

Accounting Equation, Double Entry System & Accounting Concepts

AAT Level I

FAC - Financial Accounting

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



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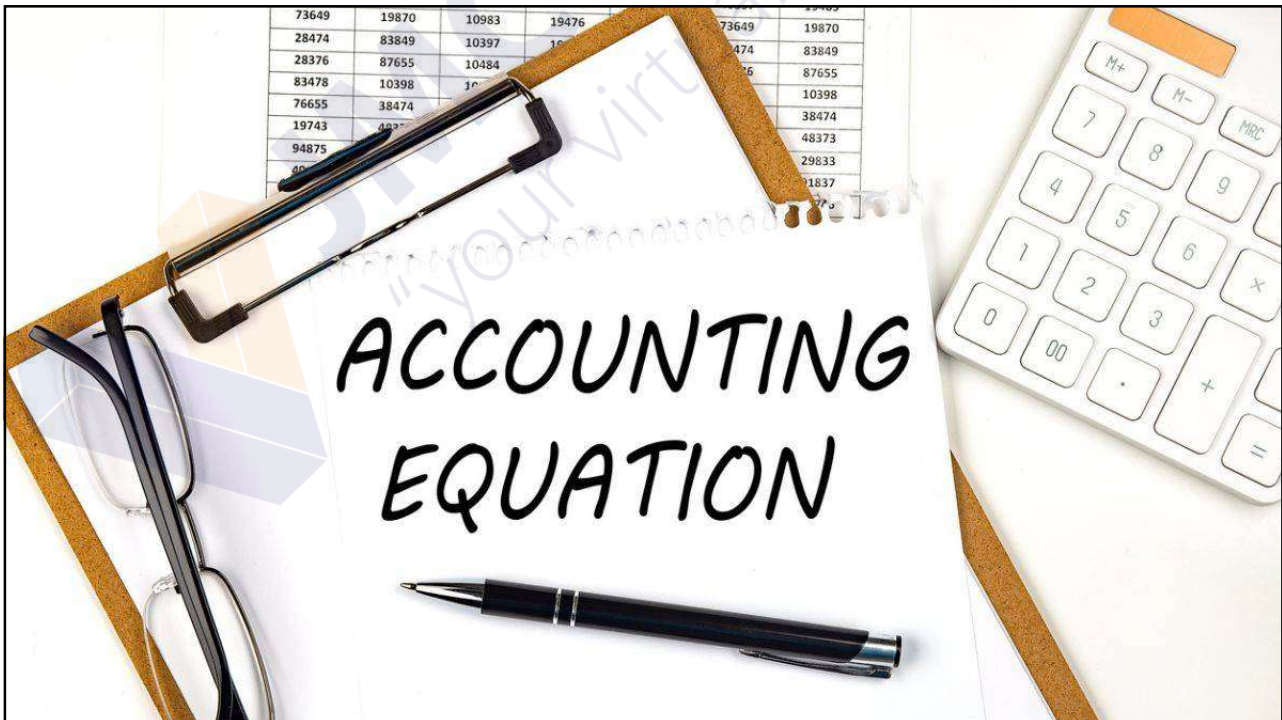
AAT 01 – Financial Accounting

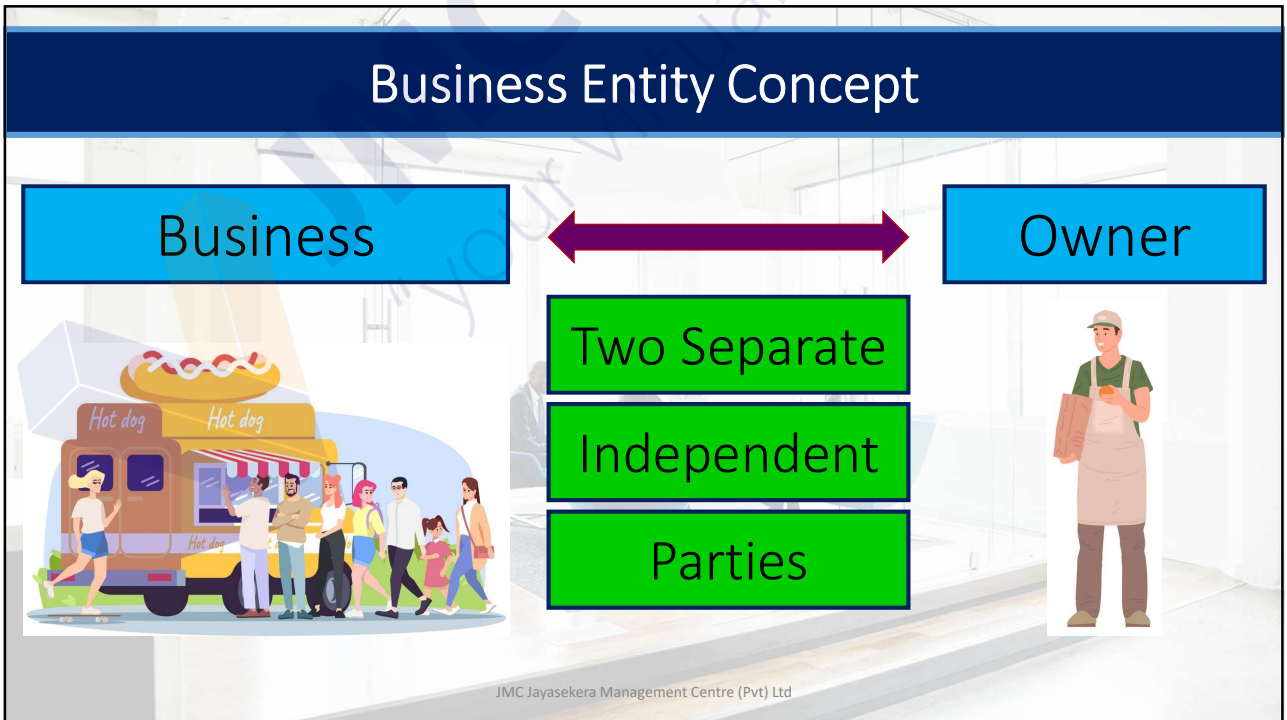
Chapter 02

Accounting Equation, Double Entry System and Accounting Concepts

Sandeepa Jayasekera

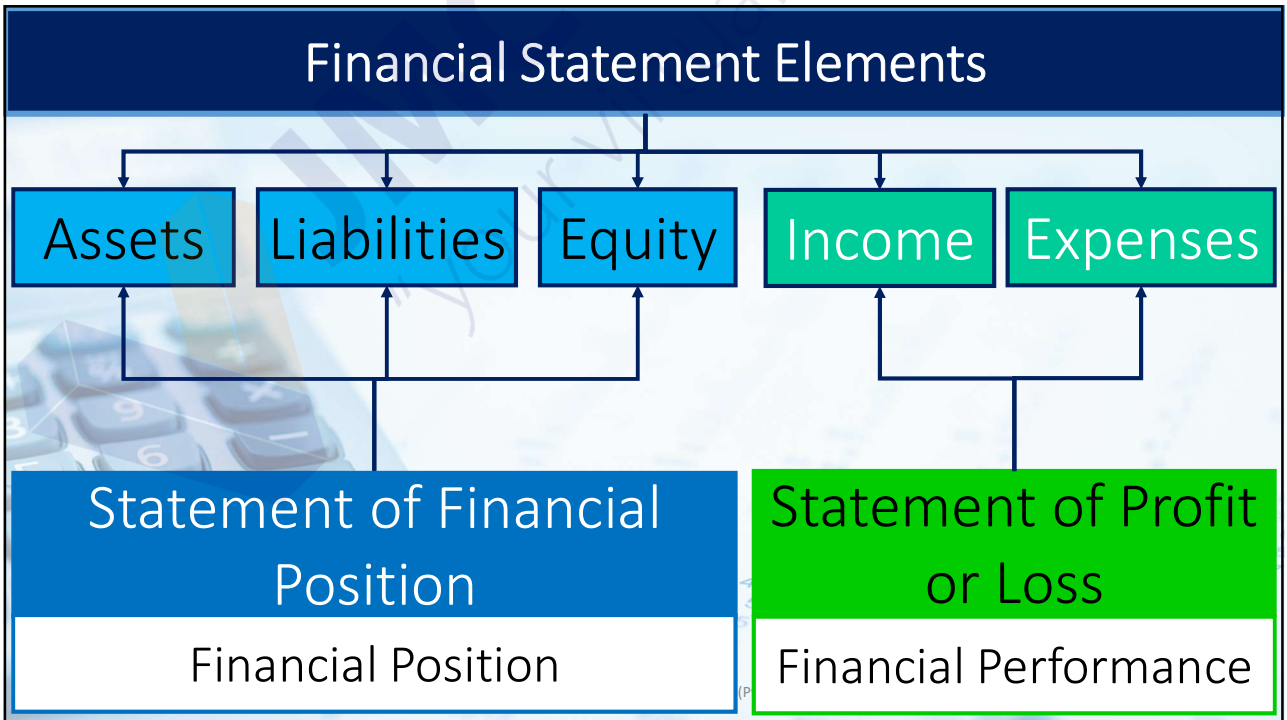
MBA (PIM-SJP), B.Sc. (Acct.) Hons. Gold Medal Winner, ACA, SAT, ACMA (UK), CGMA (UK), CA Prize Winner for AFR subject in Strategic Level II, CA First in Order of Merit Prize Winner in CAB II Level, CIMA Strategic Level Aggregate Prize Winner, Visiting Lecturer – Colombo University







Financial Statement Elements



2019 January Q1.5

Which one of the following group contains the elements of “Income Statement”?

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

Asset is

A present economic resource
controlled by the entity
as a result of past events/transactions

2024 January Q1.1

Present economic resources controlled by the entity as a result of past events are:

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

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Characteristics of an Asset

Right

Right to

Receive Money
Receive Goods and Services
Exchange Resources
Use PPE

Ability to generate Economic Benefits

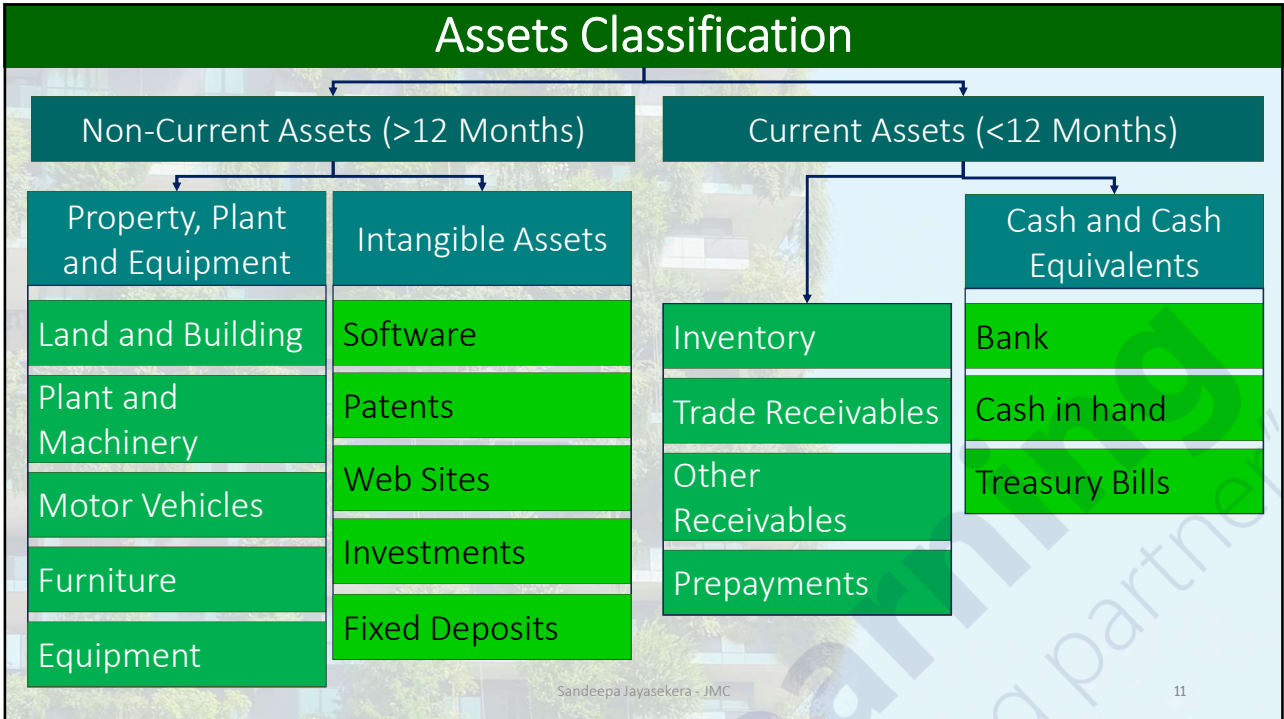
Ability to generate cash flows and other assets to the business

Control

Ability to obtain the economic benefits and take decisions regarding the asset


Recognition Criteria

- Probable inflow of Economic Benefits
- Cost/Value measured reliably



2024 January Q1.18

List two (02) examples of assets that can be classified as non-current assets.



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Liability is

A Present Obligation of the Entity
to Transfer Economic Resources
as a Result of Past Events

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In order to be a liability, there should be

Past Events

Present Obligation

Outflow of
Economic
Resources

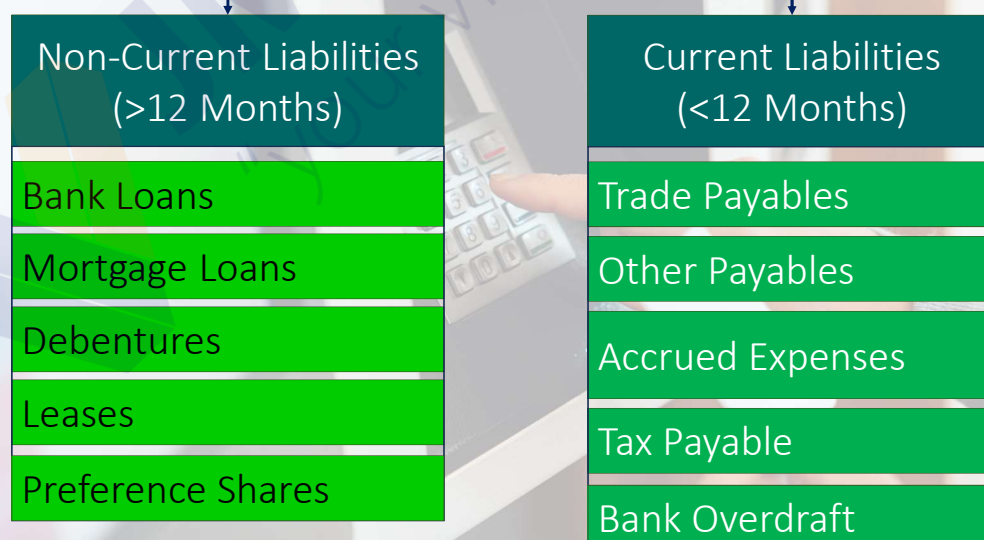


2020 January Q1.14

State whether each of the following statements is True or False. Write the answers (True or False) in your answer booklet, with the number assigned to the question:

d) A criteria of a liability is generating future economic benefits to the business.

Liability Classification



Equity is

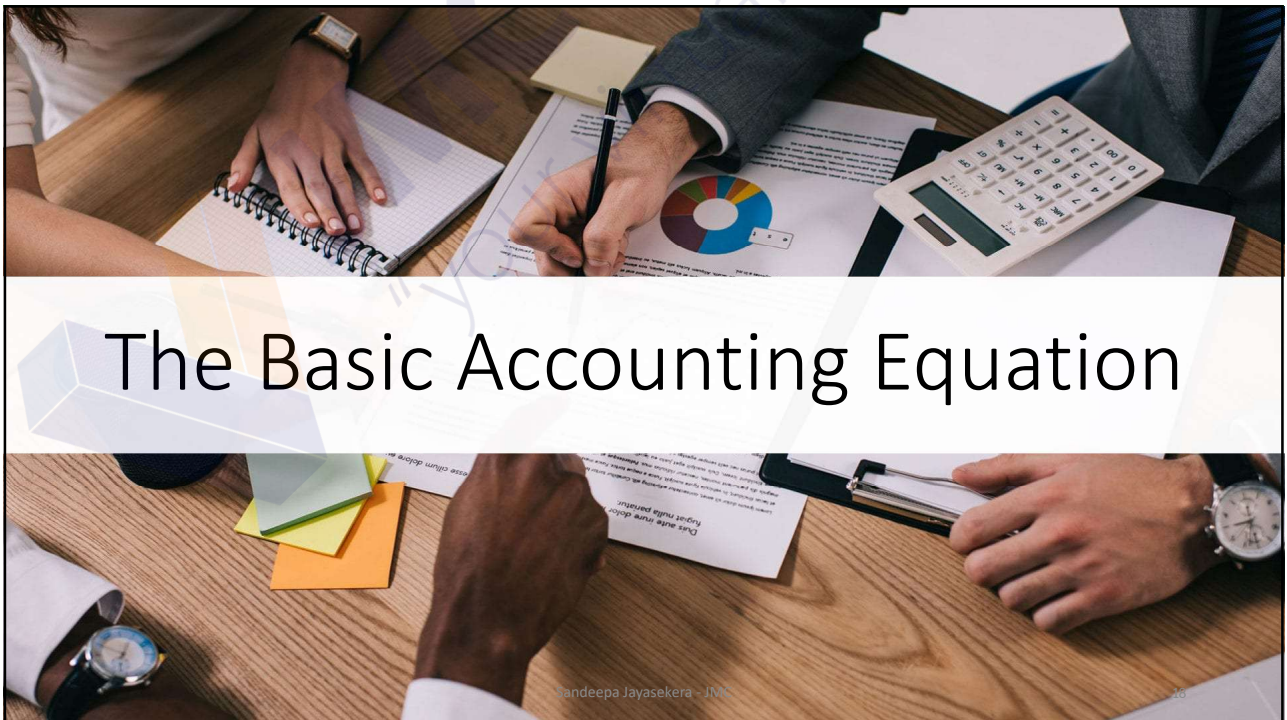
Equity is the residual interest in assets after deducting the liabilities.
Equity is the net assets



Assets

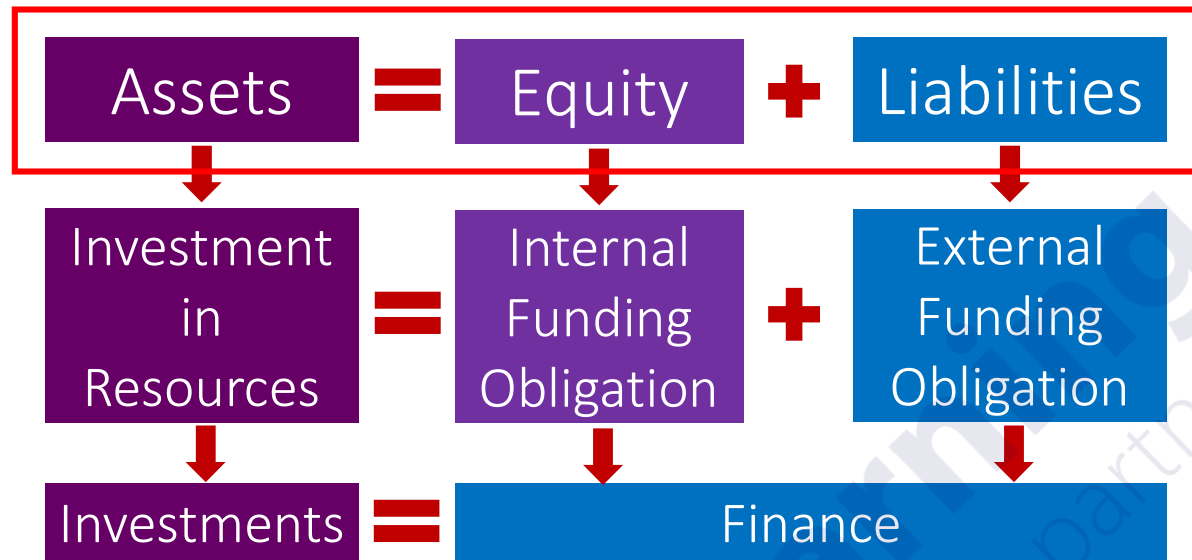


Liabilities



The Basic Accounting Equation

Basic Accounting Equation



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START

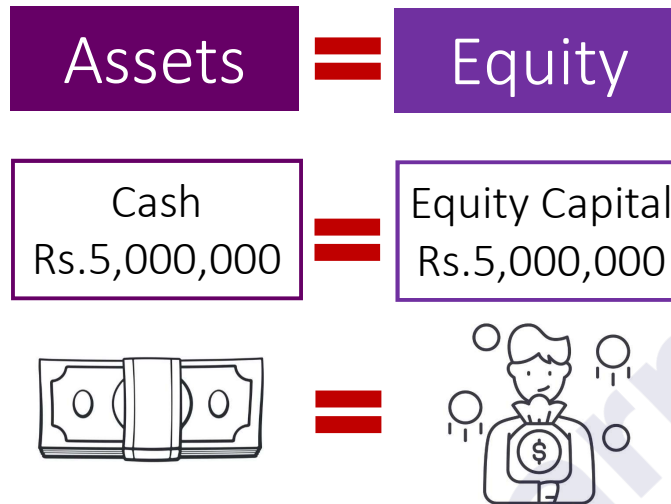
At the Beginning of a Business

Assets

=

Equity

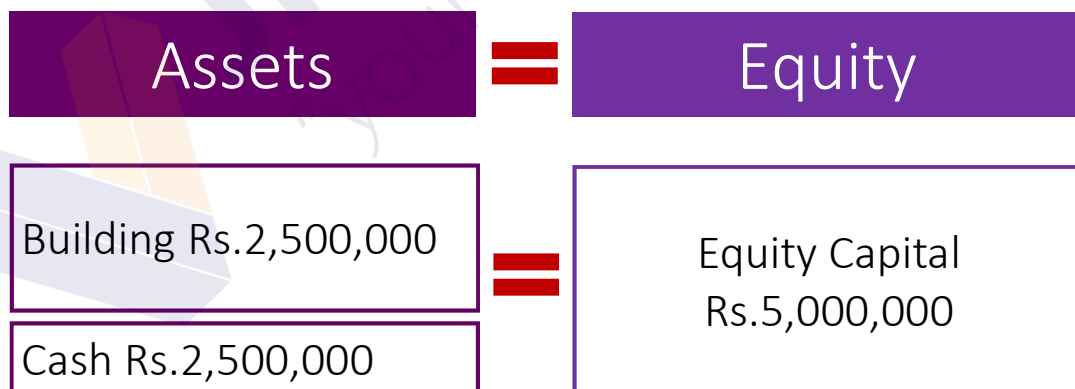
Mario started a ITEC Computers by investing Rs.5,000,000 in cash



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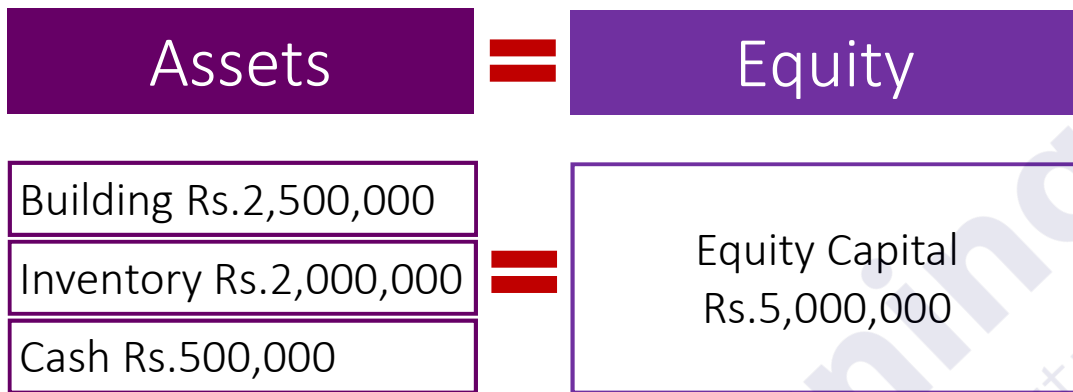
ITEC purchased a building by paying Rs.2,500,000.



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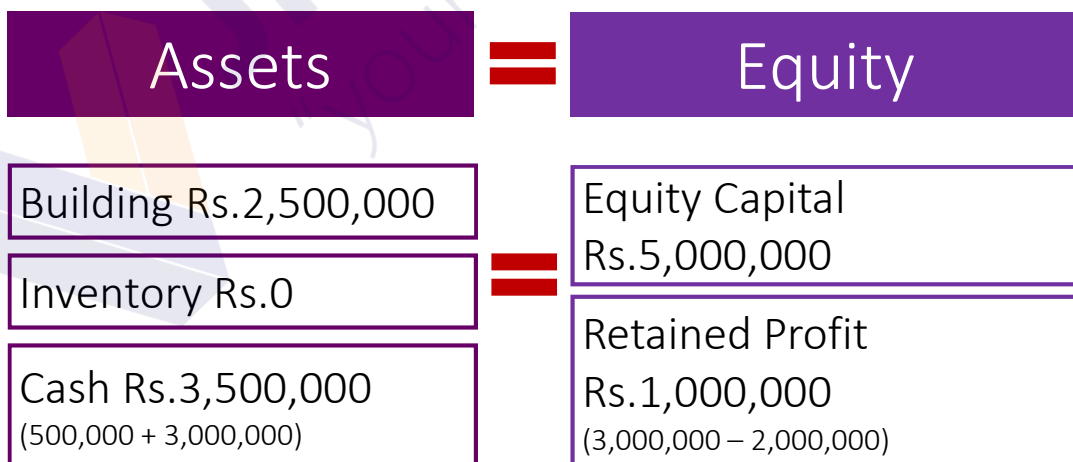
ITEC purchased Rs.2,000,000 worth of Computers.



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ITEC sold the computers costing Rs. 2,000,000 for a value of Rs. 3,000,000 and earned a profit of Rs. 1,000,000.



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The owner made a drawing (Money taken out of Business by Owner) of Rs.200,000

Assets	=	Equity
Building Rs.2,500,000	=	Equity Capital Rs.5,000,000
Inventory -		Retained Profit Rs.1,000,000
Cash Rs.3,300,000 (3,500,000 – 200,000)		(-) Drawings (-)Rs.200,000

When Business Grows Liabilities will come

Assets

=
Equity
+
Liabilities

Basic Accounting Equation

ITEC obtained a loan of Rs.600,000.

Assets	=	Equity	+	Liabilities
Build. Rs.2,500,000		Equity Capital Rs.5,000,000		Loan Rs.600,000
Cash Rs.3,900,000	=	Retained Profit Rs.1,000,000	+	
		(-) Drawings (-) Rs.200,000		

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ITEC purchased Rs.1,000,000 worth of Computers on a credit term

Assets	=	Equity	+	Liabilities
Build. Rs.2,500,000		Equity Capital Rs.5,000,000		Loan Rs.600,000
Inventory 1,000,000	=	Retained Profit Rs.1,000,000	+	Creditors Rs.1,000,000
Cash Rs.3,900,000		(-) Drawings (-) Rs.200,000		

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Mario invested another Rs.500,000 in ITEC.

Assets	=	Equity	+	Liabilities
Build. Rs.2,500,000	=	Equity Capital Rs.5,500,000	+	Loan Rs.600,000
Inventory 1,000,000		Retained Profit Rs.1, 000,000		Creditors Rs.1,000,000
Cash Rs.4,400,000 (3,300,000 + 500,000)		(-) Drawings (-) Rs.200,000		

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ITEC sold computers costing Rs.400,000 for Rs.750,000 on credit.

Assets	=	Equity	+	Liabilities
Build. Rs.2,500,000	=	Equity Capital Rs.5,500,000	+	Creditors Rs.1,000,000
Inventory 600,000		Retained Profit Rs.1,350,000 (1,000,000 + 350,000)	+	Loan Rs.600,000
Debtor Rs. 750,000		(-) Drawings		
Cash Rs.4,400,000		(-) Rs.200,000		

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Question 01

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.		=		

Question 02

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		=		

2020 January Q1.4

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/-.

2020 January Q1.8

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.

2020 July Q1.7

1.7 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.

2020 July Q1.10

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.

2021 January Q1.5

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

2021 January Q1.9

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.

2021 July Q1.5

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.

2022 January Q1.5

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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2022 January Q1.7

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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2022 July Q1.6

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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2022 July Q1.9

1.9 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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2023 January Q1.4

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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2023 July Q1.5

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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2023 July Q1.10

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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2024 January Q1.4

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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2024 January Q1.6

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

2019 January Q1.4

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.

2019 January Q5 (b)

Wijesooriya started a business on 01st September 2018. The following transactions have been extracted from his books of accounts for the month of September 2018

Date	Transaction
01.09.2018	Wijesooriya commenced the business investing Rs.800,000/- in cash. Further he invested his van valued at Rs.1,500,000/- to the business for delivering the goods.
05.09.2018	Purchased goods worth Rs.625,000/- on credit for resale.
18.09.2018	Sold goods costing Rs.375,000/- for Rs.485,000/- on cash basis.
26.09.2018	Staff salary of Rs.125,000/- was paid.
28.09.2018	Wijesooriya withdrew Rs.35,000/- in cash from the business for his personal use.
30.09.2018	Paid Rs.125,000/- to creditors for goods purchased on credit.

Record the effects of each of the above transactions to the following accounting equation.

[Non-current assets (fixed assets) + Inventory + Cash = Equity + Liabilities]

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2019 July Q5 (a)

The following transactions were extracted from the books of accounts of Saman Traders, a sole proprietorship for the month of January 2019:

Date	Transaction
02.01.2019	Purchased Rs.723,000/- worth of goods on credit for re-sale.
05.01.2019	Saman, the owner has taken goods costing of Rs.50,000/- for his personal use.
10.01.2019	Sold goods costing of Rs.575,000/- for Rs.600,000/- on credit basis.
15.01.2019	Cash received from Debtors Rs.550,000/-.
28.01.2019	Telephone Bill for the month of January 2019 was Rs.18,000/- and paid only Rs.12,000/-.
30.01.2019	Purchased a motor bicycle of Rs.500,000/- for cash for office use.

Record the effect of each of the above transactions to the following Accounting Equation.

[Non-Current Assets (Fixed Assets) + Inventory + Debtors + Cash = Equity + Liabilities]

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2020 January Q5 (a)

The following transactions were extracted from the books of account of Fernando Stores, a sole proprietorship for the month of March 2019:

Date	Transaction
01.03.2019	Purchased goods worth Rs.825,000/- on credit for resale.
05.03.2019	Sold goods costing Rs.420,000/- for Rs.525,000/- in cash.
15.03.2019	Fernando has taken Rs.75,000/- in cash for his expenses.
26.03.2019	Paid Rs.95,000/- to creditors for goods purchased on credit.
30.03.2019	Paid staff salaries of Rs.100,000/-.
31.03.2019	Purchased furniture for office use for Rs.1,500,000/- on credit.

Record the effect of each of the above transactions to the following Accounting Equation.
[Non-Current Assets (Fixed Assets) + Inventory + Cash = Equity + Liabilities]

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2020 July Q5

(A) The following transactions were extracted from the books of Sam Traders a sole proprietorship for the month of March 2020:

Date	Transaction
02.03.2020	Purchased goods of Rs.450,000/- for resale on credit.
05.03.2020	Stock costing of Rs.390,000/- was sold on credit for Rs.445,000/-.
10.03.2020	Sam has taken goods costing Rs.38,500/- for his personal use.
15.03.2020	Rs.25,000/- was paid for staff salary.
15.03.2020	Invested Rs.200,000/- in a fixed deposit of a bank.

You are required to:

Record the effect of the above transactions to the following Accounting Equation.
[Inventory + Debtors + Fixed Deposit + Cash = Equity + Liabilities] (05 marks)

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2021 January Q5

(A) The following transactions were occurred in the business of Raja Stores, a sole proprietorship during the month of January 2021:

Date Transaction

01.01.2021 Raja started a business investing Rs.2,000,000/- in cash as capital.

05.01.2021 Purchased of goods worth Rs.750,000/- on credit for resale.

10.01.2021 Stock costing Rs.500,000/- was sold on credit for Rs.650,000/-.

15.01.2021 Received Rs.400,000/- from a trade debtor.

25.01.2021 Paid Rs.300,000/- as staff salary for the month of January 2021.

31.01.2021 Raja has taken goods costing of Rs.25,000/- for his personal use.

You are required to:

Record the impact of the above transactions to the following Accounting Equation.

[Inventory + Trade Debtors + Cash = Equity + Liabilities] (06 marks)

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2021 July Q2

(A) Sam started a retail shop on 01st March 2021. The following transactions were occurred during the month of March 2021:

01.03.2021 Invested Rs.1,000,000/- in cash as the initial capital.

02.03.2021 Purchased goods of Rs.800,000/- on credit for resale.

05.03.2021 Paid monthly shop rent of Rs.50,000/-.

10.03.2021 Goods costing of Rs.500,000/- were sold for Rs.750,000/- in cash.

15.03.2021 Staff salary of Rs.150,000/- was paid.

31.03.2021 Obtained a bank loan of Rs.500,000/-.

You are required to:

State the effect of each of the above transactions to the following accounting equation

(Inventory + Trade Debtors + Cash = Equity + Liabilities)

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2022 January Q3 (b)

(B) You are given the impact of below five (5) transactions to the accounting equation of a sole proprietorship:

Assets			=	Equity (Capital)	+	Liabilities
Inventory	Trade Debtors	Cash				Trade Creditors
(1)		+1,000,000	=	+ 1,000,000		
(2)	+ 600,000		=			+ 600,000
(3)	(500,000)	+ 600,000	=	+ 100,000		
(4)		(400,000)	=			(400,000)
(5)		(50,000)	=	(50,000)		

You are required to:

Identify the possible transaction for each of the above items from (1) to (5).

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2022 July Q2

(A) You are given the impact of five (5) transactions to the accounting equation of a sole proprietorship below:

Assets				=	Equity (Capital)	+	Liabilities
Office Equi.	+ Inventory	+ Trade Deb.	+ Cash				
(1)			+1,200,000	=	+1,200,000		
(2)	+150,000		(150,000)	=			
(3)			(40,000)	=	(40,000)		
(4)	(65,000)	+80,000		=	+15,000		
(5)	+100,000			=			+ 100,000

You are required to:

Identify the possible transaction that took place for each line items from (1) to (5) of the above accounting equation.

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2023 January Q4

(A) You are given the impact of five (5) transactions to the accounting equation of a sole proprietorship below:

Assets				= Equity (Capital)	+ Liabilities
Office Equi.	+ Inventory	+ Trade Deb.	+ Cash		
(1)			+ 2,000,000	= + 2,000,000	
(2)	+ 750,000		(150,000)	=	+ 600,000
(3)	+ 300,000			=	+ 300,000
(4)			(450,000)	=	(450,000)
(5)	(150,000)	+ 180,000		= + 35,000	

You are required to:

Identify the possible transaction that took place for each line items from (1) to (5) of the above accounting equation.

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2023 July Q5(b)

(A) You are given the impact of five (5) transactions to the accounting equation of a sole proprietorship below:

Assets				= Equity (Capital)	+ Liabilities
Lorry	+ Inventory	+ Trade Deb.	+ Cash		
(1)	+ 750,000		+ 1,250,000	= + 2,000,000	
(2)		+ 950,000		=	+ 950,000
(3)	(60,000)	+ 90,000		= + 30,000	
(4)			(150,000)	= (150,000)	
(5)			(200,000)	=	(200,000)

You are required to:

Identify the possible transaction that took place for each line items from (1) to (5) of the above accounting equation.

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2024 January Q5 (A)

Dunith started a pastry shop on 01st December 2023. The following transactions were occurred in the business of **Dunith** during the month of December 2023: (1) **Dunith** introduced initial capital of Rs.2,000,000/- which comprised of Rs.1,200,000/- in cash and an office equipment worth of Rs.800,000/-.

(2) Purchased goods worth of Rs.650,000/- on credit for resale.

(3) Pastry items costing of Rs.260,000/- were sold for Rs.350,000/- on cash basis.

(4) Cash drawings made by **Dunith** for the month was Rs.250,000/-.

(5) Paid Rs.200,000/- as staff salaries of the month.

You are required to:

State the impact of each of the above transactions to the following Accounting Equation.

[Office Equipment + Inventory + Cash = Equity (Capital) + Liabilities] (05 marks)

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The Expanded Accounting Equation

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Profit = Income - Expenses

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

Income Definition

↑ Assets

↓ Liabilities


↓

↑ Equity

↓

Without any Contributions from Owners of Business

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Income

Income is an increase in assets or decrease in equity, that will result in increase in equity, other than those contributions from owners of the business

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Income Example

A sale result in increase in assets in terms of cash or debtor. Sale result in an increase in profit. Therefore, the equity will increase without any contribution from the owners. Therefore, sales is an income.

- Sales
- Rent Income
- Dividend Income
- Interest Income
- Gains

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Expense Definition

↓ Assets

↑ Liabilities

↓ Equity

Without any Distributions to Owners of Business

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Expense

Expense is a decrease in assets or increase in equity, that will result in decrease in equity, other than those distributions to owners of the business



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2024 January Q1.11

State whether each of the following statements from **1.11** is **True** or **False**. Write the answer (True/False) in your answer booklet with the number assigned to the question.

A decrease in assets or an increase in liabilities that result in a decrease in equity, other than those distributions to the owners of the entity can be defined as an expense.

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Expense Example

Purchase result in reduction of assets in terms of cash or increase in creditor liability. Purchase result in decrease in profitability. Thereby, the equity will be reduced without any distribution to owners. Therefore, purchases is an expense.

Salary

Purchase

Electricity

Rent

Repair

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Accounting Equation Expanded

Accounting equation is expanded by adding profit. Since profit belong 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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2021 January Q1.13

State whether each of the following statement is True or False

1.13 Additional capital introduced by owner of a sole proprietorship affects profit / loss for the period of the business.

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Question 01

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	Liabilities
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	Liabilities
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						

Q6. Kesara opened a shop on 01st of January 20X3. Following transactions took place during the first month of his business.

- 01.1.20X3 Commenced the business by introducing Rs.150,000.
- 07.1.20X3 Cash purchases and credit purchases were Rs. 10,000 and 15,000.
- 12.1.20X3 Total electricity for the month is Rs. 10,000. Of which Rs. 6,000 was paid.
- 15.1.20X3 Rent per month is Rs. 5,000. Rent paid Rs. 7,000 including Rs. 2,000 paid for the next month.
- 17.1.20X3 Sold goods for Rs.15,000 on credit terms. Cost of the goods sold were Rs.10,000.
- 18.1.20X3 Goods costing Rs.2,500 were drawn for the owner's personal use.
- 20.1.20X3 Sold goods for Rs.20,000. Cost of the goods sold were Rs.12,000.
- 25.1.20X3 Collected Rs.10,000 from a debtor and paid Rs.15,000 to a creditor.
- 31.1.20X3 Obtain a Bank Loan of Rs.25,000

Show the effects of the above transactions in expanded accounting equation

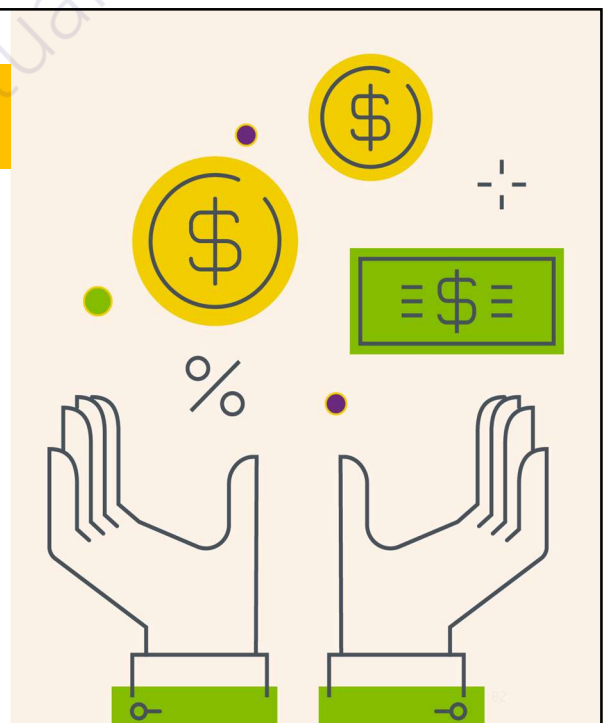
Q6						
Date	Assets	Expenses	=	Capital	Income	Liabilities
			=			
			=			
			=			
			=			
			=			
			=			
			=			
			=			
			=			
			=			

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

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

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

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2019 July Q1.4

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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2023 July Q1.2

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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Q10. Use the following table and calculate the profit or loss for the 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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Q12. 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

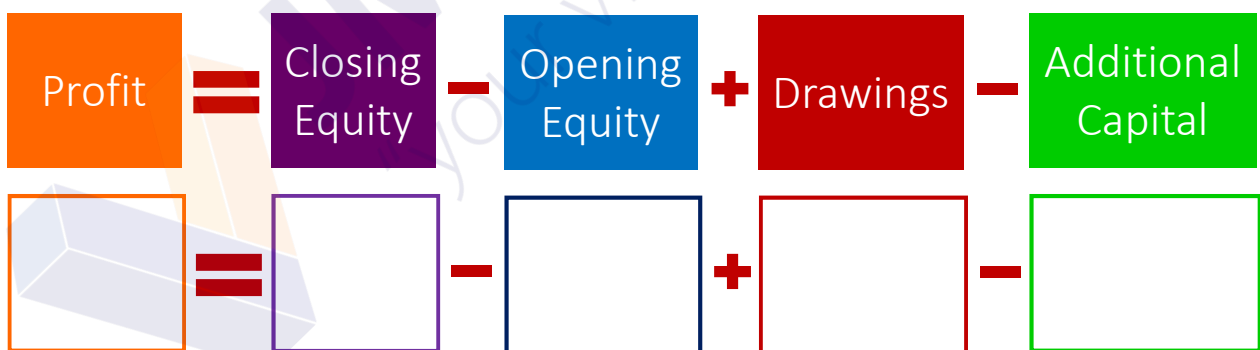
Total assets as at 31 st March 20X4	4,500
Liabilities as at 31 st March 20X4	1,300
Drawings during the year	500
Capital as at 01 st April 20X3	2,400
Additional Capital investment	1,000

Closing Equity



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Q12

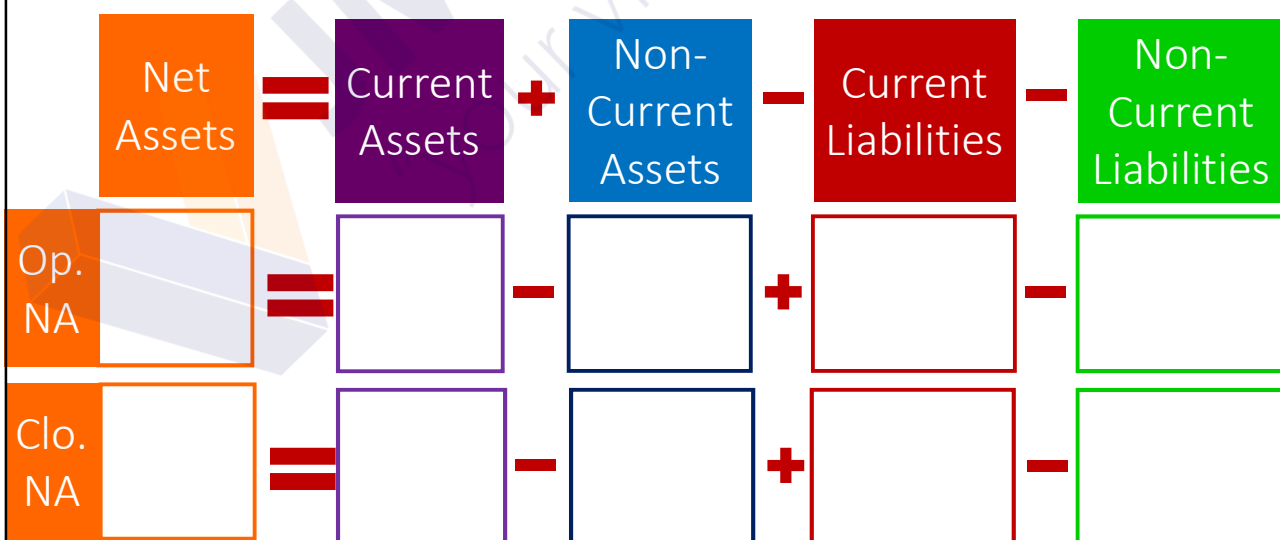


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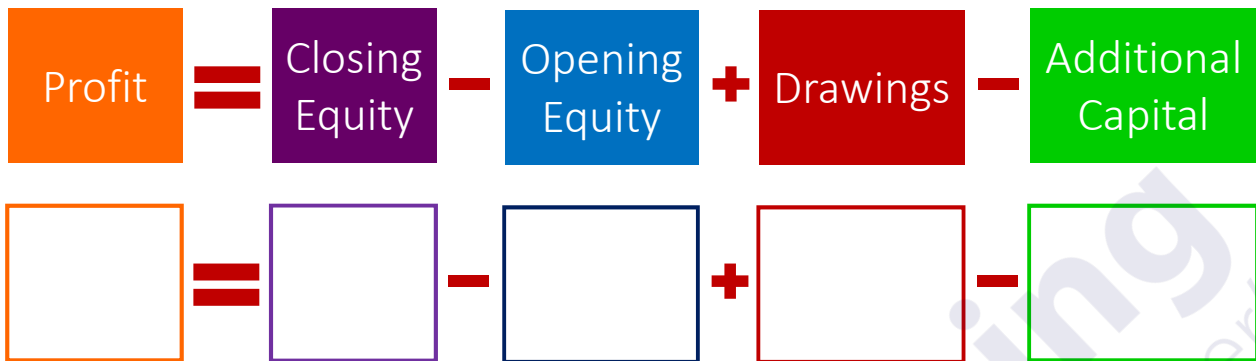
Q11. Use the following table and calculate the profit or loss for the year ended 31/03/20X5

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	-

Opening and Closing Equity



Q11



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2019 January Q1.6

The following information was extracted from the books of Moon Lanka Traders for the year ended 31st March 2018:

Description	Rs.
Capital as at 01 st April 2017	750,000
Additional capital introduced during the year	50,000
Liabilities as at 31 st March 2018	75,000
Total assets as at 31 st March 2018	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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2019 July Q1.12

The following information was extracted from the books of Super Traders for the year ended 31st March 2019:

Total assets as at 31 st March 2019	950,000
Capital as at 01 st April 2018	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 2019

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2020 January Q1.5

The following information was extracted from the books of Sarasi Traders for the year ended 31st March 2019

Net assets as at 01 st April 2018	975,000
Net assets as at 31 st March 2019	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 2019 was:

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

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2020 July Q1.6

The following information were extracted from the records of Ruwan Traders, a sole proprietorship for the year ended 31st March 2020:

Total assets as at 31st March 2020	1,550,000
Liabilities as at 31st March 2020	750,000
Capital account as at 01st April 2019	280,000
Drawings made during the year	150,000

Profit for the business for the year ended 31st March 2020:

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

2021 January Q1.18

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

Capital as at 01st April 2019	500,000
Drawings made during the year ended 31st March 2020	100,000
Profit for the year ended 31st March 2020	200,000
Liabilities as at 31st March 2020	150,000

Based on the above information, calculate the total assets as at 31st March 2020.

2021 July Q1.4

Following transactions were extracted from the books of accounts of Nayana's Business, for the year ended 31st March 2021:

Capital account as at 01st April 2020	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 2021	490,000

Based on the above information, the equity as at 31st March 2021 was:

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

2022 January Q1.4

The following information was extracted from the books of Naveen Traders, a sole proprietorship for the year ended 31st March 2021:

Total assets as at 31st March 2021	2,400,000
Capital as at 01st April 2020	1,500,000
Drawings made during the year	200,000
Liabilities as at 31st March 2021	900,000

Based on the above information, the profit for the year ended 31st March 2021 was:

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

2022 July Q1.8

The following information was extracted from the books of Rose Traders a sole proprietorship for the year ended 31st March 2022:

Capital as at 01st April 2021	2,000,000
Drawing made by owner during the year	300,000
Profit for the year ended 31st March 2022	480,000
Liabilities as at 31st March 2022	600,000

Based on the above information, total assets as at 31st March 2022 was:

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

2023 January Q1.9

The following information was extracted from the books of Manel Stores, a sole proprietorship for the year ended 31st March 2022:

Total assets as at 31st March 2022	7,500,000
Capital as at 01st April 2021	5,000,000
Drawings made during the year	600,000
Liabilities as at 31st March 2022	1,700,000

Based on the above information, the profit for the year ended 31st March 2022 was:

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

2023 July Q1.4

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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2024 January Q1.8

The following information was extracted from the books of Sameer Traders, for the month of January 2024:

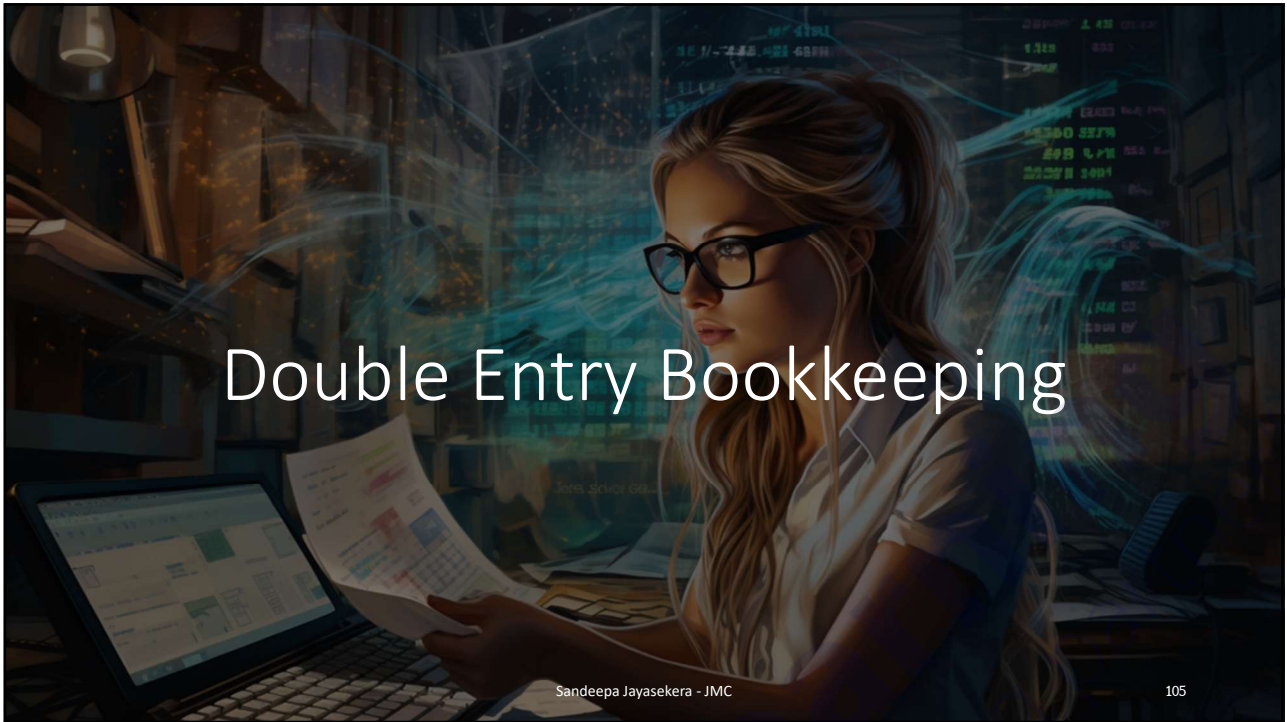
Net assets as at 31 st January 2024	4,500,000
Net assets as at 01 st January 2024	3,700,000
Drawings made during the month	200,000
Additional capital introduced during the month	300,000

Based on the above information, the profit of the business for the month ended 31st January 2024 was

1) Rs.700,000/- (2) Rs. 800,000/- (3) Rs.900,000/- (4) Rs. 1,100,000/-

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Double Entry Bookkeeping

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Luca Pacioli
Father of Accounting
(1447 – 19 June 1517)

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

Sp Adobe Spark

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

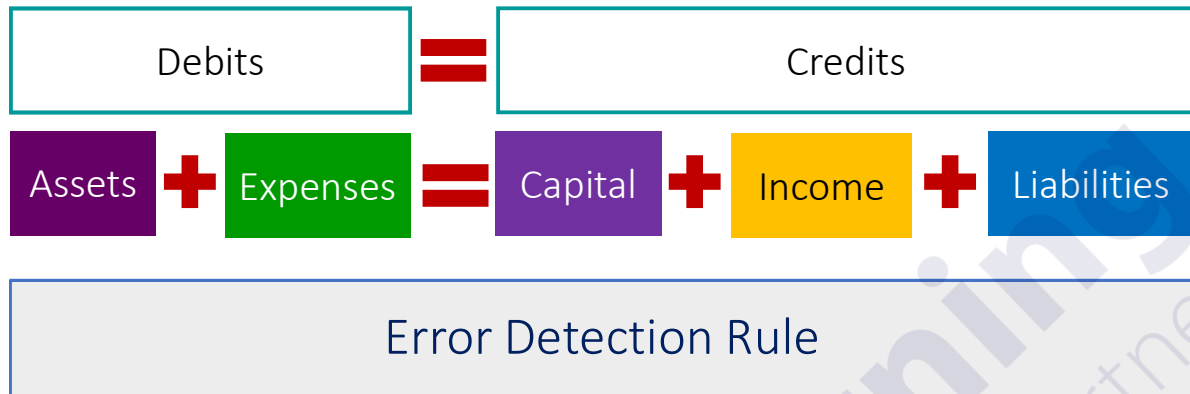
Luca Pacioli introduced the double entry system to record the dual aspect of transactions as Debit and Credit in the accounting ledgers. Always the Debits total shall be equivalent to Credits total. This is the foundation of accounting. Due to double entry method the errors made are detected then and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



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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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Question 02

For each of the scenarios below, indicate whether the affect will result in a debit or credit of the type of account

Scenario	Debit	Credit
If an asset is increasing		
If a liability is decreasing		
If an expense is increasing		
If a revenue is decreasing		
If an ownership equity account is increasing		
If an asset is decreasing		
If a liability is increasing		
If an expense is decreasing		
If a revenue is increasing		
If an ownership equity account is decreasing		

Q3

Mention the Type of Account and the general Balance of each Debit or Credit

- | | |
|---|---|
| <ul style="list-style-type: none"> • Cash in hand • Cash at bank • Rent • Discount allowed • Purchases • Sales • Creditors • Bank Charges | <ul style="list-style-type: none"> • Bank Loan • Debtors • Advertising • Capital • Commission received • Motor vehicle • Electricity |
|---|---|

Question

Write the relevant Ledger Accounts for the following double entries

Transaction	Account to be debited	Account to the credited
Sale of stock for cash		
Sale of stock on credit		
Payment received for credit sales		
Purchases of stock for cash		
Purchases of stock on credit		
Payment made for credit purchases		
Salary paid		
Salary payable		

Transaction	Account to be debited	Account to the credited
Sale of fixed asset for cash		
Sale of fixed asset on credit		
Payment received for credit sale of fixed asset		
Purchase of fixed asset for cash		
Purchase of fixed asset on credit		
Payment made for the purchase of fixed asset on credit		
Rent income received		
Rent income receivable		

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)

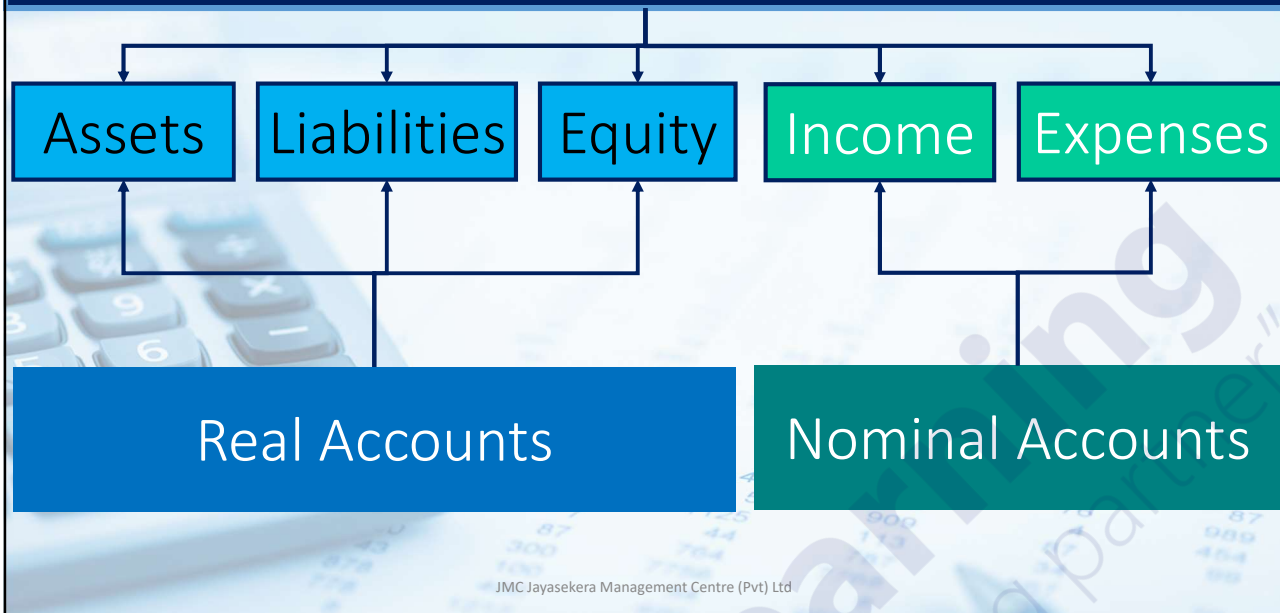
(1) Date Date of the transaction occurred

(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

Classification of Ledger Accounts



2019 January Q1.14

State whether each of the following statements is TRUE or FALSE. Write the answer (True/False) in your answer booklet with the number assigned to the question.

- Nominal accounts contain expenses and income accounts of the business.
- Purchase of a computer for Rs.100,000/- for office use on credit basis affects only the assets in the statement of financial position.

2019 July Q1.6

An example for a nominal account under the traditional classification of accounts is

- (1) Building account.
- (2) Motor vehicle account.
- (3) Bank loan account.
- (4) Sales account.

2020 January Q1.6

Which one of the following is an example for a real account under the traditional classification of accounts?

- (1) Debtors' Account.
- (2) Sales Account.
- (3) Loan Interest Account.
- (4) Machinery Account.



Recording Transactions in Ledger Accounts

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 Sales Income
--------------------	----------------------------

Step 02 +/-	Cash Increase Sales Increase
----------------	---------------------------------

Step 03 Dr. Cr.	Cash Debit Sales Credit
--------------------	----------------------------

				Cash			
1/1	Sales	10,000					
				Sales			
					1/1	Cash	10,000

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

Step 01 Element	Salary Expense Cash Asset
--------------------	------------------------------

Step 02 +/-	Salary Increase Cash Decrease
----------------	----------------------------------

Step 03 Dr. Cr.	Salary Debit Cash Credit
--------------------	-----------------------------

				Salary			
31/1	Cash	20,000					
				Cash			
					31/1	Salary	20,000

Question 04

Write the double entry for the following transactions and post them to the ledger accounts.

Description	Debit	Credit
1. Manuka started the business investing Rs.20,000 cash.		
2. Purchased stocks for Rs.1,500.		
3. Purchased office furniture by paying Rs.8,000 in cash.		
4. Sold items to a customer Rs.3,000 for cash		
5. Paid the rent Rs.500.		
Received the investment income Rs.2,000.		

Question 06

Write the double entry for the following transactions and post them to the ledger accounts

Description	Debit	Credit
Started Business with Rs.300,000 in cash and Rs. 500,000 worth of Vehicle.		
Purchased stock worth of Rs. 50,000 and paid 30,000 in cash and balance in credit.		
Purchased an office equipment worth of Rs. 40,000 on credit from Singer PLC.		

Description	Debit	Credit
Sold goods worth of Rs.5,000 in cash		
Settled the creditors Rs. 20,000		
Sold goods worth of Rs. 40,000 on credit.		
Drawn Rs. 20,000 for personal use.		
Paid the electricity bill Rs. 2,000		
Rent payable for the month of Rs. 10,000		

2019 July Q1.15

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

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

2020 January Q1.15

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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2020 July Q1.5

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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2021 January Q1.10

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.

2022 July Q1.5

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

2023 January Q1.10

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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2019 January Q1.15

Razeen is the sole proprietor of Razeen Traders. State the correct double entry for each of the following transactions of Razeen Traders:

- a) Purchase of goods for resale in cash for Rs.95,500/-.
- b) Razeen paid his son's tuition fee of Rs.24,000/- in cash from the business.
- c) Razeen transferred his personal land worth of Rs.1,000,000/- to the business as an additional capital.

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Accounting Concepts

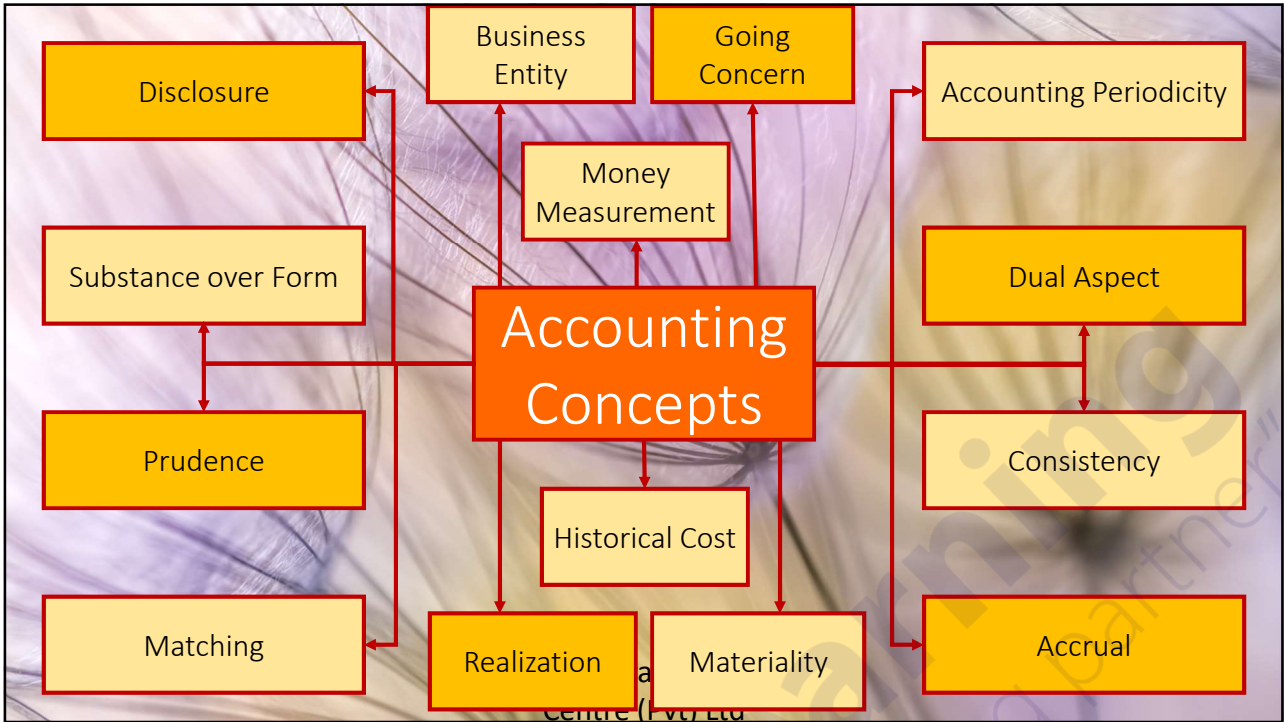
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What do you mean by Accounting Concepts?

- Accounting concept refers to the **basic assumptions** which serve the basis of recording actual business transactions.
- In order to maintain the **uniformity** and **consistency** in preparing and presenting financial statements, certain **rules** or **principles** have been evolved. These rules/principles are classified as Accounting Concepts.
- These are **foundations** of preparing and presenting financial statements. All the concepts have been developed over the years from experience and thus they are **universally accepted** rules

JMC Jayasekera Management Centre (Pvt) Ltd



Business Entity Concept

Business



Owner



Two Separate

Independent

Parties



JMC Jayasekera Management Centre (Pvt) Ltd

Business Entity Concept

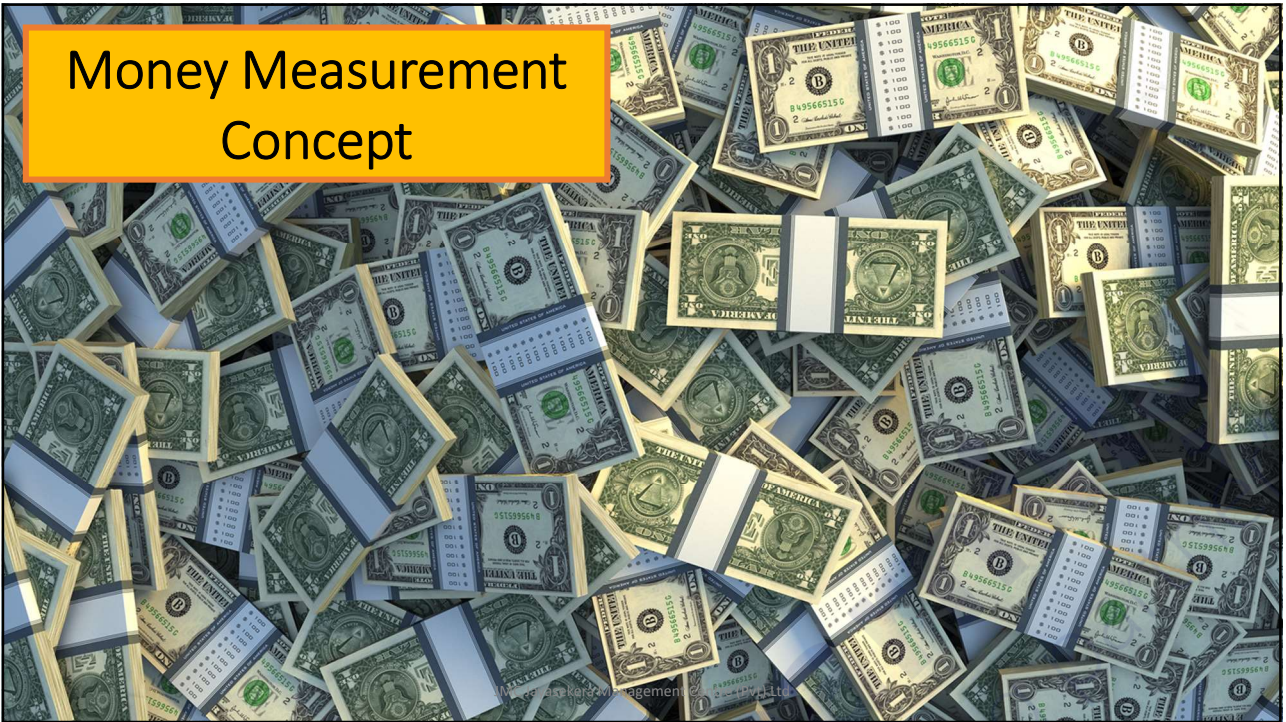
Description

Examples

Business is a separate independent entity from the owners.

- Equity is an internal obligation.
- Drawings is a reduction of equity and not an expense.
- Owner's personal transactions are not recorded in financials.
- Financials named under the name of business.
- Statement of changes in equity to show transactions with owners.

Money Measurement Concept



Money Measurement Concept



Transactions Expressed in
Monetary Terms
Can be Accounted

Following Qualitative Items cannot be Accounted

Customer Loyalty

Employee Loyalty

Ethics and Attitudes

JMC Jayasekera Management Centre (Pvt) Ltd

Money Measurement Concept

Description	Examples
Transactions and events that can be measured in monetary terms can only be accounted.	<ul style="list-style-type: none">• The currency is mentioned in all financial statements.• Things that cannot be measured in monetary terms are not accounted.<ul style="list-style-type: none">• Customer loyalty• Employee loyalty• Employee talents

Going Concern Concept



JMC Jayasekera Management Centre (Pvt) Ltd

Going Concern Concept



Assumption that,

A Business is Continuing

It's Operations for a

Foreseeable Future Period

JMC Jayasekera Management Centre (Pvt) Ltd

Going Concern Concept

It is assumed that entity has no idea of liquidation or of curtailing materially the scale of its operations

If, the entity has the intention to liquidate or curtail major operations, then financial statements would be prepared on a basis other than going concern basis (Liquidity Basis/Breakup Basis)



JMC Jayasekera Management Centre (Pvt) Ltd

Going Concern Concept

Description	Examples
Business will continue its operations for a foreseeable future without liquidation or curtailing	<ul style="list-style-type: none"> • Assets and liabilities classified as current and non-current. • Liabilities shown at cost and not in net realizable value • Depreciation of Property, plant and equipment.

Application of Going Concern Concept

- Assets and Liabilities are classified as Current and Non-Current

- Depreciation and Property, Plant and Equipment as Non-Current Asset

THE LANKA HOSPITALS CORPORATION PLC

Provisional Consolidated Financial Statements for the Quarter ended 31st March 2019

Statement of Financial Position

As at,

	Group	
	31st March 2019	31st Dec 2018
	Rs.	Audited Rs.
ASSETS		
Non Current Assets		
Property, Plant & Equipment	4,442,074,257	4,489,065,687
Intangible Assets	88,416,497	93,890,734
Investment Property	-	-
Advance Lease Premium	220,497,844	217,032,083
Investment in Subsidiary	-	-
Total Non Current Assets	4,750,988,598	4,799,988,504
Current Assets		
Inventories	394,346,224	369,185,426
Trade & Other Receivables	807,600,575	725,848,269
Amounts due from Related Parties	4,296,824	5,022,039
Economic Service Charge Recoverable	9,241,569	256,632
Other Financial Assets	2,875,548,849	2,673,761,224
Cash and Cash Equivalents	296,124,512	375,496,168
Total Current Assets	4,387,158,554	4,149,569,758
Total Assets	9,138,147,152	8,949,558,262

JMC Jayasekera Management Centre (Pvt) Ltd



Accounting Period Concept

JMC Jayasekera Management Centre (Pvt) Ltd

Accounting Period Concept

Transactions are Recorded

With the Assumption that

Profits are Ascertained

For a Specified Period



JMC Jayasekera Management Centre (Pvt) Ltd

Indefinite Life of Business

1/4/X1

31/3/X2

Separated to Accounting Periods

Calculate Profits

Pay Dividends

Assess Financial Position

Regulatory Requirements
E.g. Tax

JMC Jayasekera Management Centre (Pvt) Ltd

Periodicity Concept

Description	Examples
Foreseeable future of a business is divided into periods to ascertain the business performance, financial position and cash flows	<ul style="list-style-type: none">• Stating the financial year in statement of profit or loss.• Stating the reporting date on statement of financial position.• Considering income and expense for that particular year in statement of profit or loss.

Dual Aspect Concept



Dual Aspect Concept

Every Transaction

Has a Dual Impact



JMC Jayasekera Management Centre (Pvt) Ltd

Examples

Investing Money to the Business

Cash ↑

Capital ↑

Purchase of Motor Vehicle on Credit

Vehicle ↑

Loan ↑

Sale of Items on Credit

Debtors ↑

Sales ↑

Paid the Salaries of Employees

Cash ↓

Salary ↑

Purchase of a Raw Materials on Cash

Cash ↓

Purchase ↑

Duality Concept is Expressed through Expanded Accounting Equation

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

The implication of dual aspect concept is that every transaction has an equal impact on assets and liabilities in such a way that total assets and expenses are always equal to total equity, income and liabilities.

JMC Jayasekera Management Centre (Pvt) Ltd

Dual Aspect Concept

Description	Examples
Every transaction or event has a dual impact that will be recorded as debit and a credit. It helps to have the mathematical accuracy.	<ul style="list-style-type: none">• Transactions recorded as debit and credit• Owner invested money<ul style="list-style-type: none">• Cash Dr. Capital Cr.• Bank loan obtained<ul style="list-style-type: none">• Cash Dr. Loan Cr.

Consistency Concept



JMC Jayasekera Management Centre (Pvt) Ltd

Consistency Concept

Accounting Methods

Accounting Policies

Accounting Bases

Accounting Principles

In Preparing
and Presenting
Financials

Consistently
Applied

JMC Jayasekera Management Centre (Pvt) Ltd

Consistency Concept

Description

Accounting principles, methods and bases used in preparing and presenting financials shall not be changed regularly.

Examples

- Use of same accounting principles.
- Changes to accounting principles will made only if standard requires it or if more reliable and relevant information can be provided with change



Accrual Concept

Accrual Concept



Transactions Recognized

Once Incurred

Not at Cash Receipt or Payment



era Management Centre (Pvt) Ltd

Accrual Concept Results in Recognizing



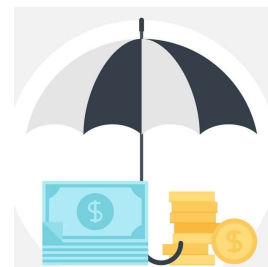
Debtors



Creditors



Accrued Expenses
Accrued Income



INSURANCE

Pre-payments
Income Received
in Advance

JMC Jayasekera Management Centre (Pvt) Ltd

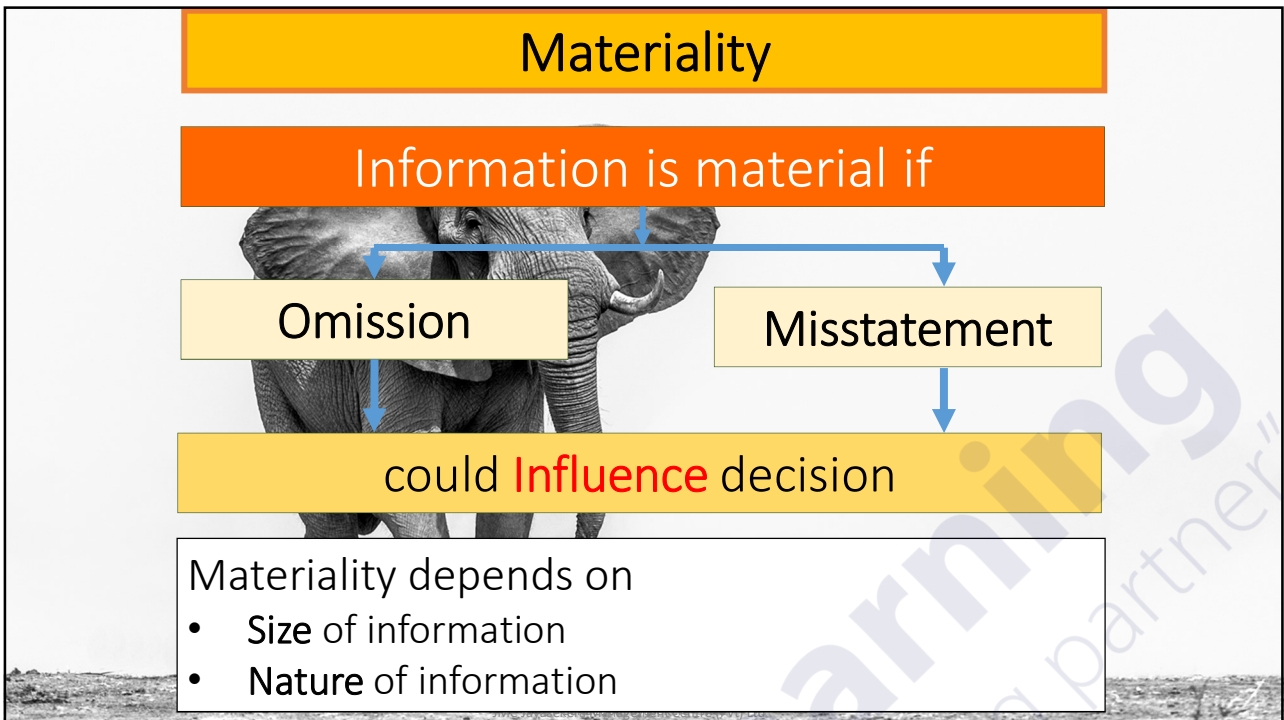
Accrual Concept

Description	Examples
Transactions shall be recognized as and when it has been incurred and not at the point of cash receipt or the payment.	<ul style="list-style-type: none">• Recognizing<ul style="list-style-type: none">• Accrued liabilities• Prepaid expenses• Debtors• Creditors• Income receivables• Income received in advance

Materiality Concept



JMC Jayasekera Management Centre (Pvt) Ltd



Materiality Concept	
Description	Examples
Information is material if it influence the decisions of the stakeholders. Materiality depends on both size and nature.	<ul style="list-style-type: none"> • Immaterial tools and equipment purchased are charged to profit or loss (Staplers, punchers) • Loans given to directors are disclosed, even though those are with a small value.



Historical Cost Concept

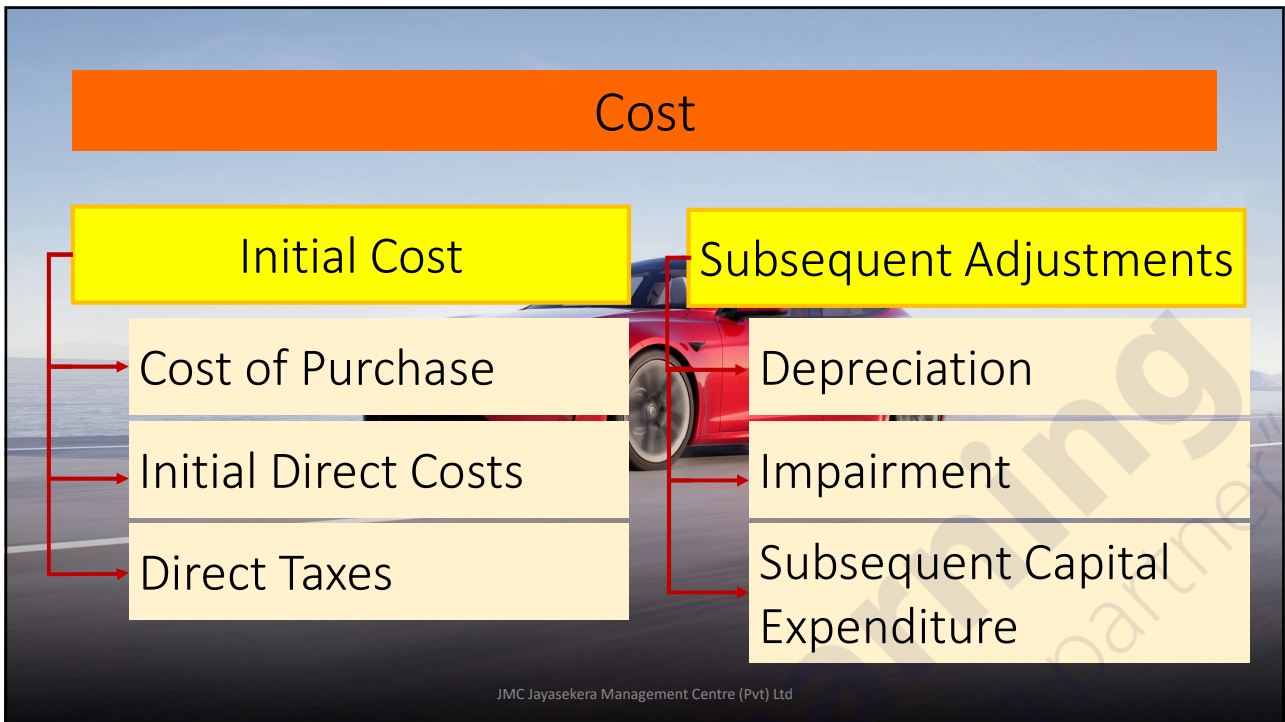


Historical Cost Concept

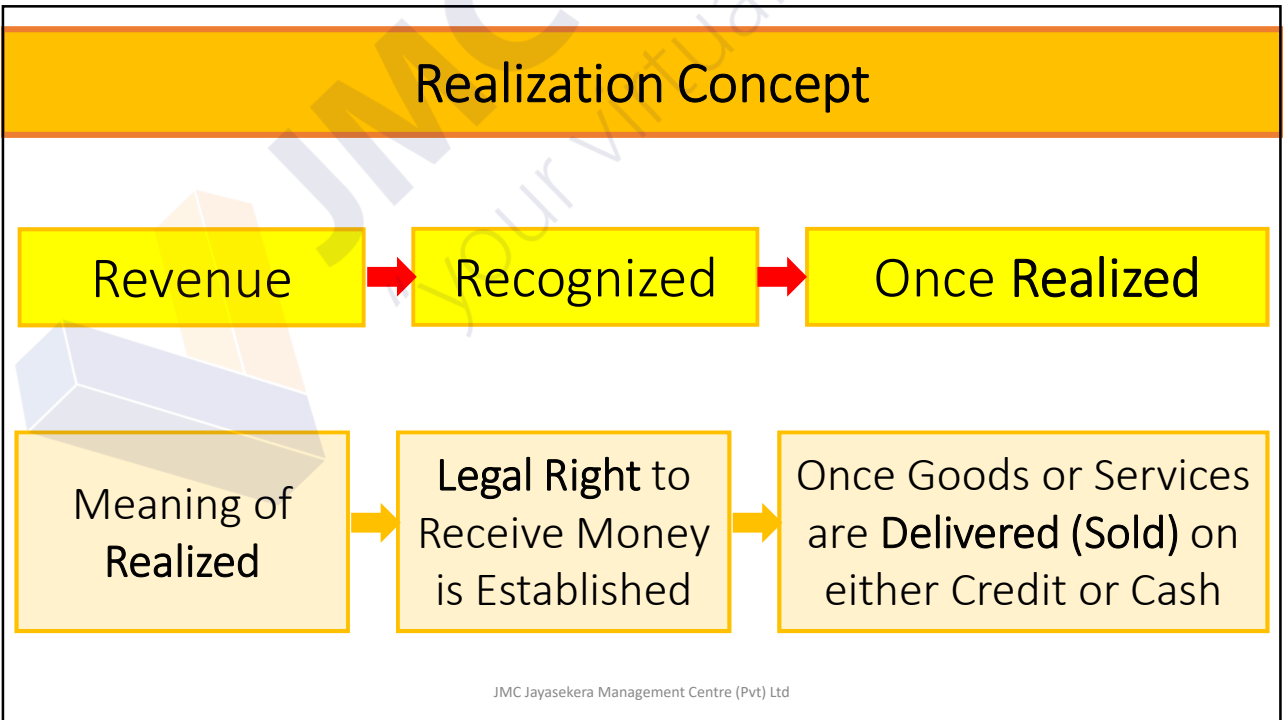
Assets are Recorded

At their COST

JMC Jayasekera Management Centre (Pvt) Ltd



Historical Cost Concept	
Description	Examples
<p>Assets are recorded at the cost of acquisition or construction.</p> <p>However, this concept has a weakness that the current values are not reflected.</p>	<ul style="list-style-type: none"> Property, plant and equipment initially measured at cost. Inventory measured at cost.



Example on Realization Concept

- Revenue shall be recognized once legal right to receive the money is established.
- It does not occur at the point of receipt of order, but once the goods are delivered.



Order placed



Order delivered

JMC Jayasekera Management Centre (Pvt) Ltd

Determine the Realization Point

1. Raja Jewelers received an order for a necklace on 1/1/X1. Money was paid on 5/1/X1. The necklace was handed over to customer on 6/1/X1.

2. Bandara is selling cables. A customer placed an order to buy Rs.500,000 worth of cables on 1/3/X2. Rs.300,000 worth of cables were delivered to the customer on 31/3/X2. The balance was delivered on 2/4/X2. Financial year ends on 31/3.

JMC Jayasekera Management Centre (Pvt) Ltd

Determine the Realization Point

3. Dilumi has providing investment consultancy services. Business accepted a consultancy project of 06 months on 1/1/X5 at a value of Rs.600,000. The financial year ends on 31/3.

4. Henuka is running a carpentry business. A customer has placed an order to make a chair on 1/2/X4. Advance paid on the same day. The Chair was ready by 15/2/X4. Balance was paid by the customer on 15/2/X4. Customer collected the chair on 16/2/X4.

JMC Jayasekera Management Centre (Pvt) Ltd

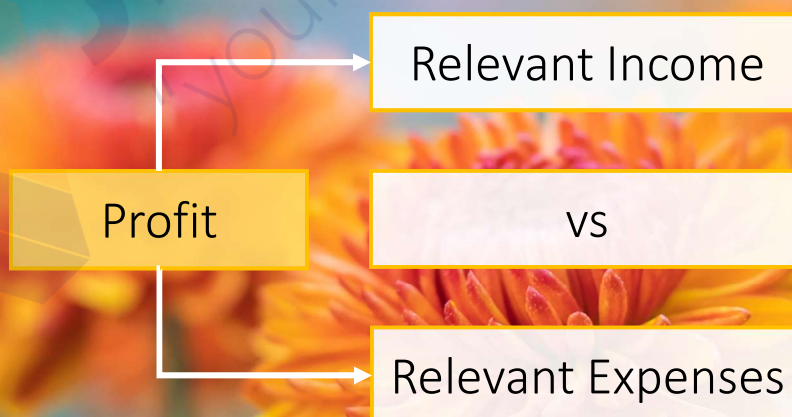
Realization Concept

Description	Examples
Income shall be recognized as and when the legal right to receive is established. Legal right to receive is established when seller has delivered the performance obligations (Promises)	<ul style="list-style-type: none"> Sale of a good is recognized when goods are being accepted by the buyer. Service income are recognized over the service period.

Matching Concept



Matching Concept



JMC Jayasekera Management Centre (Pvt) Ltd.

Application of Matching Concept



Depreciation of PPE over useful time



Recognizing Bonus Expense against relevant Profit



Recognizing Warranty Provisions against sales income

JMC Jayasekera Management Centre (Pvt) Ltd

Matching Concept

Description	Examples
<p>All the expenses incurred to generate the income shall be compared in arriving at the profit.</p>	<ul style="list-style-type: none"> • Recognizing closing inventory • Depreciation of property, plant and equipment. • Writing off bad debts. • Writing off assets that does not generate future economic benefits (damaged inventory) • Cost of sales compared with sales income.

Prudence Concept



IMC Inveskera Management Centre (Pvt) Ltd

Prudence Concept

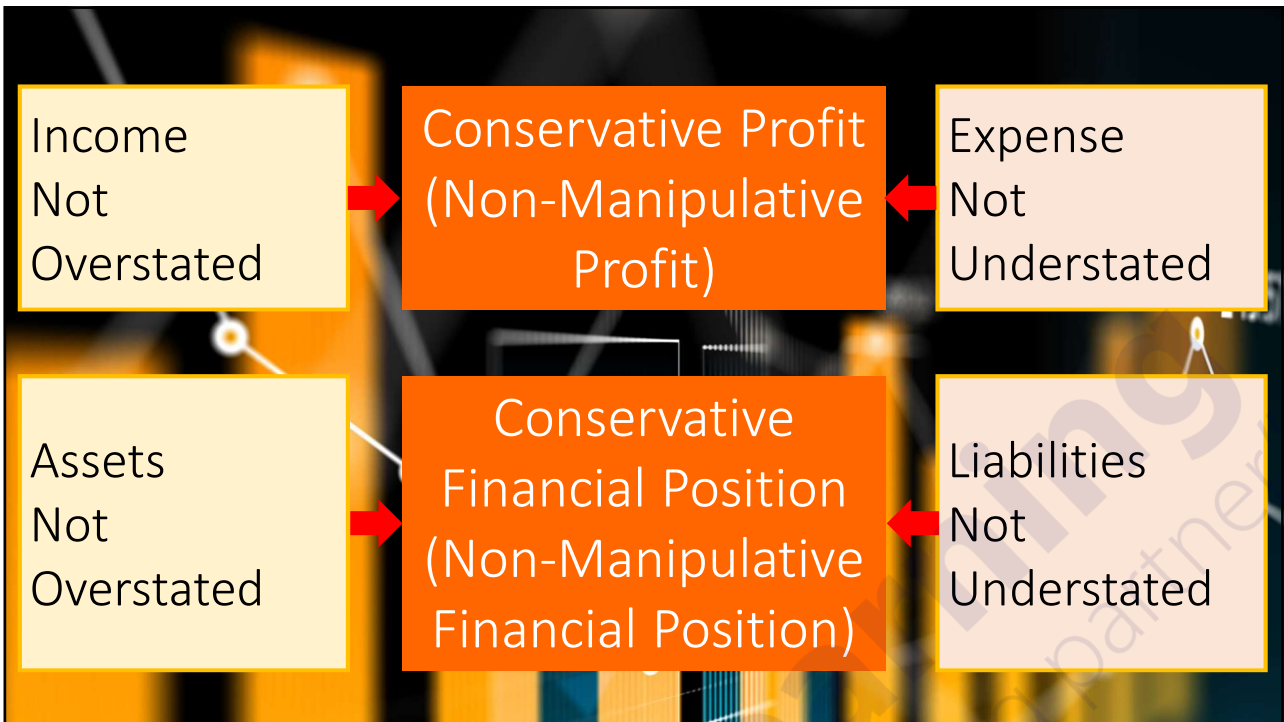
Assets and Income

Not Overstated

Liabilities and Expenses

Not Understated

IMC Inveskera Management Centre (Pvt) Ltd



Application of Prudence Concept



Doubtful Debt Provisions against the Debtors



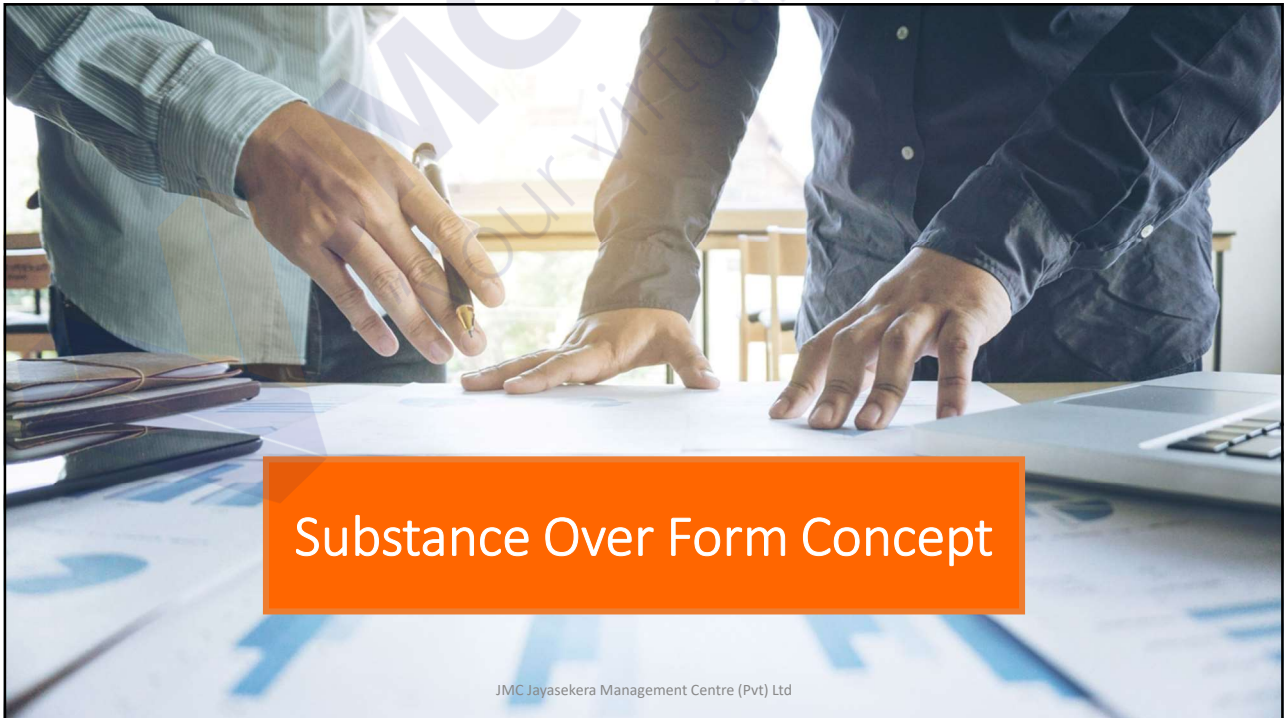
Recognizing Impairment Losses (Loss on Value Drop)



Recognizing a Provision against Obsolete Inventory

Prudence Concept

Description	Examples
Financial statements shall not be manipulated. Assets and income shall not be overstated. Expenses and liabilities shall not be understated.	<ul style="list-style-type: none">• Provision for doubtful debts• Impairment provisions• Gratuity provisions• Inventory measured at lower of cost or net realizable value• Depreciation of assets.



Substance Over Form Concept

JMC Jayasekera Management Centre (Pvt) Ltd

Substance Over Form Concept

In Accounting, Record the Transactions to Reflect

Economic
Reality



Legal
Reality

JMC Jayasekera Management Centre (Pvt) Ltd.

Application of Substance Over Form Concept



Recognizing Leased
Assets



Factoring of
Debtors



Inventory Sold on
Sale or Return basis

JMC Jayasekera Management Centre (Pvt) Ltd.

Substance Over Form Concept

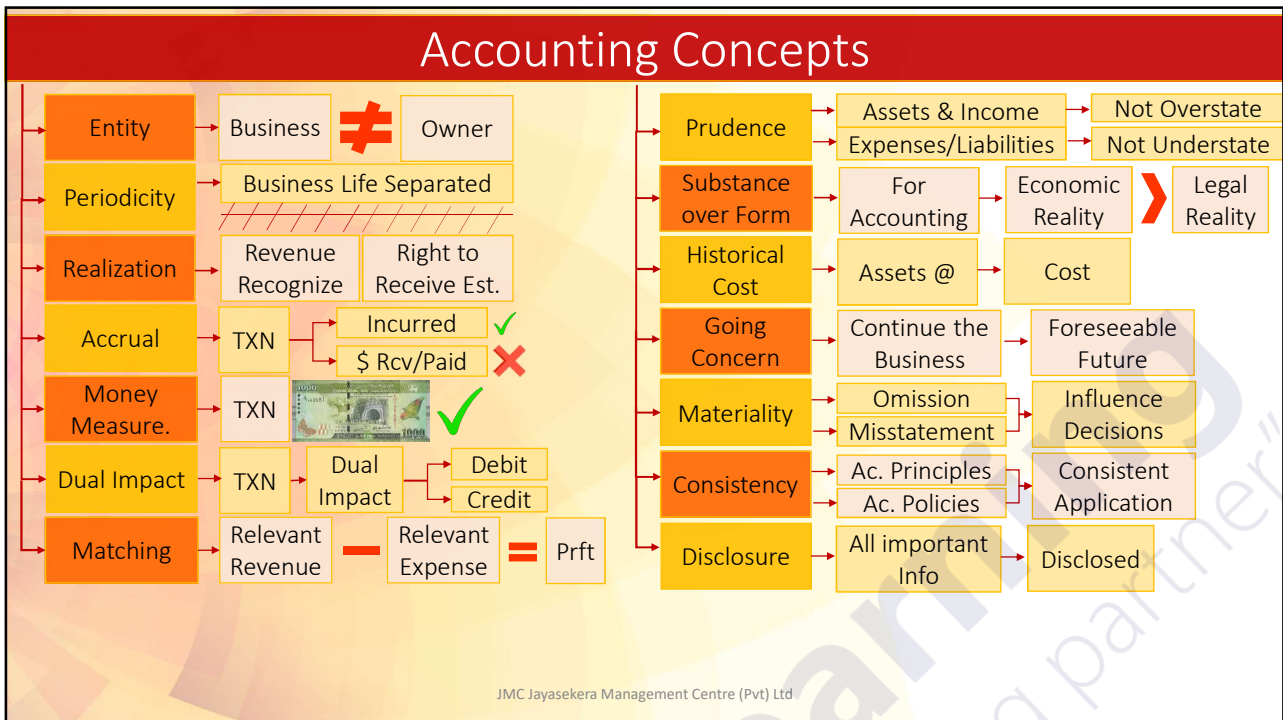
Description	Examples
In accounting, the economic reality is more important than the legal reality.	<ul style="list-style-type: none">• Leased out assets are recognized in financial position even though business is not the legal owner.• Unsold inventory send on sale or return are recognized as inventory of business.• Debtors factored with recourse are considered as debtors of business.

Disclosure Concept





Disclosure Concept	
Description	Examples
All material information shall be disclosed without omitting.	<ul style="list-style-type: none"> • Property, plant and equipment note. • Disclosing events after reporting period. • Disclosing any important information not available in any other financial statement.



Q1 - 2018 January Q1.2

Expenditure incurred in a particular accounting period should be taken into account during that particular accounting period irrespective of the actual payment. The accounting concept relating to this treatment is:

- | | |
|----------------------|------------------------------|
| (1) Accrual Concept. | (2) Consistency Concept. |
| (3) Entity Concept. | (4) Historical Cost Concept. |

02 Marks

Q2 - 2018 January Q1.9

Briefly explain, the “Concept of Going Concern” .

02 Marks

Sandeepa Jayasekera - JMC

197

Q3 - 2018 July Q1.3

Perera, a sole proprietor has taken Rs.5,000/- in cash from his business for his private expenses and it was considered as drawings of the business. The accounting concept relating to this treatment is:

- (1) Entity concept.
- (2) Accrual concept.
- (3) Realization concept.
- (4) Consistency concept.

02 Marks

Sandeepa Jayasekera - JMC

198

Q4 - 2018 July Q1.12

State the Accounting Concept applicable for each of the following circumstances:

- (a) It is assumed that the entity will continue for a long time, unless and until it has entered into a state of liquidation. _____
- (b) Revenue is recognized in the particular accounting period irrespective of receipt of cash or not. _____
- (c) The accounting policies followed by an entity should be consistently applied over the years. _____

03 Marks

Q5 - 2019 January Q1.2

The accounting policy on the depreciation method followed by the entity should not be changed over the years. The accounting concept relating to this treatment is:

- (1) Going Concern concept. (2) Entity concept.
(3) Consistency concept. (4) Realization concept.

02 Marks

Q6 - 2019 January Q1.12

Identify the accounting concept applicable for each of the following transactions:

(a) Expenditure incurred in a particular accounting period should be taken into account irrespective of the actual payment.

(b) A land of the business is shown in the statement of financial position at the purchase price. _____

(c) A provision should be made for doubtful debts from its debtors.

03 Marks

Sandeepa Jayasekera - JMC

201

Q7 - 2019 July Q1.3

“It is assumed that the entity will continue for a long time unless and until it has entered into a state of liquidation.”

The accounting concept relating to the above statement is:

- | | |
|------------------------------|----------------------------|
| (1) Historical cost concept. | (2) Going concern concept. |
| (3) Realization concept. | (4) Entity concept. |

02 Marks

Sandeepa Jayasekera - JMC

202

Q8 - 2019 July Q1.10

Identify the relevant accounting concept applicable for each of the following statements.

- (a) A company should follow consistently the method adopted for valuation of inventory. _____
- (b) Every transaction is recorded in terms of money. _____
- (c) Goods withdrawn by the owner for his personal use are considered as drawings. _____

03 Marks

Sandeepa Jayasekera - JMC

203

Q9 - 2020 January Q1.2

Revenue (income) is recognized in the particular accounting period irrespective of receipt of cash.

The accounting concept relating to this treatment is:

- (1) Going Concern Concept. (2) Accrual Concept.
(3) Money Measurement Concept. (4) Entity Concept.

02 Marks

Sandeepa Jayasekera - JMC

204

Q10 - 2020 January Q1.10

Briefly explain the “Accounting Periodic Concept”.

02 Marks

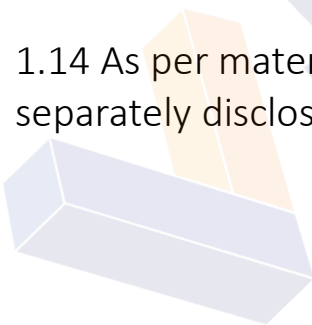
Sandeepa Jayasekera - JMC

205

Q11 - 2020 January Q1.14

State whether each of the following statements is/are true or false

1.14 As per materiality concept, items which are material should be separately disclosed in the financial statements. _____



01 Marks

Sandeepa Jayasekera - JMC

206

Q12 - 2020 July Q1.3

Recognizing transactions considering business and owner as two separate independent entities.”

Which one of the following accounting concept explains the above statement?

- (1) Entity concept. (2) Going Concern concept.
(3) Consistency concept. (4) Prudence concept.

02 Marks

Sandeepa Jayasekera - JMC

207

Q13 - 2020 July Q1.12 and 1.14

State whether each of the following statements is/are true or false

1.12 As per materiality concept, inventories are recorded at the lower of cost or net realizable value. _____

1.14 As per the accrual concept, revenue is recognized in the particular accounting period, irrespective of receipt of cash or not. _____

02 Marks

Sandeepa Jayasekera - JMC

208

Q14 - 2020 July Q1.17

Briefly explain the “Consistency Concept”.

02 Marks

Sandeepa Jayasekera - JMC

209

Q15 - 2021 January Q1.3

“Inventories are valued at lower of Cost or Net Realizable Value (NRV)”.
The accounting concept relating to the above statement is:

- (1) Prudence Concept.
- (2) Going Concern Concept.
- (3) Entity Concept.
- (4) Accrual Concept.

02 Marks

Sandeepa Jayasekera - JMC

210

Q16 - 2021 January Q1.6

“The financial statements are prepared on the assumption that an entity will continue in operation for the foreseeable future.” The most appropriate accounting concept that explains the above statement is:

- (1) Periodic Concept. (2) Going Concern Concept.
(3) Accrual Concept. (4) Entity Concept.

02 Marks

Sandeepa Jayasekera - JMC

211

Q17 - 2021 July Q1.2

As at 31st March 2021, Samanala Traders recorded Rs.25,000/- as the electricity expense for the month of March 2021, but the payment was made in the month of April 2021. The accounting concept relating to the above statement is:

- (1) Entity Concept. (2) Accrual Concept.
(3) Going Concern Concept. (4) Prudence Concept.

02 Marks

Sandeepa Jayasekera - JMC

212

Q18 - 2021 July Q1.9

Rama Traders has a land in Kandy and it is shown in the Statement of Financial Position of Rama Traders as at 31st March 2021 at purchase price of Rs.5,000,000/-. However, the market value of this land as at 31st March 2021 was Rs.6,000,000/-. The accounting concept relating to this is:

- | | |
|------------------------------|----------------------------|
| (1) Consistency Concept. | (2) Matching Concept. |
| (3) Historical Cost Concept. | (4) Going Concern Concept. |

02 Marks

Sandeepa Jayasekera - JMC

213

Q19 - 2021 July Q1.11

State whether each of the following statements is/are true or false

1.11 As per the entity concept, the business and owner are considered as two separate independent entities. _____



01 Marks

Sandeepa Jayasekera - JMC

214

Q20 - 2022 January Q1.8

“A telephone bill of the owner of the business was paid by the business and it was considered as drawings of the business.” The accounting concept relating to the above treatment is:

- (1) Accrual concept.
- (2) Going concern concept.
- (3) Matching concept.
- (4) Entity concept.

02 Marks

Sandeepa Jayasekera - JMC

215

Q21 - 2022 January Q1.10

Of the following, select the correct statement:

- (1) If the trial balance is agreed, errors cannot be existed in the books of accounts.
- (2) As per prudence concept, inventories are valued at the lower of cost or net realizable value.
- (3) The general ledger is a prime entry book.
- (4) The bank reconciliation statement is prepared by the bank of the business entity.

02 Marks

Sandeepa Jayasekera - JMC

216

Q22 - 2022 July Q1.10

“The financial statements are prepared on the assumption that an entity will continue in operation for the foreseeable future.”

The accounting concept relating to the above statement is:

- (1) Going Concern concept. (2) Accrual concept.
(3) Entity concept. (4) Periodic concept.

02 Marks

Sandeepa Jayasekera - JMC

217

Q23 - 2022 July Q1.12 and Q1.14

State whether each of the following statements is/are true or false

1.12 It is required to record all the transactions and events of a business whether it can be measured in money or not. _____

1.14 Valuing inventory at lower of cost or Net Realizable Value (NRV) is an example of prudence accounting concept. _____

02 Marks

Sandeepa Jayasekera - JMC

218

Q24 - 2023 January Q1.2

The accounting policy on the stock valuation method followed by the entity should not be changed over the periods. The accounting concept relating to this treatment is:

- (1) Accrual Concept. (2) Going Concern Concept.
(3) Historical Cost Concept. (4) Consistency Concept.

02 Marks

Sandeepa Jayasekera - JMC

219

Q25 - 2023 January Q1.7

Virath has stated "As at 31st March 2022" in the header of his Statement of Financial Position, when he prepared the financial statements for his business. The most relevant accounting concept which he has followed is:

- (1) Periodic concept. (2) Materiality concept.
(3) Matching concept. (4) Accrual concept.

02 Marks

Sandeepa Jayasekera - JMC

220

Q26 - 2023 January Q1.15

State whether each of the following statements is/are true or false

As per the Going Concern Concept, financial statements are prepared on the assumption that an entity will continue in operation only for a limited period of time. _____

01 Marks

Sandeepa Jayasekera - JMC

221

Q27 - 2023 July Q1.18

Briefly explain the concept, "Substance Over Form".



02 Marks

Sandeepa Jayasekera - JMC

222

Q28 – 2024 January Q1.5

Saman Traders purchased a land for Rs.2,500,000/- and current market value of the land is Rs.4,000,000/-. However, it is shown in the financial statements at purchase price of Rs.2,500,000/-. The accounting concept relating to this is:

- 1) Matching concept
- 2) Accrual concept
- 3) Going concern concept
- 4) Historical cost concept

02 Marks

Sandeepa Jayasekera - JMC

223

Q29 – 2024 January Q1.10

A part of the building of **ABC Ltd.** has been given out on rent at Rs.10,000/- per month. During the year ended 31st March 2023, an amount of Rs.110,000/- was received and balance Rs.10,000/- was received during the next financial year. **Vishnu**, Assistant Accountant of the company has recognized only Rs.110,000/- as rent income for the year ended 31st March 2023. Which one of the following accounting concept has been violated by **Vishinu**?

- (1) Matching Concept.
- (2) Entity Concept.
- (3) Accrual Concept.
- (4) Materiality Concept

02 Marks

Sandeepa Jayasekera - JMC

224

Q30 – 2024 January Q1.20

Briefly explain the “Matching Concept”.

02 Marks

Sandeepa Jayasekera - JMC

225

Q31

Which of the following accounting concepts provides the basis for non-recognition of employee competencies in the financial statements of a business?

- 1) Materiality
- 2) Money Measurement
- 3) Prudence
- 4) Matching

02 Marks

Sandeepa Jayasekera - JMC

226

Q32

Which of the following accounting concept provides the basis for the recognition of debtors and creditors in the financial statements of a business?

- 1) Going Concern
- 2) Matching
- 3) Prudence
- 4) Accrual

02 Marks

Q33

State the accounting concepts applicable for the scenarios given below.

A. Indication of the reporting period of the financial statements

B. Deduction of distributions made to owners from the retained earnings _____

C. Measurement of property, plant and equipment at acquisition cost

D. Measurement of inventory at the lower of cost or net realizable value

02 Marks

Q34

State whether following statement/s is are True or False.

A - Entity name is separately shown in financial statements inline with the entity concept _____

B - Going concern concept provides the basis for classification of assets and liabilities as current and non-current in the financial statements _____

C - Recognition of depreciation for each period in the income statement is inline with the matching concept _____

D – Drawings is deducted from the income in accordance with matching concept _____

02 Marks

Sandeepa Jayasekera - JMC

229

Q35

The following transactions took place in Isuru's catering business.

15/1/20X8 - Accepted an order to supply food and received a cash advance of Rs.100,000

28/1/20X8 - Supplied the food for the above order and received Rs.200,000 in cash

05/2/20X8 - Received the balance amount of Rs.50,000 for this order

In relation to recognition of revenue of the above order

A - What is the date to recognize the revenue? _____

B - How much is the value of revenue to be recognized on this date?

C - What is the applicable accounting concept? _____

03 Marks

Sandeepa Jayasekera - JMC

230

Q36

State whether following statements are True or False.

- 1) The basis to show the dividends paid to ordinary shareholders as a deduction from the retained earnings is provided by the entity concept _____
- 2) The basis to classify income receivable as a current asset in the statement of financial position is provided by the materiality concept _____
- 3) The basis to recognize discounts received from creditor as an income is provided by the matching concept _____
- 4) The basis to recognize discounts allowed to debtors as an expense is provided by the realization concept _____

02 Marks

Sandeepa Jayasekera - JMC

231

Q37

State the most appropriate accounting concept for the following accounting treatment.

A - Making a provision for warranties provided on goods sold

B - Recording a building obtained on lease as an asset in the lessee's books _____

C - Recognizing depreciation as an expense in the profit or loss account

D - Presenting assets as current and non-current in the statement of financial position _____

E - Financial statements prepared for a financial year _____

Sandeepa Jayasekera - JMC

05 Marks³²

Q39

State whether following statements are True or False.

A - The basis for recognition of debtors and creditors is provided by the accrual concept _____

B - The basis for measuring inventories at lower of cost or net realizable value is provided by the matching concept _____

C - The basis for classification of assets and liabilities as current and non-current in the statement of financial position is provided by the going concern concept _____

D – The loan given by directors are disclosed irrespective of the value due to materiality concept _____

02 Marks

Sandeepa Jayasekera - JMC

233

Q40

Which statement below reflect the application of substance over form concept? Put Yes or No.

A - Recognition of income tax payable by an entity as a liability _____

B - Recognition of asset obtained through lease arrangement in the statement of financial position _____

C - Recognition of bonus payable of an entity as a liability _____

D – Recognizing inventory sent on sale or return as an inventory until inventory being sold to final customer _____

04 Marks

Sandeepa Jayasekera - JMC

234

Q41

Select the situations which the historical cost concept is NOT practiced when preparing the financial statements.

A - Property, plant and equipment are revalued (Brought to market value) as per the revaluation model _____

B - Inventory measured at cost or net realizable value which ever is lower _____

C - Financial assets and liabilities measured at fair value _____

D – Machinery purchased measured at the purchase cost. _____

04 Marks

Sandeepa Jayasekera - JMC

235

Q42

The liabilities to be settled within 12 months from the reporting date is recognized as current liabilities. What is the underline accounting concept?

- 1) Prudence
- 2) Classification
- 3) Consistency
- 4) Going Concern

02 Marks

Sandeepa Jayasekera - JMC

236

Q43

The useful life of a machine estimated at 10 years was revised to 8 years. Accordingly, the depreciation was calculated and charged to profit or loss.

What is the underline accounting concept for the above adjustment?

- 1) Consistency
- 2) Materiality
- 3) Matching
- 4) Prudence

02 Marks

Sandeepa Jayasekera - JMC

237

Q44

A company purchased goods costing Rs. 850,000/- and sold part of those during the year. The cost of the goods sold was Rs. 600,000/-. The said Rs. 600,000/- has been considered as cost of sales while the balance of Rs. 250,000/- was included in the closing stocks. The accounting concept relevant to the above treatment is:

- 1) Consistency
- 2) Materiality
- 3) Matching
- 4) Prudence

02 Marks

Sandeepa Jayasekera - JMC

238

Q45

John Keels (Pvt) Ltd (A)

Statement of Profit or Loss and Other Comprehensive Income for the year ending 31 March 20X9 (B)

Rs.000' (C)

Revenue XXX (D)

Cost of Sales XXX (D)

Recognize the relevant accounting concepts indicated in

- A - _____
B - _____
C - _____
D - _____

02 Marks

Sandeepa Jayasekera - JMC

239

Q46

Which of the following accounting concepts provide the basis for the recognition of year end inventory at lower or cost or net realizable value?

- 1) Accrual
- 2) Periodicity
- 3) Prudence
- 4) Realization

02 Marks

Sandeepa Jayasekera - JMC

240

Q47

State the accounting concepts for following situations of a company.

A. Reporting a land at its acquisition price though the fair value of the land is greater _____

B. Recognizing depreciation of machinery over the period they are intended to use _____

C. Recognizing all assets with a purchase price less than Rs.5,000 as an expense _____

D. Using first in first out method to value the inventory _____

02 Marks

Sandeepa Jayasekera - JMC

241

