



Business Level Fundamentals of Financial Reporting

Chapter B - Understanding the Accounting Process - 25%

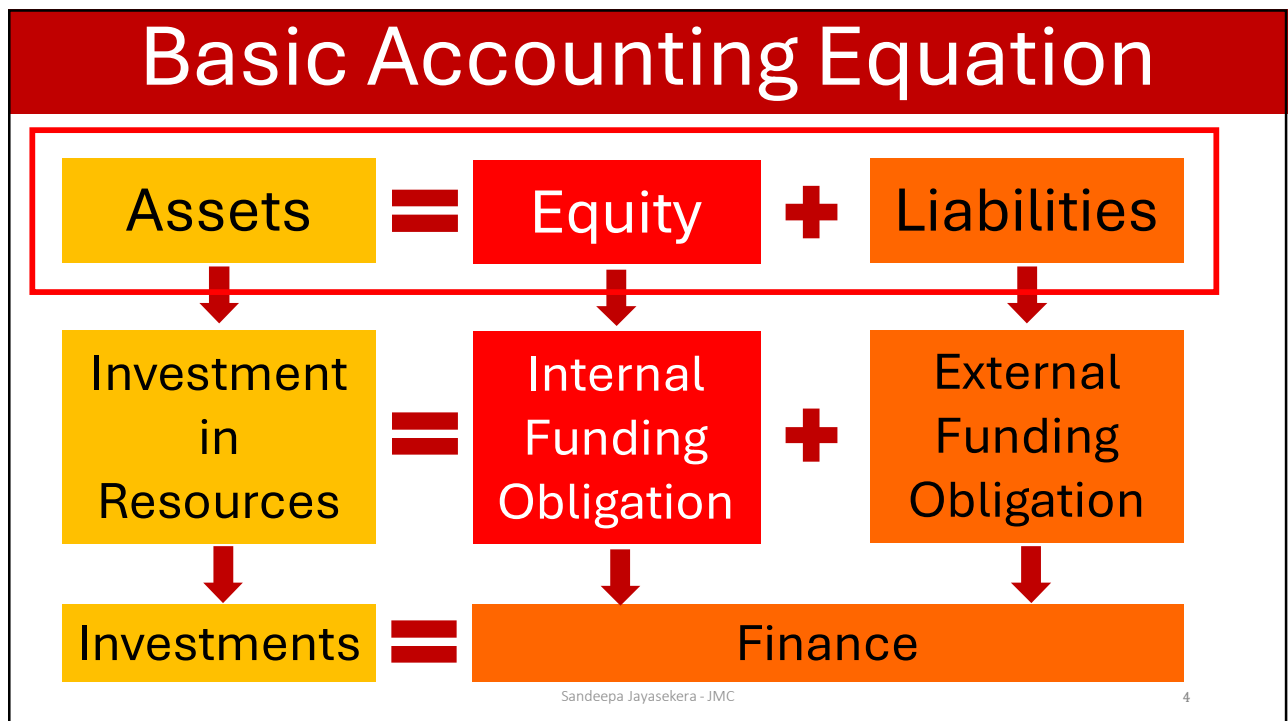


Sandeepa Jayasekera

MBA (PIM-SJP), B.Sc. (Acct.) Hons. Gold Medal Winner, FCA, SAT, CIMA Passed Finalist, CA Prize Winner for AFR subject in Strategic Level II, CA First in Order of Merit Prize Winner in CAB II Level, CIMA Strategic Level Aggregate Prize Winner, Visiting Lecturer - Colombo and Moratuwa University

Basic Accounting Equation

JMC Jayasekera Management Centre (Pvt) Ltd



Q1

Following transactions are occurred in Manuka's business for the Month of December 20X4. Show the impact of above transactions to the basic accounting equation.

Transaction	Assets	=	Equity	Liabilities
1. Manuka started the business by investing Rs. 500,000 as capital.		=		
2. Business purchased Rs. 300,000 worth of goods on cash.		=		
3. Purchased an equipment for the office use at a cost of Rs. 50,000		=		
4. Rent income received Rs. 5,000				

Transaction	Assets	=	Equity	Liabilities
5. Purchased goods Rs. 200,000 worth of goods on credit.		=		
6. Sold goods costing Rs. 50,000 for Rs. 75,000 on cash.		=		
7. Obtained a bank loan of Rs. 400,000.		=		
8. Sold goods costing Rs. 100,000 for Rs. 150,000 on credit.		=		
9. Invested Rs. 50,000 in a fixed deposit		=		
10. Rs. 10,000 worth of cash was taken by Manuka for his personal use,		=		
11. Rs. 20,000 cost of goods were taken by Manuka for his personal use.		=		

Transaction	Assets	=	Equity	Liabilities
12. Manuka introduced an additional capital of Rs. 200,000 to the business.		=		
13. Salary paid to the employees of the business Rs. 50,000.		=		
14. Electricity of the month Rs. 5,000 has not been paid yet.		=		
15. Bank loan installment of Rs. 15,000 paid, of which Rs. 2,000 is interest.		=		
16. Interest income of Rs. 1,000 received from the fixed deposit.		=		
17. Rs. 20,000 paid to the creditors.		=		
18. Rs. 30,000 was received from debtors				

Q2				
State how each of the following transactions affect basic accounting equation				
Transaction	Assets	=	Equity	Liabilities
1) The owner introduced Rs.100,000 to the business.		=		
2) Purchase goods Rs.20,000 on credit		=		
3) Paid Rs.8,000 to the creditors.		=		
4) Sold goods on credit Rs.10,000, cost of the items Rs. 8,000		=		
5) The owner paid his private mobile bill Rs.1,000 from business bank account				

Transaction	Assets	=	Equity	Liabilities
6) Obtained a bank Loan Rs.100,000 with 12% interest rate				
7) The owner introduced his private vehicle to the business worth Rs.200,000		=		
8) Paid the rent of Rs.1,000		=		
9) Loan interest paid		=		
10) Received from the debtors Rs.5,000		=		

Q3

Assets = Equity + Liabilities
+150,000 - 140,000 = +150,000 - 140,000

Which one of the following is the most correct transaction for the above accounting equation?

1. Goods costing of Rs.140,000/- were sold for Rs.150,000/-.
2. Goods costing of Rs.150,000/- were sold for Rs.140,000/-.
3. Goods of Rs.150,000/- were sold on credit basis and collected Rs.140,000/-.
4. Goods of Rs.150,000/- were purchased on credit basis and paid Rs.140,000/-.

Q4

Which one of the following transactions affects increase in assets?

- 1) Owner of the business has invested Rs.1.5 million in cash as an additional capital.
- 2) Month of March water bill of Rs.75,000/- was paid.
- 3) An amount of Rs.100,000/- was collected from a trade debtor.
- 4) An amount of Rs.125,000/- was settled to a trade creditor.

Q5

Select from the following the correct impact to the accounting equation, when the owner of a sole proprietorship transferred his personal motor van to the business:

- (1) Increase in equity and decrease in assets.
- (2) Increase in assets and decrease in equity.
- (3) Increase in liability and decrease in equity.
- (4) Increase in assets and increase in equity.

Q6

Assets = Equity + Liability
200,000 = 200,000

Which one of the following is most correct transaction for the above accounting equation?

- (1) Owner has taken Rs.200,000/- worth of goods for his personal use.
- (2) Owner has paid electricity bill of Rs.200,000/- of the business.
- (3) Additional cash of Rs.200,000/- was introduced by the owner to the business.
- (4) Rs.200,000/- worth of goods was purchased for resale on credit basis.

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Q7

Which one of the following transactions leads to increase in assets?

- (1) Purchased Rs.100,000/- worth of goods in cash for resale.
- (2) Paid an electricity bill of Rs.50,000/-.
- (3) Purchased a computer worth of Rs.100,000/- for office use on credit.
- (4) Owner of the business had taken goods costing of Rs.100,000/- for his personal use

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Q8

The correct impact to the accounting equation due to obtaining a bank loan from XYZ Bank is:

- (1) Increase in assets and increase in equity.
- (2) Increase in assets and increase in liabilities.
- (3) Decrease in assets and decrease in liabilities.
- (4) Decrease in equity and increase in liabilities.

Q9

Of the following, select the transaction that affects to decrease in assets:

- (1) Purchased a motor lorry of Rs.1,500,000/- on credit to deliver the goods.
- (2) Obtained a loan of Rs.1,000,000/- from a commercial bank.
- (3) Purchased an inventory of Rs.350,000/- on credit for resale.
- (4) Paid an amount of Rs.250,000/- to a creditor.

Q10

Soyza started a business introducing an office equipment worth of Rs.300,000/-, and Rs.500,000/- in cash. Select from the following, the correct impact to the accounting equation regarding the above transaction:

Assets (Rs.)	=	Capital (Equity) (Rs.)	+	Liabilities (Rs.)
(1) + 500,000	=	+ 500,000		-
(2) + 800,000	=	+ 800,000		-
(3) + 800,000	=	+ 500,000		+ 300,000
(4) + 200,000	=	+ 200,000		-

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Q11

The transaction that affects to increase in liabilities is:

- (1) Purchase of a motor vehicle for cash.
- (2) Settling an invoice of a trade creditor.
- (3) Obtaining a loan from a bank.
- (4) Selling goods on credit.

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Q12

Ranmira invested Rs.1,000,000/- in cash to his sole proprietorship business as the additional capital. Select from the following, the correct impact to the accounting equation regarding the above transaction:

Assets (Rs.)	=	Capital (Equity) (Rs.)+ Liabilities (Rs.)
(1) + 1,000,000	=	+ 1,000,000
(2) + 1,000,000	=	+ 1,000,000
(3) - 1,000,000	=	- 1,000,000
(4) - 1,000,000	=	- 1,000,000

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Q13

Which one of the following transactions affects to decrease in assets?

- (1) A computer was purchased for Rs.200,000/- in cash for office use.
- (2) Cost of goods taken by the owner of a business for his personal use was Rs.65,000/-.
- (3) An amount of Rs.100,000/- was collected from a debtor.
- (4) Stock costing worth of Rs.250,000/- was sold on credit for Rs.400,000/-.

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Q14

Jovan Traders, a sole proprietorship sold goods costing of Rs.750,000/- for Rs.1,000,000/- on credit. Select from the following, the correct impact to the accounting equation regarding this transaction:

	Assets (Rs.)	=	Capital (Equity) (Rs.)	+	Liabilities (Rs.)
(1)	- 1,000,000	=			- 1,000,000
(2)	+ 250,000	=	+ 250,000		
(3)	+ 1,000,000	=	+ 250,000		+ 750,000
(4)	+ 750,000	=			+ 750,000

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Q15

Select from the following, the correct impact on the accounting equation due to drawing made by owner in cash:

- (1) Increase in Assets and Decrease in Liabilities.
- (2) Decrease in Assets and Decrease in Equity.
- (3) Increase in Assets and Increase in Liabilities.
- (4) Decrease in Assets and Increase in Equity.

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Q16

Danidu introduced Rs.1,500,000/- worth of lorry to his business as additional capital. Select from the following, the correct impact to the accounting equation regarding this transaction:

	Assets (Rs.)	=	Capital (Equity) (Rs.)	+	Liabilities (Rs.)
(1)	+ 1,500,000	=			+ 1,500,000
(2)	- 1,500,000	=			- 1,500,000
(3)	- 1,500,000	=	- 1,500,000		
(4)	+ 1,500,000	=	+ 1,500,000		

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Q17

Aruna Traders obtained a bank loan of Rs.500,000/- to expand the business. Select from the following, the correct impact to the accounting equation regarding this transaction

	Assets (Rs.)	=	Capital (Equity) (Rs.)	+	Liabilities (Rs.)
(1)	+ 500,000	=	+ 500,000		-
(2)	- 500,000	=	-		- 500,000
(3)	+ 500,000	=	-		+ 500,000
(4)	- 500,000	=	- 500,000		-

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Q18

Select from the following, the correct impact on accounting elements due to a cash receipt from a trade debtor:

- (1) Increase in assets and increase in liabilities
- (2) Increase in assets and increase in equity
- (3) Decrease in assets and decrease in equity
- (4) There is no change in assets

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Q19

Select from the following, the correct impact on the accounting equation due to settling a creditor in cash:

- 1) Decrease in assets and decrease in liabilities.
- 2) Decrease in assets and increase in liabilities.
- 3) Decrease in liabilities and decrease in equity.
- 4) Decrease in liabilities and increase in equity.

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Q20

Use the following information to answer questions No. 2, 3 and 4.

The following transactions took place in Nihal's business.

- 01.03.2018 – Purchase of goods costing Rs. 150,000 from Upasena on credit
- 05.03.2018 – Return of goods costing Rs. 30,000 to Upasena
- 20.03.2018 – Sale of goods costing Rs. 100,000 for Rs. 160,000 on credit
- 20.03.2018 – Payment of sales commission of Rs. 10,000
- 02.04.2018 – Settlement of the full amount due to Upasena

The accounting equation which shows the net impact of the above transactions in Nihal's business as at 31.03.2018:

	Assets (Rs.)	=	Liabilities (Rs)	+	Equity (Rs.)
1.	+50 000			-	+ 50 000
2.	+ 60 000			-	+ 60 000
3.	+ 170 000		+ 120 000		+ 50 000
4.	+170 000		+ 150 000		+ 20 000
5.	+180 000		+ 120 000		+ 60 000

Q22

The following transactions took place in Gemunu PLC during the month of March, 2018. The accounting year of the company ends on 31st March.

- (1) Received cash Rs. 500,000 by issuing ordinary shares.
- (2) Purchased goods for Rs. 1,000,000 on credit.
- (3) Revalued the land for the first time, which resulted in a deficit of Rs. 300,000.
- (4) Incurred adverting expenses of Rs. 60,000, and it is payable in May 2018.

Which of the following statements indicate the impact of each of the above transactions?

Impact	Transaction (Indicate the No.)
A. Decrease in assets and decrease in equity	:.....
B. Increase in liabilities and decrease in equity	:.....
C. Increase in assets and increase in equity	:.....
D. Increase in assets and increase in liabilities	:.....

Q23

The monthly instalment of Rs. 100,000 for the loan obtained by his business was paid by Nuwan from his personal cash. The interest included in the instalment was Rs. 25,000. Which of the following accounting equation shows the net impact of these transactions? (Assume that financial statements are prepared monthly.)

	Assets (Rs.)	=	Liabilities (Rs.)	+	Equity (Rs.)
(1)	0		-75 000		+ 75 000
(2)	0		- 100 00		+ 100 000
(3)	+75 000		0		+ 75 000
(4)	-100 000		- 100 000		0
(5)	- 100 000		- 75 000		- 25 000

Discounts

- Discounts means a reduction from a value.
- There are two types of Discounts.
 - Trade Discounts
 - Cash Discounts
- Trade Discounts are the amount deducted from the marked price.
- Cash Discounts are the amount deducted from the due amount of the credit customer.



Trade Discounts

Trade Discount is a reduction from Marked Price. This is given to promote sales. Trade Discounts are not recognized separately. Always the discount deducted amount is accounted.

Trade Discount Received at Purchase

Accounts the Net Purchase

Purchase price	XX
(-) Trade Discount	(X)
Purchase after Tr. Disc.	XX

Trade Discount Given at Sale

Accounts the Net Revenue

Sales Price	XX
(-) Trade Discount	(X)
Sales after Trade Disc.	XX

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Cash Discounts

Cash Discount is a reduction from due amount of a debtor. This is given to collect the cash early from a credit customer within or before the credit period.

Cash Discounts Allowed to Debtors

Recorded in Cash Receipts Journal

Discount Allowed (Distr. Exp) Debit

Debtors Control Credit

Cash Discounts Received from Creditors

Recorded in Cash Payments Journal

Creditors Control Debit

Discount Received (Other Income) Credit

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Q24

State how each of the following transactions affect basic accounting equation

Transaction	Assets	=	Equity	Liabilities
1) Stocks purchased on credit from Feroz Ltd. which has a marked price of Rs. 220,000 subject to a trade discount of 10%		=		
2) Goods costing Rs. 200,000 was sold to Namal at a marked price of Rs. 330,000 subject to a trade discount of		=		
3) Amount payable to Feroz Ltd. of Rs. 100,000 was settled subject to 5% cash discount.		=		
4) Amount receivable from Namal of Rs. 200,000 was settled subject to a cash discount of 5%		=		

Q25

A firm has purchased goods with a list price of Rs. 600,000 on credit subject to a 5% trade discount and thereafter, sold for Rs. 650,000 on cash. The amount due to creditors has not been settled. The net effect of these transactions is shown in the accounting equation as:

Assets	Liabilities	Equity
1) Increased by Rs. 50,000	-	Increased by Rs. 50,000
2) Increased by Rs. 80,000	-	Increased by Rs. 80,000
3) Increased by Rs. 80,000	Decreased by Rs. 570,000	Increased by Rs. 650,000
4) Increased by Rs. 650,000	Increased by Rs. 570,000	Increased by Rs. 80,000
5) Increased by Rs. 650,000	Increased by Rs. 600,000	Increased by Rs. 50,000

Expanded Accounting Equation

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Profit

The main objective of the businesses is to make profits. Profit is calculated as the difference between income and expenses.

Income

—

Expenses

=

Profit

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Accounting Equation Expanded

Accounting equation is expanded by adding profit. Since profit belongs to the owners' profit is added to Equity and expands the equation.

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

$$\text{Assets} = \text{Equity} + \text{Income} - \text{Expenses} + \text{Liabilities}$$

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

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Q26

Following transactions are occurred in Manuka's business for the Month of December 20X4. Show the following transactions in expanded accounting equation

Transaction	Assets	Expenses	=	Equity	Income	Liabilities
1. Manuka started the business by investing Rs. 500,000 as capital.			=			
2. Business purchased Rs. 300,000 worth of goods on cash.			=			
3. Purchased an equipment for the office use for Rs. 50,000			=			

Transaction	Assets	Expenses	=	Equity	Income	Liability
4. Rent income received Rs. 5,000						
5. Purchased goods Rs. 200,000 worth of goods on credit.						
6. Sold goods costing Rs. 50,000 for Rs. 75,000 on cash.						
7. Obtained a bank loan of Rs. 400,000.						
8. Sold goods costing Rs. 100,000 for Rs. 150,000 on credit.						
9. Invested Rs. 50,000 in a fixed deposit						

Transaction	Assets	Expenses	=	Equity	Income	Liability
10. Rs. 10,000 worth of cash was taken by Manuka for his personal use,						
11. Rs. 20,000 cost of goods were taken by Manuka for his personal use.						
12. Manuka introduced an additional capital of Rs. 200,000 to the business.						
13. Salary paid to the employees Rs. 50,000.						
14. Electricity of the month Rs. 5,000 has not been paid yet.						

Transaction	Assets	Expenses	=	Equity	Income	Liabilities
15. Bank loan installment of Rs. 15,000 paid, of which Rs. 2,000 is interest.						
16. Interest income of Rs. 1,000 received from the fixed deposit.						
17. Rs. 20,000 paid to the creditors.						
18. Rs. 30,000 was received from debtors						

Profit Equation

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

Generally, the profit is calculated as the difference between income and expenses. And as the profit is added to the equity (Net assets). There's another way to calculate the profit using the difference between opening and closing equity figures.



Profit Equation

$$\text{Closing Equity} = \text{Opening Equity} + \text{Profit} - \text{Drawings} + \text{Additional Capital}$$

$$\text{Profit} = \text{Closing Equity} - \text{Opening Equity} + \text{Drawings} - \text{Additional Capital}$$

Q27

Of the following, the correct equation to calculate the profit of a business is:

- 1) Closing Net Assets - Opening Net Assets + Drawings + Additional Capital.
- 2) Closing Net Assets - Opening Net Assets + Drawings - Additional Capital.
- 3) Opening Net Asset - Closing Net Assets - Drawings - Additional Capital.
- 4) Opening Net Assets + Closing Net Assets - Drawings - Additional Capital.

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Q28

Select from the following, the correct equation that can be used to calculate the profit/(loss) of an entity:

- (1) Profit/(Loss) = Opening Net Assets - Closing Net Assets.
- (2) Profit/(Loss) = Closing Net Assets - Opening Net Assets - Additional Capital + Drawings.
- (3) Profit/(Loss) = Closing Net Assets - Opening Net Assets - Drawings + Additional Capital.
- (4) Profit/(Loss) = Opening Net Assets - Closing Net Assets - Additional Capital + Drawings

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Q29

Use the following table and calculate the profit or loss for each business separately

Name of the business	Closing capital	Opening capital	Drawings	Additional capital
ABC	150,000	100,000	-	-
XYZ	165,000	95,000	5,000	-
PQR	295,500	154,500	16,000	10,000
MNO	135,000	175,000	15,000	20,000

	Profit	=	Closing Equity	-	Opening Equity	+	Drawings	-	Additional Capital
ABC	<input type="text"/>	=	<input type="text"/>	-	<input type="text"/>	+	<input type="text"/>	-	<input type="text"/>
XYZ	<input type="text"/>	=	<input type="text"/>	-	<input type="text"/>	+	<input type="text"/>	-	<input type="text"/>
PQR	<input type="text"/>	=	<input type="text"/>	-	<input type="text"/>	+	<input type="text"/>	-	<input type="text"/>
MNO	<input type="text"/>	=	<input type="text"/>	-	<input type="text"/>	+	<input type="text"/>	-	<input type="text"/>

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Q30

Consider the following information from the books of a sole proprietor business and find the profit or loss for the year ended 31st March 20X4

Total assets as at 31 st March 20X4	4,500
Liabilities as at 31 st March 20X4	1,300
Drawings during the year	500
Capital as at 01 st April 20X3	2,400
Additional Capital investment	1,000

Profit	=	Closing Equity	-	Opening Equity	+	Drawings	-	Additional Capital
	=		-		+		-	

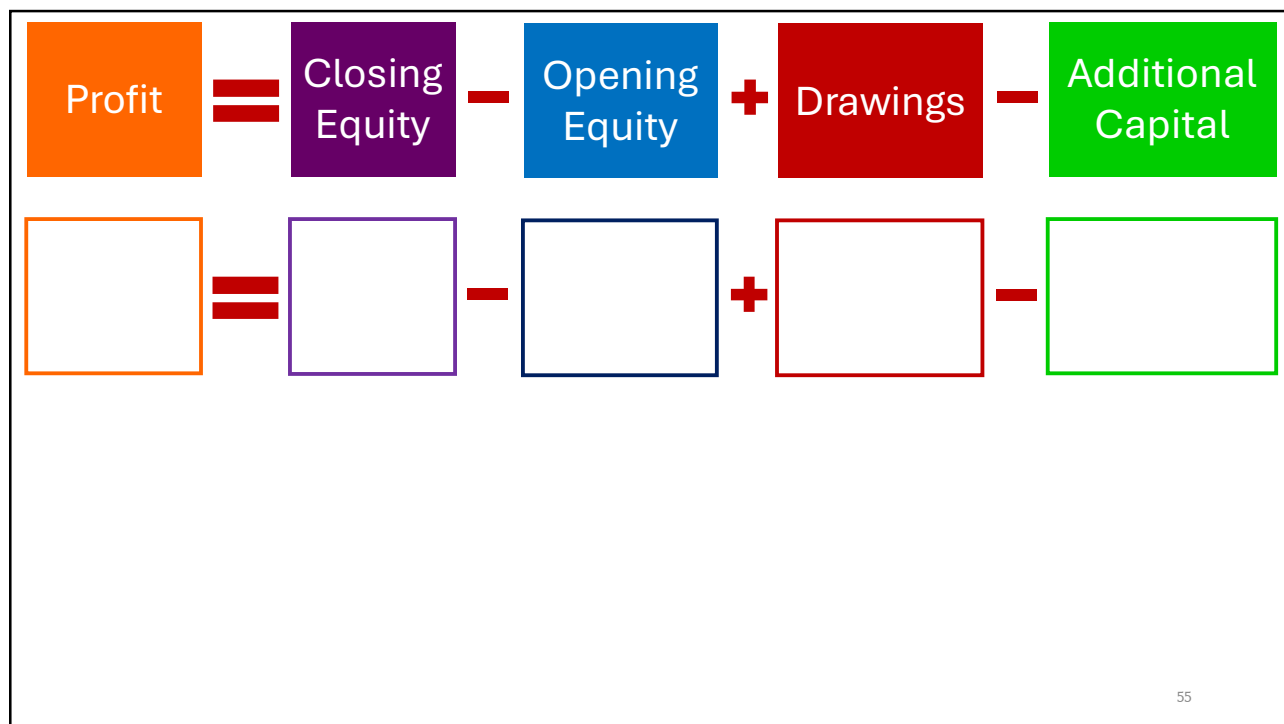
Q31

Use the following table and calculate the profit or loss for the year ended 31/03/20X5

Description	Balance as at 01/04/20X4	Balance as at 31/03/20X5
Current assts	95,000	132,000
Current Liabilities	72,500	88,000
Non-Current assts	125,000	200,000
Non-Current Liabilities	60,000	120,000
Drawings	5,000	-
Additional capital	90,000	-

	Net Assets	=	Current Assets	+	Non-Current Assets	-	Current Liabilities	-	Non-Current Liabilities
Op. NA		=		-		+		-	
Clo. NA		=		-		+		-	

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Q32

The following information was extracted from the books of Moon Lanka Traders for the year ended 31st March 20X8:

Description	Rs.
Capital as at 01 st April 20X7	750,000
Additional capital introduced during the year	50,000
Liabilities as at 31 st March 20X8	75,000
Total assets as at 31 st March 20X8	987,000

Based on the above information, profit for the year ended 31st March 2018 would be

(1) Rs.112,000/-. (2) Rs.237,000/-. (3) Rs.187,000/-. (4) Rs.162,000/-.

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Q33

The following information was extracted from the books of Super Traders for the year ended 31st March 20X9:

Total assets as at 31 st March 20X9	950,000
Capital as at 01 st April 20X8	400,000
Profit for the year	150,000
Additional capital introduced during the year	100,000
Drawings made during the year	75,000

Based on the above information, calculate the total liabilities as at 31st March 20X9

Q33

The following information was extracted from the books of Sarasi Traders for the year ended 31st March 20X9

Net assets as at 01 st April 20X8	975,000
Net assets as at 31 st March 20X9	1,350,000
Additional capital introduced by the owner during the year	500,000
Drawings made by the owner during the year	350,000

Based on the above information, profit for the year ended 31st March 20X9 was:

- (1) Rs.525,000/- (2) Rs.225,000/- (3) Rs.1,475,000/-
(4) Rs.375,000/-

Q34

The following information were extracted from the records of Ruwan Traders, a sole proprietorship for the year ended 31st March 20X0:

Total assets as at 31st March 20X0	1,550,000
Liabilities as at 31st March 20X0	750,000
Capital account as at 01st April 20X9	280,000
Drawings made during the year	150,000

Profit for the business for the year ended 31st March 20X0:

(1) Rs.670,000/-. (2) Rs.800,000/-. (3) Rs.370,000/-. (4) Rs.930,000/-.

Q35

The following information was extracted from the books of Jayaweera's Business, a sole Proprietorship:

Capital as at 01st April 20X9	500,000
Drawings made during the year ended 31st March 20X0	100,000
Profit for the year ended 31st March 20X0	200,000
Liabilities as at 31st March 20X0	150,000

Based on the above information, calculate the total assets as at 31st March 20X0.

Q36

Following transactions were extracted from the books of accounts of Nayana's Business, for the year ended 31st March 20X1:

Capital account as at 01st April 20X0	1,800,000
Drawings made during the year	175,000
Personal vehicle transferred to the business by owner	1,000,000
Profit for the year ended 31st March 20X1	490,000

Based on the above information, the equity as at 31st March 20X1 was:

- (1) Rs.3,465,000/-. (2) Rs.3,115,000/-. (3) Rs.2,465,000/-.
(4) Rs.2,115,000/-.

Q37

The following information was extracted from the books of Naveen Traders, a sole proprietorship for the year ended 31st March 20X1:

Total assets as at 31st March 20X1	2,400,000
Capital as at 01st April 20X0	1,500,000
Drawings made during the year	200,000
Liabilities as at 31st March 20X1	900,000

Based on the above information, the profit for the year ended 31st March 20X1 was:

- (1) Rs.2,200,000/-. (2) Rs.1,800,000/-. (3) Rs.700,000/-.
(4) Rs.200,000/-.

Q38

The following information was extracted from the books of Rose Traders a sole proprietorship for the year ended 31st March 20X2:

Capital as at 01st April 20X1	2,000,000
Drawing made by owner during the year	300,000
Profit for the year ended 31st March 20X2	480,000
Liabilities as at 31st March 20X2	600,000

Based on the above information, total assets as at 31st March 20X2 was:

- (1) Rs.2,180,000/-. (2) Rs.2,600,000/-. (3) Rs.2,780,000/-.
(4) Rs.3,380,000/-.

Q39

The following information was extracted from the books of Manel Stores, a sole proprietorship for the year ended 31st March 20X2:

Total assets as at 31st March 20X2	7,500,000
Capital as at 01st April 20X1	5,000,000
Drawings made during the year	600,000
Liabilities as at 31st March 20X2	1,700,000

Based on the above information, the profit for the year ended 31st March 20X2 was:

- (1) Rs.1,400,000/-. (2) Rs.200,000/-. (3) Rs.1,900,000/-.
(4) Rs.600,000/-.

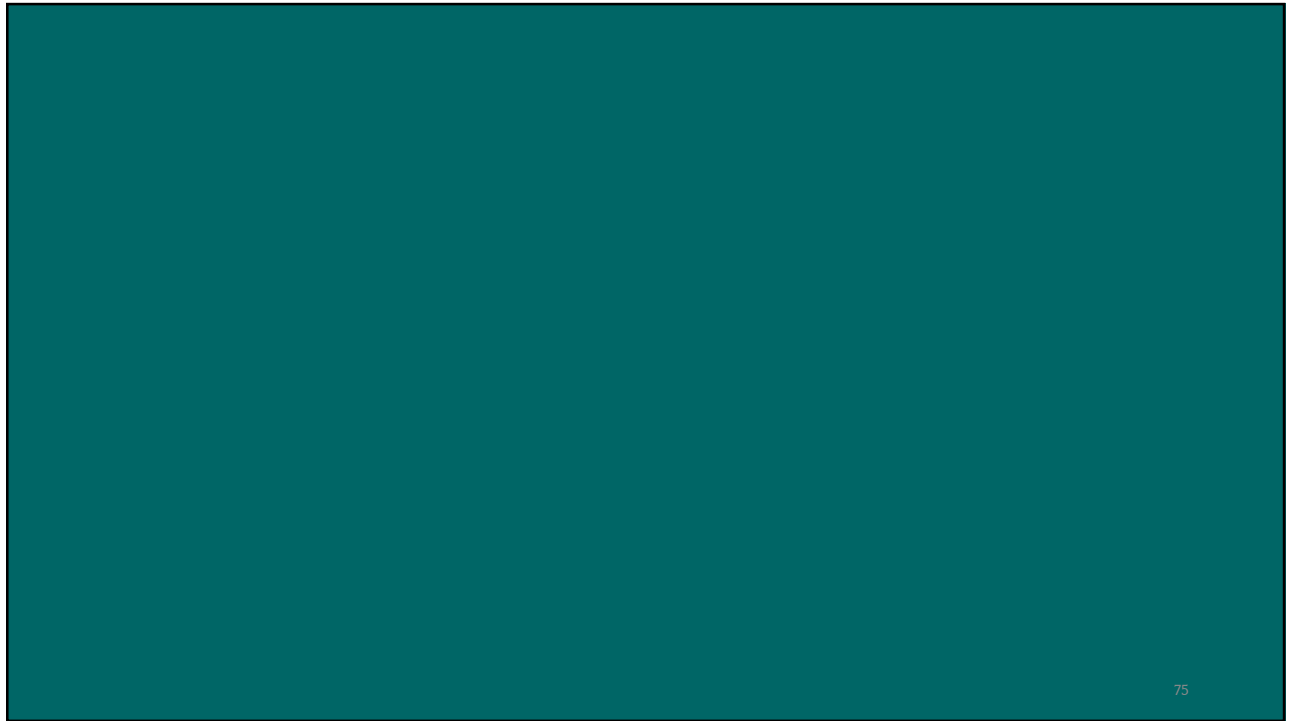
Q40

The following information was extracted from the books of Ram Traders, a sole proprietorship for the year ended 31st March 2023:

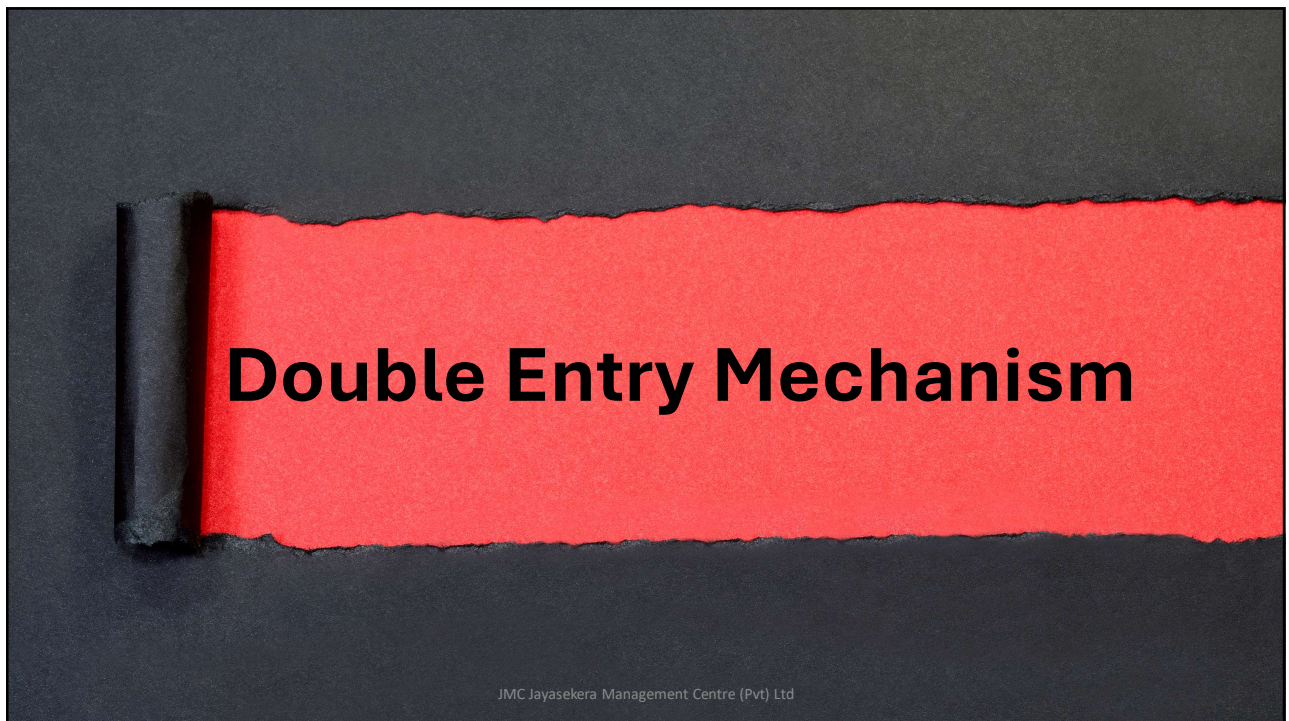
Total assets as at 31st March 2023	8,400,000
Capital as at 01st April 2022	2,000,000
Additional capital introduced during the year	1,000,000
Drawings made during the year	500,000
Profit for the year	2,400,000

Based on the above information, the equity (capital) as at 31st March 2023 was:

(1) Rs.3,000,000 (2) Rs.3,500,000 (3) Rs.4,400,000 (4) Rs.4,900,000



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JMC Jayasekera Management Centre (Pvt) Ltd

Luca Pacioli

Father of Accounting

Every transaction has equal but opposite effect. Transactions shall be recorded in ledger accounts as DEBIT and as an equal but opposite CREDIT entry.



Dual Effect Examples

Purchasing a Car by
spending Rs.5Mn

- Asset Car of Rs.5Mn increases
- Asset Cash of Rs.5Mn decreases

Obtaining a Bank
Loan of Rs.10Mn

- Asset Cash of Rs.10Mn increases
- Liability Loan of Rs.10Mn decreases

Incurring a Marketing
Expense of Rs.2Mn

- Expense Marketing of Rs.2Mn increases
- Asset Cash of Rs.2Mn decreases

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Double Entry System

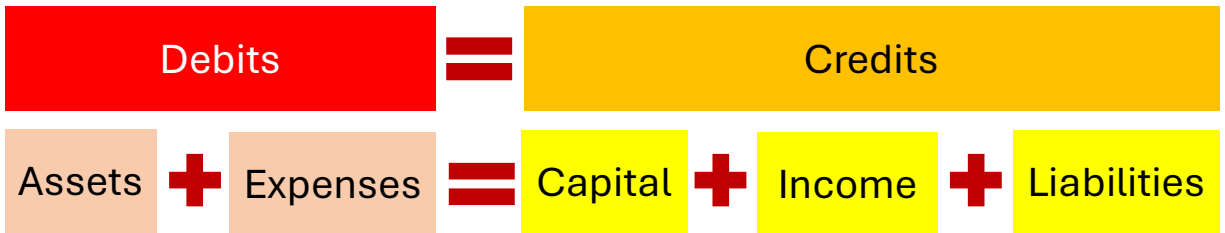
Luca Pacioli introduced the double entry system to record the dual aspect of transactions as Debit and Credit in the accounting ledgers. Always the Debits total shall be equivalent to Credits total. This is the foundation of accounting. Due to double entry method the errors made are detected then and there.

Assets and expenses are generally having debit balances. Increase in assets and expenses will result in a debit entry and decrease in a credit entry.

Equity, income and liabilities are generally having a credit balances. Increase in equity, income and liabilities will result in a credit entry and decrease in a debit entry.

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Accounting Equation with Debit and Credit Linked



Error Detection Rule

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Double Entry System

Element	Increase	Decrease
Assets	Debit	Credit
Expenses	Debit	Credit
Equity	Credit	Debit
Income	Credit	Debit
Liabilities	Credit	Debit

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Q41

Mention the general type of the balance of following account (Dr. or Cr.)

1. Cash in hand	<input type="text"/>	9. Bank Loan	<input type="text"/>
2. Cash at bank	<input type="text"/>	10. Debtors	<input type="text"/>
3. Rent	<input type="text"/>	11. Advertising	<input type="text"/>
4. Discount allowed	<input type="text"/>	12. Capital	<input type="text"/>
5. Purchases	<input type="text"/>	13. Commission received	<input type="text"/>
6. Sales	<input type="text"/>	14. Motor vehicle	<input type="text"/>
7. Creditors	<input type="text"/>	15. Electricity	<input type="text"/>
8. Bank Charges	<input type="text"/>		

Q42

Write the relevant Ledger Accounts for the following double entries

Transaction	Double Entry	
1. Owner invested capital of Rs. 100,000		
2. Credit purchases Rs. 40,000		
3. Cash purchases Rs. 5,000		
4. Credit sales Rs. 50,000		
5. Cash sales Rs. 10,000		
6. Salary paid Rs. 6,000		
7. Electricity payable Rs. 2,000		
8. Cash received from debtor Rs. 4,000		

Transaction	Double Entry	
9. Rent income received Rs. 2,000		
10. Fixed deposit made Rs. 5,000		
11. Machine purchased Rs. 10,000		
12. Creditors balance settled Rs. 4,000		
13. Interest receivable from fixed deposit Rs. 500		
14. Drawings made by owner Rs. 2,000		
15. Machine depreciated Rs. 100		

Ledger Accounts

Ledger is a collection of accounts kept physically or electronically. The transactions are recorded in ledger to reflect the dual impact. Ledger account has the shape of letter T and the two sides as Debit and Credit.



LEDGER

Format of a General Ledger

Debit Side				Credit Side			
				Account Name			
Date (1)	Description (2)	Ledger Folio (3)	Value (4)	Date (1)	Description (2)	Ledger Folio (3)	Value (4)

(1) Date	Date of the transaction occurred
(2) Description	Name of the ledger account in which other entry was posted
(3) Ledger Folio	Page no. of ledger account in which other entry was posted
(4) Value	Value of transaction



Recording Transactions in Ledger Accounts

Step 01 Element	Understand what financial statement elements (Assets, Liabilities, Equity, Income and Expenses) are impacted from the transaction
Step 02 +/-	Decide whether it's an increase or decrease of that element
Step 03 Dr. Cr.	Apply double entry system and decide the debit and credit
Step 04 Value	Go to ledger account and record the debit value in debit side and in other ledger account record the credit value in credit side
Step 05 Descrip.	Write the name of other ledger account in narration and put the date.

Cash Sale of Rs. 10,000 on 01st January

Step 01 Element	Cash Asset	Cash			
	Sales Income	1/1	Sales	10,000	
Step 02 +/-	Cash Increase				
	Sales Increase	Sales			
Step 03 Dr. Cr.	Cash Debit				
	Sales Credit		1/1	Cash	10,000

Salary paid of Rs. 20,000 on 31st January

Step 01	Salary Expense	Salary		
Element	Cash Asset	31/1	Cash	20,000
Step 02	Salary Increase			
+/-	Cash Decrease	Cash		
Step 03	Salary Debit			
Dr. Cr.	Cash Credit		31/1	Salary 20,000

Q43

Following transactions are occurred in Manuka's business for the Month of December 20X4. Show the double entries

Transaction
1. Manuka started the business by investing Rs. 500,000 as capital.
2. Business purchased Rs. 300,000 worth of goods on cash.
3. Purchased an equipment for the office use for Rs. 50,000
4. Rent income received Rs. 5,000
5. Purchased goods Rs. 200,000 worth of goods on credit.
6. Sold goods costing Rs. 50,000 for Rs. 75,000 on cash.
7. Obtained a bank loan of Rs. 400,000.
8. Sold goods costing Rs. 100,000 for Rs. 150,000 on credit.
9. Invested Rs. 50,000 in a fixed deposit

10. Rs. 10,000 worth of cash was taken by Manuka for his personal use,
11. Rs. 20,000 cost of goods were taken by Manuka for his personal use.
12. Manuka introduced an additional capital of Rs. 200,000 to the business.
13. Salary paid to the employees Rs. 50,000.
14. Electricity of the month Rs. 5,000 has not been paid yet.
10. Rs. 10,000 worth of cash was taken by Manuka for his personal use,
11. Rs. 20,000 cost of goods were taken by Manuka for his personal use.
12. Manuka introduced an additional capital of Rs. 200,000 to the business.
13. Salary paid to the employees Rs. 50,000.
15. Bank loan installment of Rs. 15,000 paid, of which Rs. 2,000 is interest.
16. Interest income of Rs. 1,000 received from the fixed deposit.
17. Rs. 20,000 paid to the creditors.
18. Rs. 30,000 was received from debtors

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Q45

State the correct double entry for each of the following transactions of a bookshop:

- a) Electricity payable for the month of March was Rs.82,000/-.
- b) Stationery of Rs.25,000/- was purchased on credit basis for resale.
- c) Interest income of Rs.12,000/- was received to the bank account of the business.

Q46

State the correct double entry for each of the following transactions occurred during the month of March 2019 of Roma Traders:

- a) A loan of Rs.500,000/- has been obtained from a bank to repair the shop.
- b) Interest income of Rs.25,000/- was received to the bank account.
- c) An electricity bill of Rs.15,000/- of the business was paid by owner from his personal cash.

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Q47

A business granted a staff loan in cash to Sudath, who is an employee of the business. The correct double entry to record this transaction is:

- (1) Debit cash account and credit staff loan account.
- (2) Debit cash account and credit salary account.
- (3) Debit salary account and credit staff loan account.
- (4) Debit staff loan account and credit cash account.

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Q48

Ranasinghe, owner of a sole proprietorship, transferred his personal motor vehicle to his business. The correct double entry to record this transaction is:

- (1) Debit Cash Account and Credit Capital Account.
- (2) Debit Motor Vehicles Account and Credit Cash Account.
- (3) Debit Motor Vehicles Account and Credit Capital Account.
- (4) Debit Capital Account and Credit Motor Vehicles Account.

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Q49

Ransi Traders obtained a bank loan to expand the business. The correct double entry to record this transaction is:

- (1) Debit bank loan account and credit cash account.
- (2) Debit bank loan account and credit capital account.
- (3) Debit cash account and credit bank loan account.
- (4) Debit cash account and credit capital account

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Q50

Isanka paid Rs.1,750,000/- as capital repayment of the bank loan which was obtained to expand her business. The correct way of recording this transaction in her business's ledger accounts would be:

- (1) Debit Bank Account and credit Bank Loan Account.
- (2) Debit Bank Loan Account and credit Bank Account.
- (3) Debit Bank Account and credit Capital Account.
- (4) Debit Bank Loan Account and credit Capital Account.

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Accounting Process

JMC Jayasekera Management Centre (Pvt) Ltd