

Introduction to Accounting

AAT Level I FAC - Financial Accounting

Sandeepa Jayasekera

MBA (PIM-SJP), B.Sc. (Acct.) Hons. Gold Medal Winner, ACA, ACCA (UK), SAT, CIMA (UK) Passed
Finalist, CA and CIMA Prize Winner



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AAT 01 – Financial Accounting

Chapter 01 – Introduction to Accounting

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MBA (PIM-SJP), B.Sc. (Acct.) Hons. Gold Medal Winner, ACA, SAT, ACMA (UK), CGMA (UK), 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 University

Sandeepa Jayasekera



Sandeepa - JMC

- 11th in Sri Lanka in Advanced Level Commerce and 3rd in Colombo District
- First Class Degree in Accounting, Sri Jayewardenepura University and Gold Medal for Best Student
- Chartered Accountant (CA Sri Lanka)
- 1st in Sri Lanka for the second stage of Chartered Accountancy and the Advanced Financial Reporting Subject Prize in the final stage.
- Chartered Management Accountant in United Kingdom (CIMA-UK)
- Chartered Management Accountant (United Kingdom) 1st in Sri Lanka in Final Stage and 11th in the world

- Member of the Institute of Accounting Technicians of Sri Lanka (AAT Sri Lanka)
- Member of the Institute of Certified Management Accountants of Sri Lanka (CMA Sri Lanka)
- Postgraduate Institute of Management (PIM-USJP) Masters Degree in Management
- Chief Executive Officer
- Principal partner
- Lecturer at University of Colombo
- Author who wrote 'Awarjanayakata Awasarai'
- A motivational speaker and a trainer, conducted more than 100 sessions.



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What is Accounting?

Common Definition for Accounting

Accounting is the process of providing Financial Information of an Accounting Entity

To the Stakeholders of the Entity

For them to Take Economic Decisions

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Definition by American Accounting Association

"The process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information!"

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Definition by American Institute of Certified Public Accountants

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.

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History of Accounting

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Luca Pacioli

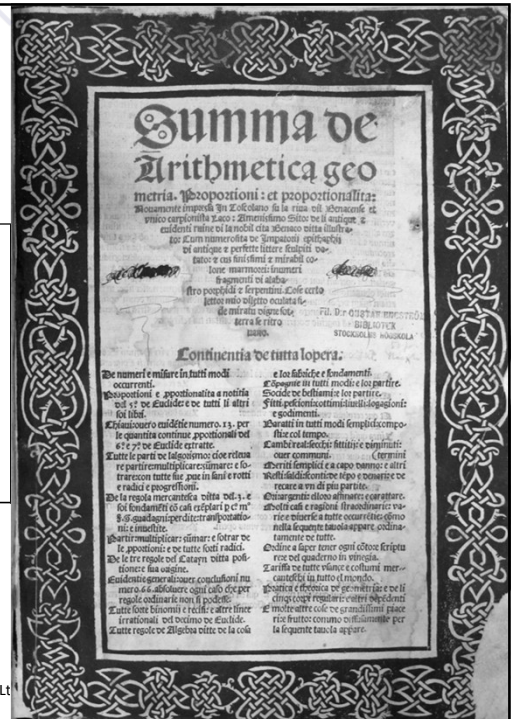
Father of Accounting

(1447 – 19 June 1517)



Sp Adobe Spark

Summa de Arithmetica Geometria Proportioni et Proportionailita



Mihintala Puwaru Lipi

4th Mahinda



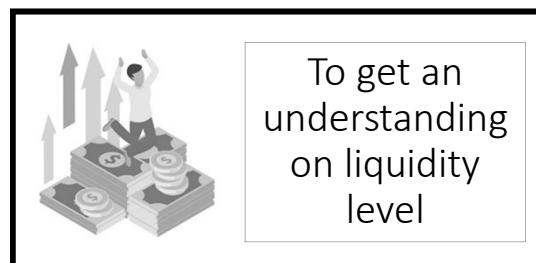
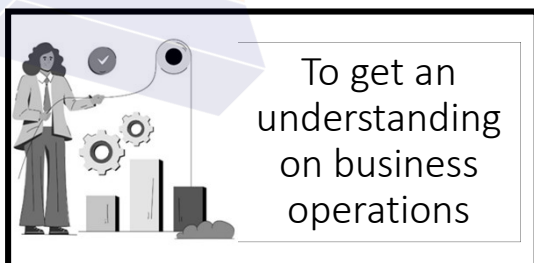
Thonigala Sel Lipi



Objectives of Accounting

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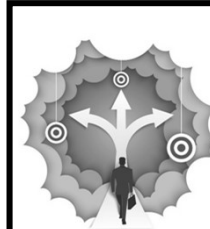
Sub Objectives of Accounting



Sub Objectives of Accounting



To protect the properties



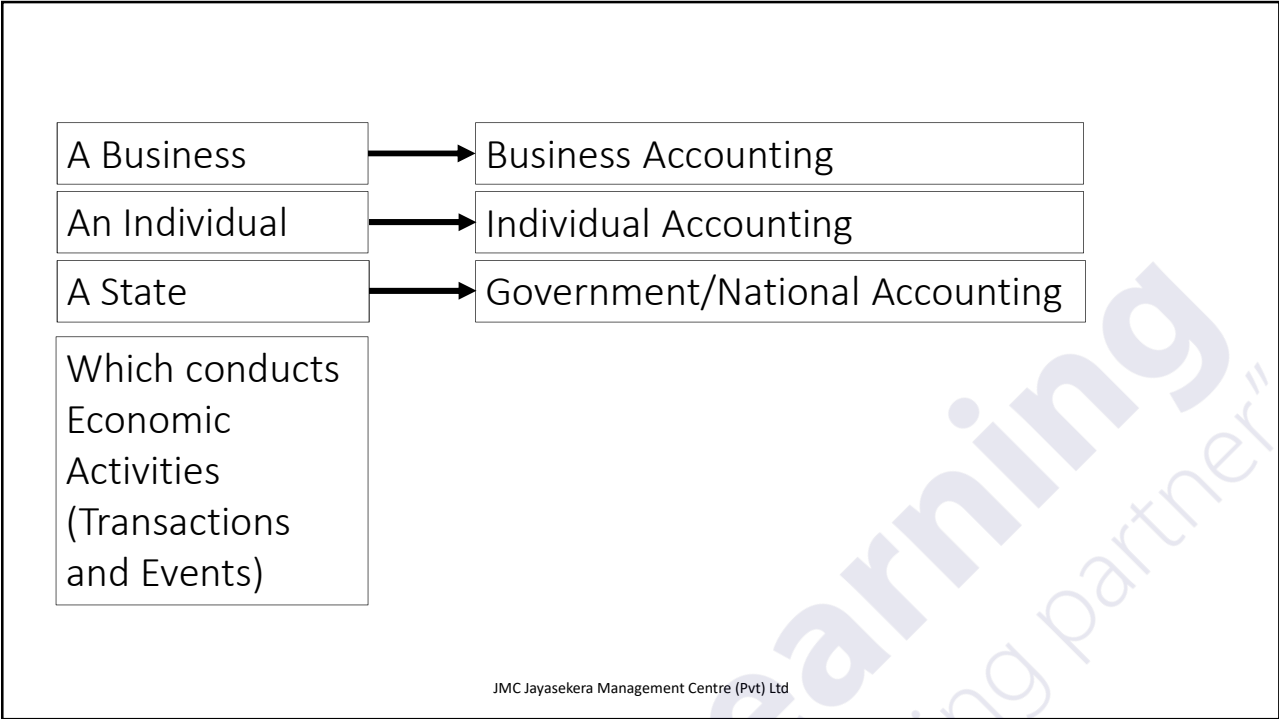
To make logical decisions



To be complied with Legal requirements

Accounting Entity





The top section of the slide features the JMC logo, which consists of a stylized 'J' and 'M' in blue and orange, followed by the text "JMC vLearning" and the tagline "your virtual learning partner". Below the logo, the title "Stakeholders of a Business" is centered in a large, black font. At the bottom of the slide, the text "JMC Jayasekera Management Centre (Pvt) Ltd" is centered in a smaller font.

Stakeholders of a Business

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Stakeholders of an Entity

Stakeholder	Decisions	Type of Info
Owners (Internal)		
Management (Internal)		

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Stakeholders of an Entity

Stakeholder	Decisions	Type of Info
Employees (Internal)		
Customers (External)		

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Stakeholders of an Entity

Stakeholder	Decisions	Type of Info
Suppliers (External)		
Lenders (External)		

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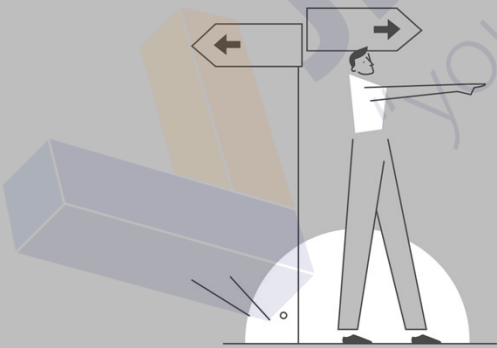
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Stakeholders of an Entity

Stakeholder	Decisions	Type of Info
Government (External)		

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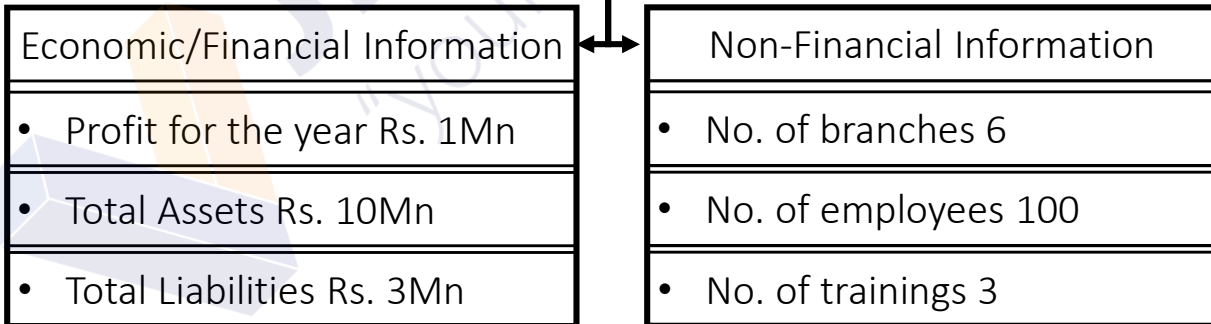
Stakeholders take decisions based on Economic Information

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What is meant by Economic Information?

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Information

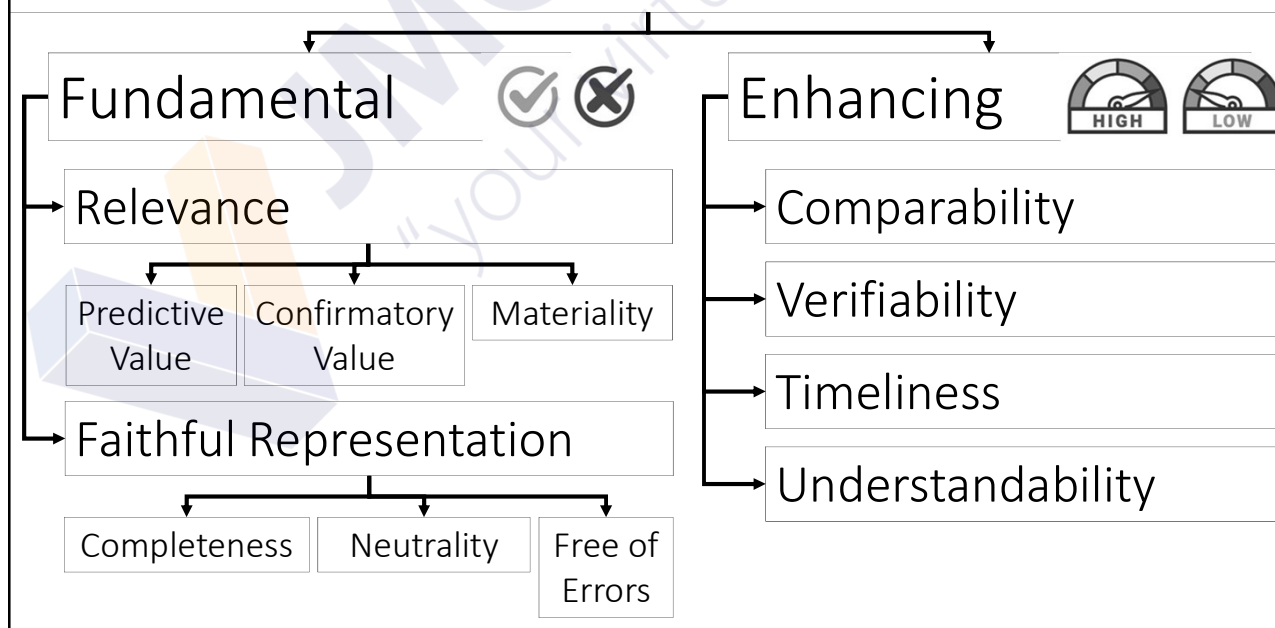


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Qualitative Characteristics of Information

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Qualitative Characteristics of Financial Information



Fundamental Qualitative Characteristics



Relevance

If an information is
capable of making a **difference**
in **decisions**

Example

A company's total debt is 80% of total assets.
Therefore, the bank decided not to grant a new loan
to the company.

Relevance

Predictive value

Confirmatory value

Ability to forecast future outcomes

Ability to verify previous predictions

Making investment decisions based on forecasted profits of the next two years

Comparing a previous year's forecast against actual information

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Question 01

Explain using concepts, the reason to charge the value of small equipment and tools that can be used for more than one year to the Statement of Profit or Loss

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Materiality

Information is material if

Omission

Misstatement

could Influence decision

Materiality depends on

- Size of information
- Nature of information

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Faithful Representation

Financial Reports must

represent Economic phenomena

in words and numbers

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To be a Faithful Representation,
information must be

- Complete
- Neutral
- Free from error

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Enhancing Qualitative Characteristics

Comparability

Ability to identify and understand

Similarities

Differences

in an entity's information

with another similar information

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Verifiability

Knowledgeable

Independent

observers

ability to reach consensus

of a financial information

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Timeliness

Information shall be available

in time

Older the information is, the less useful it is.

Understandability

Making the financial information

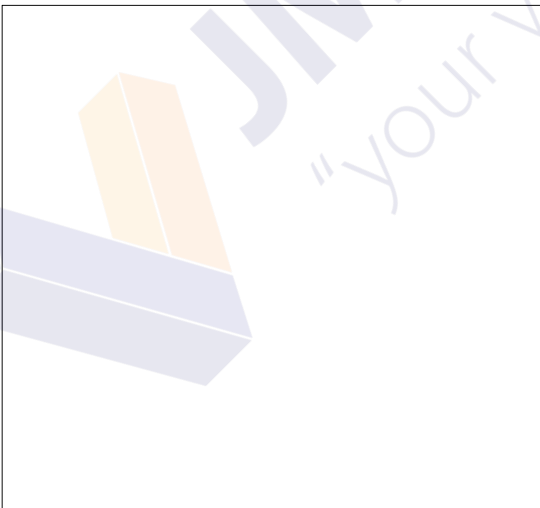
Understandable to

Users with reasonable knowledge

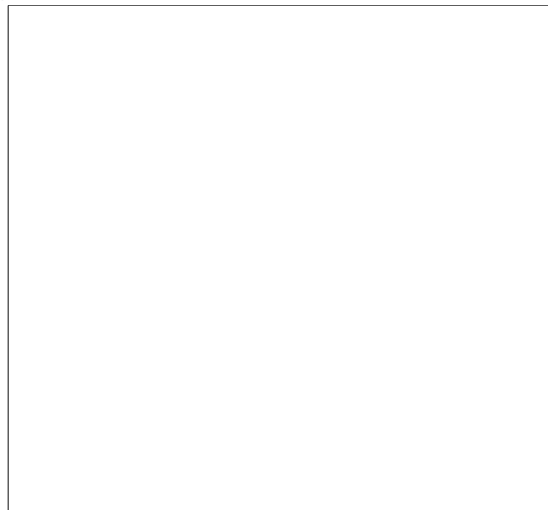
What are the Two Branches of Accounting?

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Financial Accounting



Management Accounting



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Accounting

Factor	Financial Accounting	Management Accounting
Reporting type	External and Internal	Internal only
Types of Decisions	Decisions on Providing Resources	Planning and Control Decisions
Formats	Standard Format	Absence of Standard Format
Information type	Past Information	Past and Future Information
Frequency of preparation	Prepared Annually	Prepared on demand
Legal Requirement	Applicable	Not applicable
Report preparation	Business as a whole	Divisions, branches etc.

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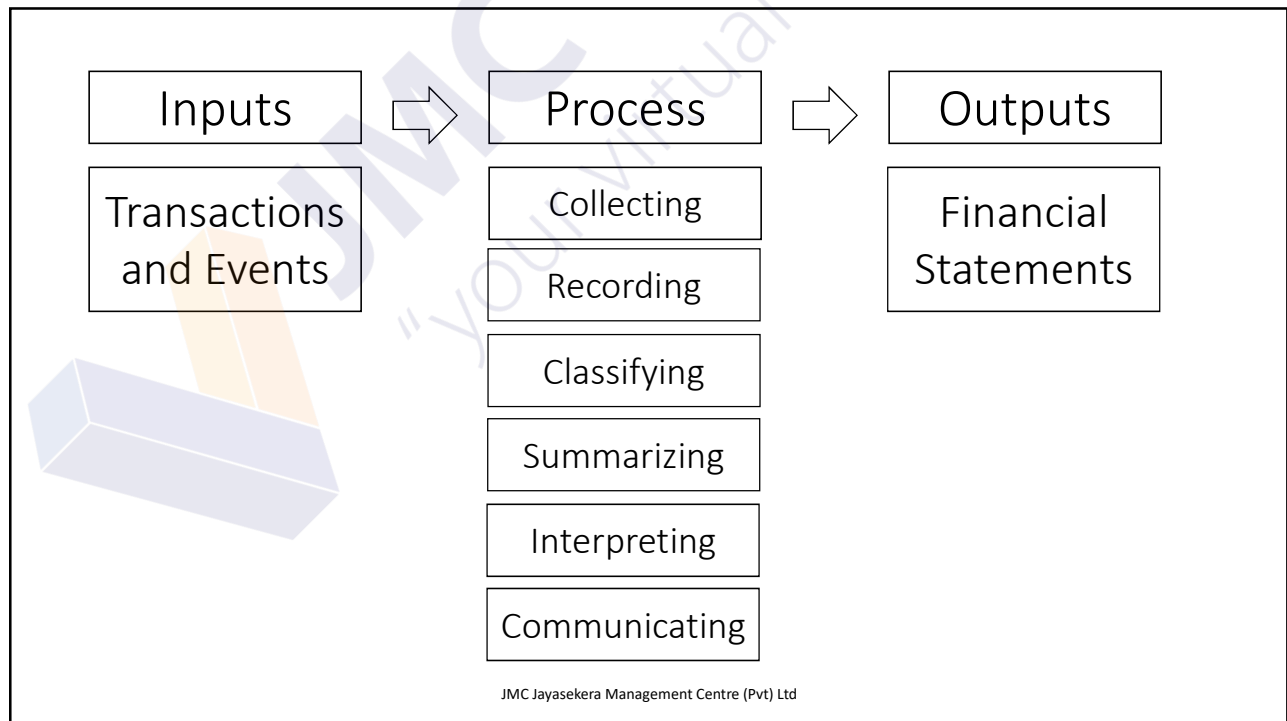


Accounting Process

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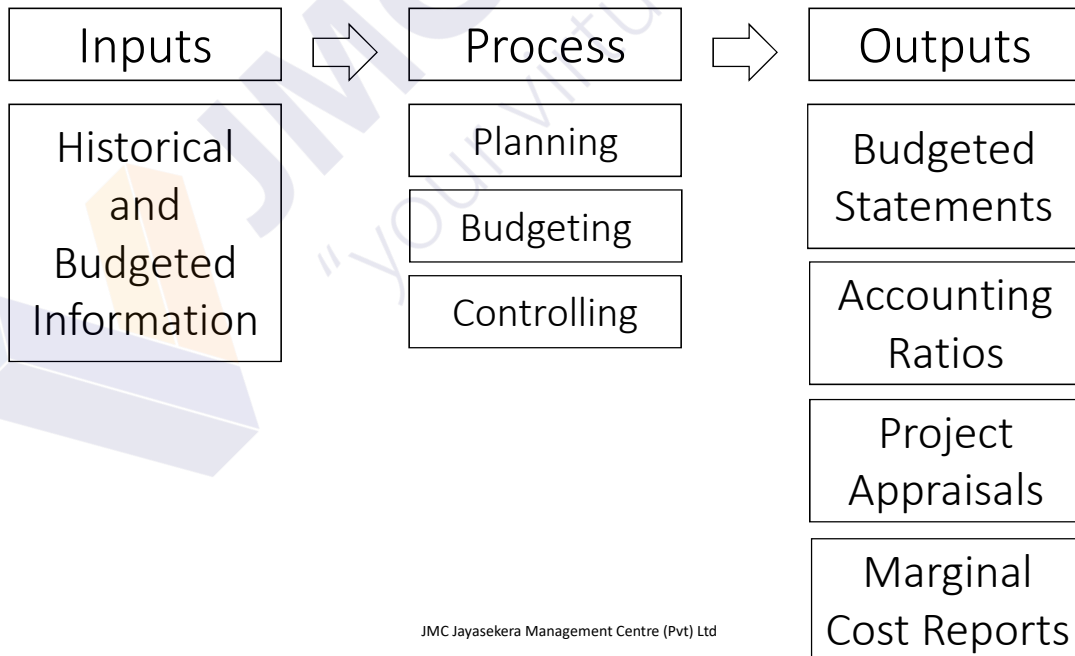
Financial Accounting Process

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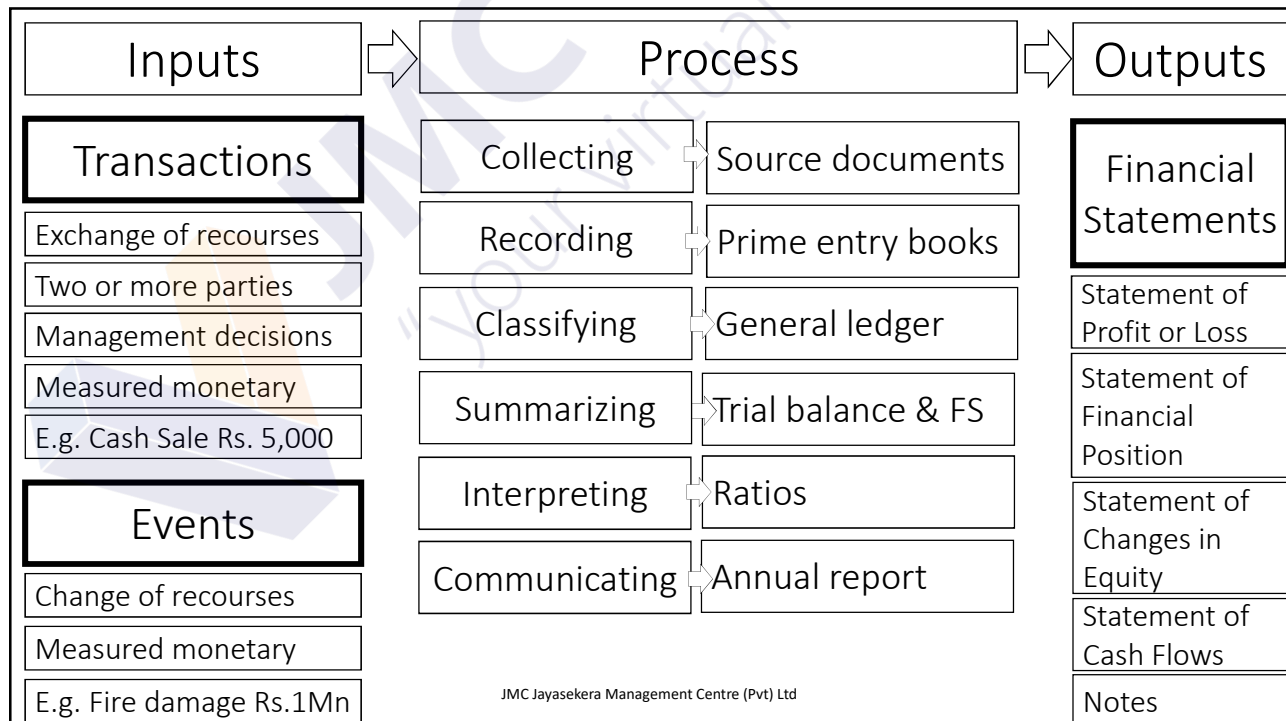
Management Accounting Process

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Financial Accounting Process in Detail

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Accounting Environmental Factors

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Accounting Environmental Factors PESTEL

Political

How the Government decisions, political decisions and political stability influence businesses

- Tax policy
- Gvt. policies on wages
- Foreign trade policies
- Political stability



Economical

How changes in economic policies and conditions impacts the businesses

- Foreign exchange rates
- Interest rates
- Inflation rates
- Economic growth






Social


How social and cultural factors influence the businesses

- Population growth
- Religious beliefs
- Demographics
- Culture



Accounting Environmental Factors PESTEL

Technology	Ecological	Legal
How technology and technological devices impacts the businesses	How environment is impacting the businesses.	How the legal system of a business is impacting the businesses.
<ul style="list-style-type: none"> Digitalization Use of smart devices Computerized Accounting Artificial intelligence 	<ul style="list-style-type: none"> Sustainability Carbon footprint Recycling Deforestation Waste Management 	<ul style="list-style-type: none"> Companies act Partnership ordinance Inland revenue act Fraud prevention act
		


<h2 style="margin: 0;">Limitations of Accounting</h2>
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Historical Cost
Does Not Reflect
Current Value

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Not All Assets are
Recorded

Information

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Not All Assets are
Recorded

Human Resources

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Not Considering
Ecological and Social
Factors

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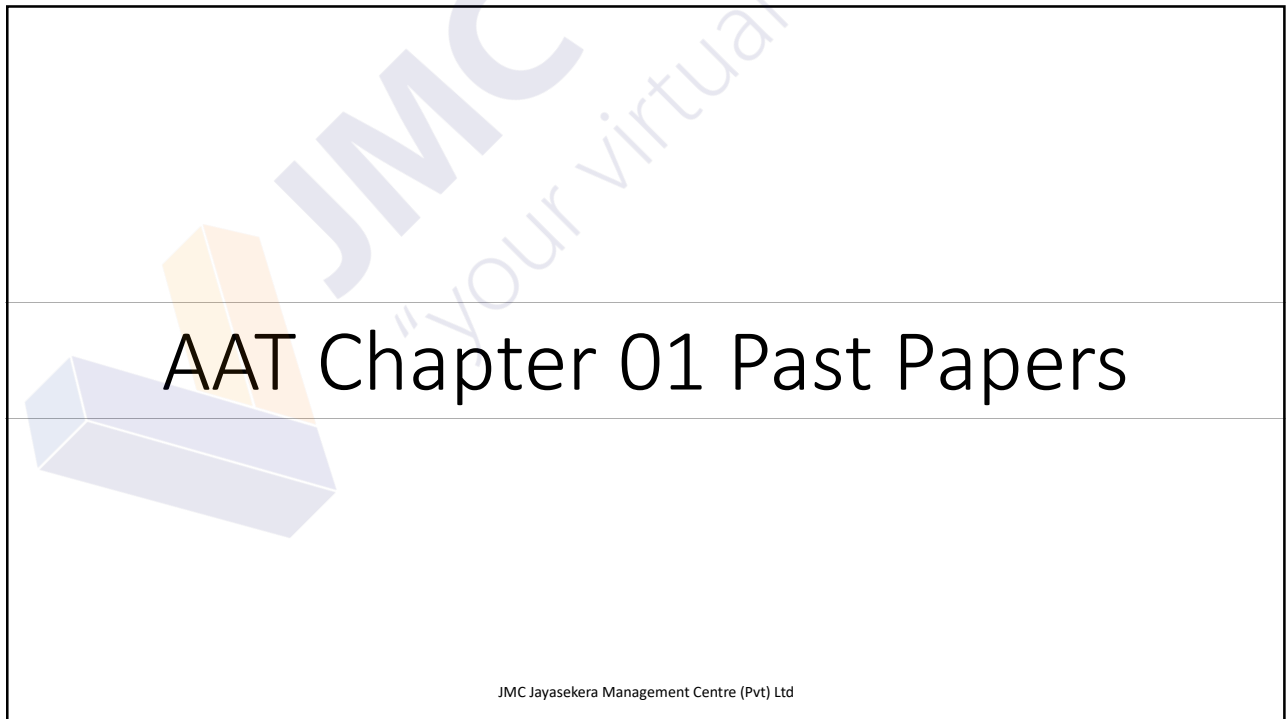
Estimates are
subject to Biasness

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Inflation is not
adjusted



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2020 July

1.1 Which one of the following is an element of income statement?

- (1) Assets.
- (2) Equity.
- (3) Income.
- (4) Liabilities

1.2 Of the following, select the correct statement:

- (1) Relevance is a fundamental qualitative characteristic of financial information.
- (2) Transactions are considered as the accounting output.
- (3) The main objective of accounting is to protect employees of the organization.
- (4) There are no limitations of financial information.

1.4 Which one of the following is a stakeholder of an entity?

- (1) Employees.
- (2) Government.
- (3) Managers.
- (4) All of the above.

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2021 January

1.1 Which one of the following is an accounting input of accounting process?

- (1) Purchase Day Book.
- (2) Statement of Financial Position.
- (3) Transactions.
- (4) Cash Flow Statement.

1.2 Which one of the following is a stakeholder of a business?

- (1) Employees.
- (2) Managers.
- (3) Government.
- (4) All of the above.

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2021 January

Write the answers for the questions below.

1.17 List two (02) objectives of Accounting.

1.19 State two (02) limitations of financial information.

2021 July

1.1 An objective of the Financial Accounting is:

- (1) To motivate the employees of the business.
- (2) To increase the profitability of the business.
- (3) To understand the financial position of the business.
- (4) To decide the selling price of products of the business.

1.6 Which one of the following is an accounting output of the process of accounting?

- (1) Income statement.
- (2) Sales day book.
- (3) Journal voucher.
- (4) Sales invoice.

1.16 State two(02) stakeholders of a business.

2022 January

Write the answers for the questions below.

1.17 List two(02) accounting outputs of the process of Accounting.

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2022 July

1.1 Which one of the following is a qualitative characteristic of financial information?

- (1) Going Concern.
- (2) Relevance.
- (3) Accrual Basis.
- (4) Historical Cost.

1.3 Select from the following, the correct process of financial accounting:

- (1) Input Output Process.
- (2) Output Process Input.
- (3) Input Process Output.
- (4) Output Input Process.

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2022 July

1.1 Which one of the following is an accounting output?

- (1) Ledger Account.
- (2) Trial Balance.
- (3) Statement of Financial Position.
- (4) Sales Journal.

1.17 Identify two(02) differences between “Financial Accounting” and “Management Accounting”.

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2023 January

1.1 Of the following, select the correct statement

- (1) Events are the accounting output of the accounting process.
- (2) Relevance is a fundamental qualitative characteristic of the financial information.
- (3) Income is an element of the statement of financial position.
- (4) Management Accounting provides only the historical financial information.

1.6 Accounting is affected by the number of environmental factors, and those can be analyzed using PESTEL analysis. Which one of the following can be categorized under environmental (E) factors in PESTEL analysis?

- (1) Introduction of import restrictions in line with policies of the new government.
- (2) Recent amendments made to the Inland Revenue Act.
- (3) Introduction of Artificial Intelligence for data analyzing.
- (4) Carbon footprint level introduced by the industry experts

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2023 January

1.16 State two (02) objectives of Financial Accounting.

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2023 July

1.1 Of the following, select the correct statement:

- (1) Events are the accounting output of the accounting process.
- (2) Relevance is a fundamental qualitative characteristic of the financial information.
- (3) Income is an element of the statement of financial position.
- (4) Management Accounting provides only the historical financial information

1.17 Identify two (02) differences between “Financial Accounting” and “Management Accounting”.

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2024 January

1.3 Select from the following, an economic factor as per PESTEL analysis which can affect for accounting and business activities of businesses:

- (1) Companies Act No. 7 of 2007.
- (2) Exchange rate.
- (3) Attitudes of customers.
- (4) Use of accounting software.

1.19 State two (02) limitations of financial information.

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