x	xx		
Share of profit	A	x			
	B	x	xx		
			xxx		xxx

Profit & Loss Appropriation Statement			
Net Profit			xxx
Interest on Capital			
A	x		
B	x	xx	
Partners' salaries			
A	x		
B	x	xx	
Share of profit			
A	x		
B	x	xx	(xxx)
			xx

Prabha Enterprise			
Trading, Profit & Loss and appropriation a/c for the year ending 2015/03/31			
			(Rs.000s)
Cost of Sales	1000	Sales	2500
Gross profit	1500		
	2500		2500
Distribution expenses	100	Gross profit b/d	1500
Management expenses	200	Loan interest income	70
Financial expenses (includes Loan interest Pramitha 50)	100		
Net profit c/d	1080		
	1570		1570
Interest on capital - Pramitha	50	Net profit b/d	1080
Bharatha	40		
Partners' salary - Pramitha	120		
- Bharatha	120		
Share of profit - Pramitha 500			
- Bharatha 250	750		
	1080		1080

However, at present, the financial statements of the partnership can also be prepared in the Vertical format.

Prabha Enterprise			
Income Statement and Appropriation Statement for the year ending 2015/03/31			
			(Rs.000s)
Sales			2,500
Less: Cost of Sales			(1,000)
Gross profit			1,500
Add: Other income			
Loan interest income			70
			1,570
Less: Expenses			
Distribution expenses	100		
Administration expenses	200		
Other expenses	90		
Financial expenses (including Pramitha)	100	490	(490)
Net Profit			1,080
Less:			
Interest on Capital - Pramitha	50		
Bharatha	40	90	
Partners' salaries - Pramitha	120		
Bharatha	120	240	(330)
Share of profit - Pramitha	500		
- Bharatha	250	750	(750)
			0

Partners' Current a/c			(Rs.)		
	Pramitha	Bharatha		Pramitha	Bharatha
Drawings	150	50	Balance b/f	200	100
Loan interest	0	70	Interest on capital	50	40
			Partner salaries	120	120
			Interest on loan	50	0
Balance c/d	770	390	Share of profit	500	250
	920	510		920	510
			Balance b/f	770	390

- Give instructions to prepare the Profit & Loss a/c and Appropriation a/c in both the horizontal and vertical formats.
- Give the students some exercises prepared in this way.
- Exchange the information about the two businesses between the two groups and get them to prepare the respective accounts.

Competency 10.0: : **Prepares financial statements of a partnership business.**

Competency Level 10.5 : Accounting for the transactions and events that occur at the admission and retirement of partners.

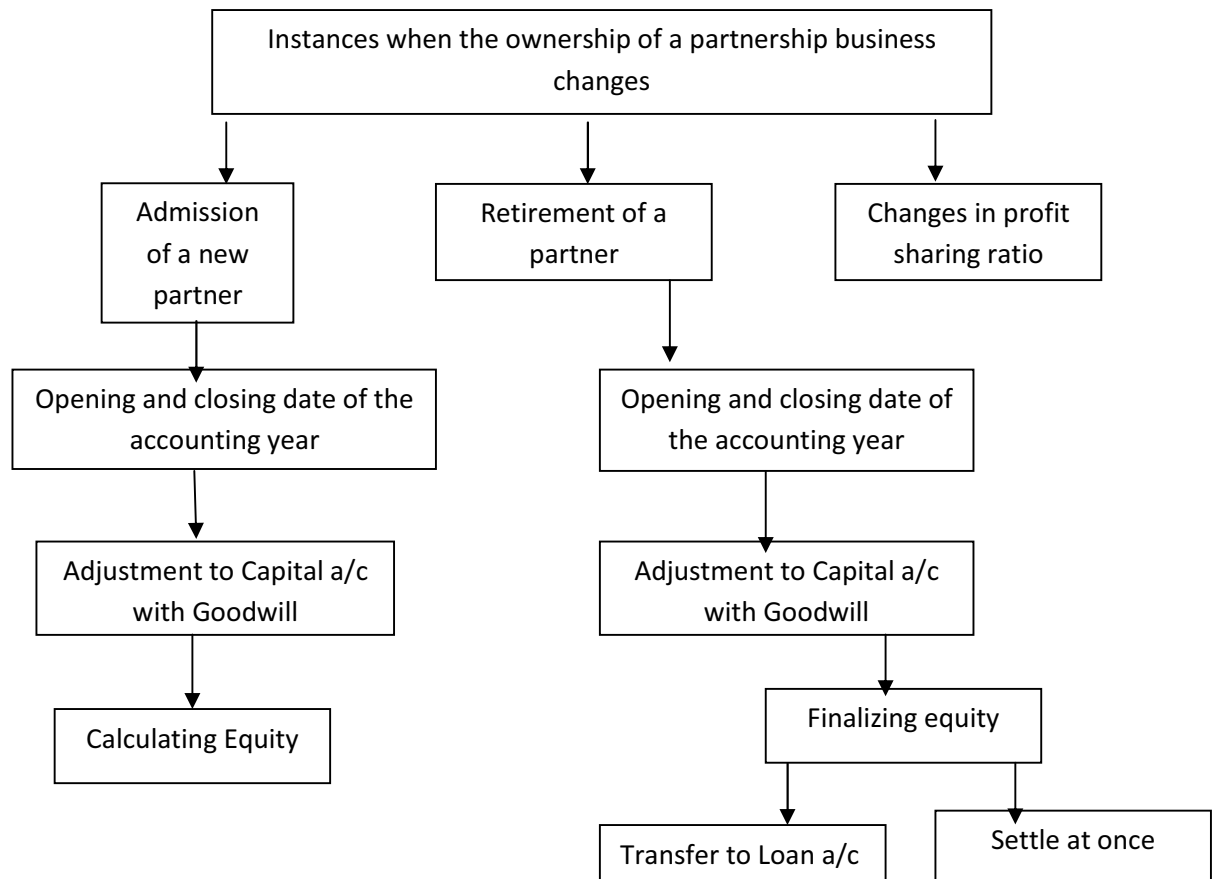
No. of periods : 20

Learning outcomes :

- Names situations for changes in equity of a partnership business.
- Explains that adjustment of goodwill is necessary when a change in the level of partners' interest occurs.
- Adjustment for goodwill is done in the capital account without opening a goodwill account.
- Share impact balances on the capital after adjusting for Goodwill.
- The shareholders equity is shown separately in the statement of Financial position.
- Shows retainment of retired partner's equity share as a loan of required.

Basic Terms and Concepts:

Concept Map



Learning Teaching Process:

Engagement:

- Write the following questions on the Black / White board ensuring that it is visible to all students.
 - If a new partner joins a partnership that has only two partners, on the first day of the new accounting year what new situation is created in the partnership and what steps need to be taken?
 - If, in a partnership of 3 partners, one partner leaves on the last day of the accounting period what is the effect on the partnership and procedure should be followed?
- Based on the responses of the students, lead a discussion that focusses on the following points:
 - That when the ownership of a partnership changes, the ownership of the remaining partner's changes.
 - That when a new partner joins he immediately gets a share of the ownership of the partnership business.
 - That at the time of a new partner joining, there is a certain amount of existing goodwill in the partnership business.
 - That an adjustment must be made for this existing goodwill of the previous partnership.
 - That the goodwill is adjusted in the Capital a/c

Proposed Instructions for Learning:

- Give the following to each of the students groups and draw their attention to the assumptions.
 1. 2017.04.01 Praneeth is admitted as a partner
 2. 2017.04.01 Praneeth retires from the partnership
 3. 2018.03.31 Praneeth is admitted as a partner
 4. 2018.03.31 Praneeth retires from the partnership
- Give enough time for the students to do a careful study of the partnership business of Malindu, Nishan and Praneeth given below:
 - The terms of the partnership business agreement are as follows:
 - The profit sharing ratio is 3 : 2 : 1
 - Monthly partnership salary for

Malindu	Rs.3,000
Nishan	Rs.2,000
Praneeth	Rs.4,000
 - Interest on capital 10% per annum (old and new agreements)
 - Interest on loans 10% (old and new agreements)

- Information gathered as at the year ended 2018/03/31 are as follows:

○ Sales income		Rs.1,000,000.
○ Cost of sales		Rs. 600,000
○ Administration expenses		Rs. 50,000
○ Distribution expenses		Rs. 30,000
○ Financial expenses		Rs. 15,000
○ Other expenses		Rs. 4,000
○ Interest on loan, paid to Malindu		Rs. 4,000
○ Bad debts		Rs. 5,000
○ Capital	Malindu	Rs. 400,000
	Nishan	Rs. 300,000
	Praneeth	Rs. 200,000
○ Drawings	Malindu	Rs. 20,000
	Nishan	Rs. 10,000
2017/04/01	Current a/c balances	
	Malindu	Rs. 30,000
	Nishan	Rs. 20,000

- Goodwill has been estimated at Rs.120,000 on the date of change in the partnership business ownership.
- Malindu gave a loan to the business on 2016/04/01. Interest has been paid only for 6 months.
- Direct the groups to prepare the Income Statement and the Appropriation Statement for the year ended 2018/03/31, according to the topic each group has received.
- Give instructions to prepare the Current accounts of the partnership.
- Direct them to adjust for Goodwill as on the date of change of ownership through the Capital a/c.
- Balance the Current and Capital a/c's of the partnership business.
- Get each group to prepare the Profit & Loss appropriation statement, Current account and Capital a/c for the 3 situations other than what each group got initially.
- Check for the accuracy of the accounts and reports that have been prepared.
- Explain clearly the method to record the Capital a/c balance of the retiring partner.

Guidelines to Clarify Subject Matter:

- Instances of change in the ownership structure of a partnership can be identified as
 - A new partner joining the partnership
 - The retirement of a partner
- Financial Statements are prepared on the assumption that the joining or retiring of a partner takes place on the first or last day of the accounting period.

- Explain clearly that a new partnership commences from the day that a change in ownership takes place.
- The Goodwill assessed as at the day of a change in ownership, must be adjusted on the same day through the Capital a/c.
- The journal entry to record the Goodwill can be stated as follows:

Full value of the Goodwill

Capital accounts of all partners in the new partnership (on the new ratio)	Debit
Capital accounts of all partners in the old partnership (on the old ratio)	Credit

Share of Goodwill of the new partner

Capital account of the new partner	-	Debit
Capital accounts of the old partners	-	Credit

- Even though the adjusting of Goodwill through the Capital accounts of partners may impact the equity of the partners, there is no effect on the total equity of the partnership business. This must be prepared as an exercise and clarified to the students.
- Explain that, on the retirement of a partner, the balance on his/her current a/c too is transferred to the Capital a/c to calculate his/her final balance.
- In the activity given to students, of the instances when the ownership changes, the accounts in relation to the following are given below:
 - 2017/04/01 Praneeth joins the partnership
 - 2017/04/01 Praneeth retires from the partnership

- (01) **The joining of a new partner on the day of the commencement of the accounting period.**

Malindu, Nishan & Praneeth Partnership business			
Income Statement for the year ending 2018/03/31			
			Rs.
Sales			1,000,000
Cost of Sales			- 600,000
Gross profit			400,000
Administration expenses		50,000	
Distribution expenses		35,000	
Financial expenses		23,000	
Other expenses		4,000	- 112,000
Net profit			288,000
Appropriations			
Interest on capital	Malindu	40,000	
	Nishan	32,000	
	Praneeth	18,000	- 90,000
Partners' salaries	Malindu	36,000	
	Nishan	24,000	
	Praneeth	48,000	- 108,000
Share of profit	Malindu - 3	45,000	
	Nishan - 2	30,000	
	Praneeth-1	15,000	- 90,000
			-

Workings:

Distribution expenses		Financial expenses	
	Rs.		Rs.
Distribution expenses	30000	Financial expenses	15000
Bad debts	5000	Loan Interest - Malindu	8000
	<u>35000</u>		<u>23000</u>

Partners' Current Accounts							
Rs.				Rs.			
Description	Malindu	Nishan	Praneeth	Description	Malindu	Nishan	Praneeth
Drawings	20,000	10,000		Balance b/d	30,000	20,000	
				Loan interest	4,000		
				Salary	36,000	24,000	48,000
				Interest on capital	40,000	32,000	18,000
Balance c/d	135,000	96,000	81,000	Share of profit	45,000	30,000	15,000
	155,000	106,000	81,000		155,000	106,000	81,000
				Balance b/d	135,000	96,000	81,000

Partners' Capital accounts							
Rs.				Rs.			
Description	Malindu	Nishan	Praneeth	Description	Malindu	Nishan	Praneeth
Capital a/c (Goodwill)	60,000	40,000	20,000	Balance b/d	400,000	300,000	-
				Cash			200,000
				Capital a/c (Goodwill)	60,000	60,000	
Balance c/d	400,000	320,000	180,000				
	460,000	360,000	200,000		460,000	360,000	200,000
				Balance b/d		360,000	180,000

***The opening balance on Praneeth's Capital a/c is considered as the cash he brought in on the opening day.**

(02) The retirement of a partner Praneeth on the opening day (2017.04.01) of an accounting year.

Malindu & Nishan Partnership business			
Income Statement for the period ending 2018/03/31			
			Rs.
Sales			1,000,000
Cost of sales			- 600,000
Net profit			400,000
Administration expenses		50,000	
Distribution expenses		35,000	
Financial expenses		34,000	
Other expenses		4,000	- 123,000
Net profit			277,000
Appropriations			
Interest on capital	Malindu	40,000	
	Nishan	28,000	- 68,000
Share of profit	Malindu	104,500	
	Nishan	104,500	- 209,000
			-

- 5% interest is payable on the total loan amount on the retirement of Praneeth from the partnership. (Section 24 Partnership Ordinance of 1890)

Financial expenses	Rs.	
Financial expenses	15000	
Loan interest - Malindu	8000	
Loan interest - Praneeth	11000	
	<u>34000</u>	

$$\text{Rs. } 220,000 \times \frac{5}{100} = \text{Rs. } 11,000$$

Partners' Current Accounts					
Rs.			Rs.		
Description	Malindu	Nishan	Description	Malindu	Nishan
Drawings	20,000	10,000	Balance b/d	30,000	20,000
			Interest on capital	40,000	28,000
			Salary	-	-
			Loan interest	4,000	
Balance c/d	164,500	148,500	Share of profit	110,500	110,500
	184,500	158,500		184,500	158,500
			Balance b/d	164,500	148,500

Partners' Capital accounts							
Rs.				Rs.			
Description	Malindu	Nishan	Praneeth	Description	Malindu	Nishan	Praneeth
Capital a/c (Goodwill)	60,000	60,000		Balance b/d	400,000	300,000	-
				Cash			200,000
Loan a/c			220,000	Capital a/c (Goodwill)	60,000	40,000	20,000
Balance c/d	400,000	280,000					
	460,000	340,000	220,000		460,000	340,000	220,000
				Balance b/d	400,000	280,000	

- **The actions that can be taken about the balance in the Capital a/c of the retiring partner.**
 - Paying the sum payable to the retiring partner on the day of retirement itself.
 - Agree to pay at a later date and transfer the sum to a partners' loan account.
 - Accordingly, as Praneeth is not being paid the due amount on the day he is leaving, annual interest at the rate of 5% becomes payable.
- The balances in the above accounts must be shown in the Statement of Financial Position in the following manner.

		Rs.	Rs.
Capital accounts	Malindu	400,000	
	Nishan	280,000	680,000
Current accounts	Malindu	164,500	
	Nishan	148,500	313,000
Non-current Liabilities			
Loan a/c - Praneeth			220,000
Loan interest			11,000

- In the same manner, using the information about the other two businesses, prepare
 - Profit & Loss Appropriation statement
 - Current accounts
 - Capital accounts
- Give some more similar examples and direct the students to complete them.

Assessment and Evaluation Criteria

- Naming instances when the ownership structure changes.
- Bringing up situations that arise as the ownership structure changes.
- Stating what adjustments must be made for Goodwill.

(01) Some balances extracted from the ledger as at 2018/03/31 are given below:

- Capital a/c on 2017/04/01 - Amal Rs.600,000
- Kamal Rs.450,000
- Current a/c on 2017/04/01 - Amal Rs. 50,000
- Kamal Rs.(20,000)
- Nimal is admitted as a partner on 2017/04/01 and he contributes a sum of Rs.400,000 as capital.
- The Goodwill on that day was assessed as being worth Rs.60,000.
- In the past, profit sharing was on the ratio of 3 ; 2.
- After the admission of the new partner the profit sharing ratio among Amal, Kamal and Nimal was agreed as 5 : 3 : 2 respectively.
- Show the adjustment for Goodwill through the Capital a/c.

(02) If the profit for the above partnership business for the accounting period was Rs.450,000 show the Profit appropriation.

Activity 02

Engagement

- Give the following questions to the students and basing on previous knowledge engage them in a discussion that will bring out the following points.
 - After calculating the operating results for a period, what are the accounts that remain in the ledger?
 - What is the statement where these balances in these accounts will be recorded?
 - Irrespective of the type of business organisation will there be a difference in the information made available from a Statement of Financial Position?
What are the accounts that reflect the interests of partners?
- Explain that, after calculating the operating results, the remaining ledger account balances are used to prepare the Statement of Financial Position.

Proposed Instructions for Learning

From among the following businesses, get the groups to focus their attention on the business they have received.

Sith & Meth partnership	Sun, Rays & Stars Partnership	A, B & C partnership
Rs.	Rs.	Rs.
• Opening Capital	• Opening Capital	• Opening Capital
Sith 3,000,000	Sun 150,000	A 800,000
Meth 200,000	Rays 100,000	B 600,000
• Additional Capital	Stars 80,000	C 500,000
Sith 100,000	• Opening Current A/c	• Opening Current A/c
• Opening Current A/c	balances	balances
balances	Sun 20,000	A 70,000
Sith 50,000	Rays - 10,000	B - 50,000
Meth 40,000	Stars 15,000	C - 30,000
• Interest on Capital		• Profit share
Sith 20,000		A 60,000
Meth 10,000		B 60,000
• Partners' salaries		C 30,000
Sith 30,000	• Profit share	• Interest on Capital
Meth 30,000	Sun 25,000	A 80,000
• Profit share	Rays 20,000	B 60,000
Sith 30,000	Stars 25,000	C 50,000
Meth 10,000	• Creditors 50,000	• Drawings
• Creditors 25,000		A 10,000
• Accrued expenses 5,000	• Bank loan 100,000	B 20,000
• Property, plant &	• Property, plant &	• Loan account (credit)
equipment 500,000	equipment 350,000	A 100,000
• Cash 220,000	• Cash 150,000	B 150,000
• Debtors 80,000	• Closing stock 80,000	• Property, plant &
• Closing stock 50,000		equipment 1,590,000
		• Creditors 50,000
		• Bank loan 75,000
		• Cash & bank 500,000
		• Stock 200,000
		• Debtors 300,000
		• Vehicle for the business from
		B 250,000
		• Accrued interest
		B 10,000
		C 15,000

- Give instructions to the respective groups to prepare the accounts below and to balance them.
 - Current accounts
 - Capital accounts
- Give directions to use the remaining assets, liabilities account balances and the capital and current account balances to prepare the Statement of Financial Position.
- Give an opportunity for the groups to present the accounts they have prepared to the whole class in an appropriate manner.
- Give time until the next day for the students to prepare the current and capital account and a Statement of Financial Position for the remaining two businesses as well.

A Guideline to Clarify Subject Matter

- The partners' Capital accounts and Current accounts balances must be shown separately in the Statement of Financial Position.
- As any loans provided by partners is not part of their equity, they must be shown separately.
- When there are 'debit' balances in Current accounts they must be deducted from the totals of the other Current accounts.
- Other assets and liabilities accounts must be shown as in the accounts of a sole proprietorship.
- The Current accounts, Capital accounts and Statement of Financial Position of the A,B,C Partnership given in the Activity 02 will be prepared in the following manner.

Partnership Current Accounts							
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
	A	B	C		A	B	C
Balance	-	50,000	30,000	Balance	70,000	-	-
Drawings	10,000	20,000	-	Interest on capital	80,000	60,000	50,000
Balance c/d	200,000	60,000	65,000	Share of profit	60,000	60,000	30,000
				Interest on loan	-	10,000	15,000
	210,000	130,000	95,000		210,000	130,000	95,000
				Balance b/d	200,000	60,000	65,000

Partnership Capital Accounts

	Rs. A	Rs. B	Rs. C		Rs. A	Rs. B	Rs. C
				Balance	800,000	600,000	500,000
Balance c/d	800,000	850,000	500,000	Motor vehicle	-	250,000	-
	800,000	850,000	500,000		800,000	850,000	500,000
				Balance b/f	800,000	850,000	500,000

A,B, C Partnership

Statement of Financial Position as at 2016/03/31

Rs.000's

Non-current assets			
Property, plant & equipment			1840
Current assets			
Stocks		200	
Debtors		300	
Cash & bank		510	1010
			<u>2850</u>
Equity & liabilities			
Capital a/c	A	800	
	B	850	
	C	500	2150
Current a/c	A	200	
	B	60	
	C	65	325
Non-current liabilities			
Bank loan		75	
Loan a/c	B	100	
	C	150	325
Current liabilities			
Creditors		50	50
			<u>2850</u>

Assessment and Evaluation Criteria

- Give a handout containing the information as given, to the students and guide them to prepare the Income Statement for the period ending 2017/03/31 and the Statement of Financial Position as at the same date.

Annexure 9.4.1

Trial Balance of the partnership as at 2016/03/31

Account name	Athula and Mithula Enterprise		Sinha and Weera Enterprise	
	Debit	Credit	Debit	Credit
2015/04/01 Stock	800		400	
Sales revenue		2000		1000
Property, plant & equipment	1200		800	
Debtors and creditors	300	250	200	500
Capital a/c - Athula/Sinha		1000		500
- Mithula/Weera		800		400
Current a/c - Athula/Sinha		50	30	
- Mithula/Weera	10			60
Purchases	1400		850	
Drawings - Athula	100			
- Weera			50	
Advertising	20		40	
Building rent	40		30	
Electricity	110		80	
Salaries & wages	180		90	
Other income		140		80
Salaries - Athula	50			
- Mithula	40			
Interest on capital paid				
- Sinha			10	
- Weera			20	
Loan a/c - Mithula/Weera		150		100
Property, plant. Provision for depreciation (2015.04.01)		60		40
Provision for doubtful debts (2015.04/01)		50		20
Cash & cash equivalents	250		100	
	4500	4500	2700	2700

The additional information below is relevant to both businesses.

01. The cost of the stock as at 2016/03/31 was Rs.70,000 while its realizable value on that day was Rs.50,000.
02. Accrued expenses on 2016/03/31 was
Electricity – Rs.10,000
Prepaid building rent on 2016/03/31 was Rs.5,000
03. Write off Rs.50,000 as bad debts and make a provision for bad debts of 10% of the remainder.
04. Partners' drawings as follows has not been recorded:

Athula	-	Rs. 10,000	Sinha	-	Rs.15,000
Mithula	-	Rs.20,000	Weera	-	Rs.5,000
05. Athula has paid a electricity bill for Rs.30,000 while Sinha has paid a telephone bill for Rs.10,000 on behalf of the business. These amounts have to be reimbursed.
06. The terms of the partnership agreement includes:
 1. 10% annual interest is payable on the Capital
 2. Payment of Rs.60,000 per annum as salary for each partner
 3. Payment of 10% interest per annum on loans

- (2) Preparing Current a/c and Capital a/c from given business information.
- (3) Presenting through examples how the balances in the equity accounts will be shown in the Statement of Financial Position.
- (4) Stating if the following statements are True (T) or False (F)
 - a. The partners' Current accounts are a type of equity accounts. ()
 - b. Drawings do not result in changes to the Partners' equity. ()
 - c. The interest payable on a loan given by a partner is not included In the Profit appropriation account. ()

- Filling in the blanks in the following:
 - a. The profit & Loss appropriation a/c shows _____.
 - b. The expenses borne by a partner on behalf of the business is _____ to the _____ account.

* It is authorized to include any additional exercises

Income Statement for the year ending ----- for ----- business			
Income Statement / Profit or Loss Statement			
			(Rs.)
Sales			xxx
Sales returns			(xx)
			xxx
Cost of sales			
Opening stocks		xx	
Purchases	xxx		
Transportation	xx		
Loading & unloading	xx		
	xxx		
Purchase returns	(xx)	xxx	
		xxx	
Closing stocks		(xx)	(xxx)
Gross Profit / Loss			xxx
Other income			
Discount received		xx	
Investment income		xx	
Profit on sale of property, plant & equipment		xx	xx
			xxx
Distribution expenses			
Advertising expenses	xx		
Bad debts	xx		
Discount allowed	xx		
Depreciation of delivery vehicles	xx		
Sales commissions	xx	xx	
Administration expenses			
Staff salaries & wages	xx		
Building rent and rates	xx		
Electricity expenses	xx		
Insurance charges	xx		
Depreciation of furniture	xx		
Depreciation of buildings	xx	xx	
Other expenses			
Stocks written off	xx		
Stock damages	xx		
Donations	xx	xx	
Financial expenses			
Bank charges	xx		
Loan interest	xx		
Overdraft interest	xx	xx	(xxx)
Net profit transferred to Capital account			xxx