

Knowledge, skills and understanding

Content

The following content must be covered to prepare students for the final assessment of this qualification.

1. Accounting concepts and framework

Subject content	What students need to learn:
1.1 The financial accounting function	a) The differences between financial accounting and management accounting.
	b) The principles incorporated in the following accounting standard: <ul style="list-style-type: none"> • IAS 1 – presentation of financial statements.
	c) The elements, nature and purpose of financial statements, including: <ul style="list-style-type: none"> • statement of profit or loss • statement of changes in equity • statement of financial position • statement of cash flows.
	d) The understanding and application of the following accounting concepts: <ul style="list-style-type: none"> • accruals • business entity • consistency • going concern • materiality • prudence • realisation.

Subject content	What students need to learn:
	<p>e) Understanding the characteristics of financial reporting under the International Accounting Standards Board (IASB) framework, including:</p> <ul style="list-style-type: none">• relevance• faithful representation• comparability• verifiability• timeliness• understandability.

Subject content	What students need to learn:
1.2 Types of business organisations	a) The purpose, advantages and disadvantages of different types of businesses, including: <ul style="list-style-type: none"> • sole trader • partnership • limited liability partnership • private limited companies (Ltd) • public limited companies (plc).
1.3 How financial statements contribute towards meeting the needs of different stakeholders and users	a) An understanding of the main stakeholders in business and reasons for their interests (needs) in financial statements. Stakeholders to include: <ul style="list-style-type: none"> • owners • managers • suppliers • customers • employees • government • investors • providers of external finance • competitors • local community • trade associations • trade unions.
1.4 Introduction to ethical behaviour in accounting practices	a) An understanding of the fundamental principles of professional ethics, including: <ul style="list-style-type: none"> • professional behaviour • professional/technical competence and due care • confidentiality • integrity • objectivity. b) An understanding of the impact of professional ethics in accounting roles and functions.

2. Recording financial transactions

Subject content	What students need to learn:
2.1 Account for inventory	a) The objectives of inventory control and accounts, including perpetual and periodic inventory valuation and the methods of inventory valuation which may be used by businesses: <ul style="list-style-type: none"> • first-in, first-out (FIFO) • last-in, first-out (LIFO) • weighted average cost (AVCO) • standard cost. Learners will not be required to prepare the stock ledger using these methods.
	b) The principles incorporated in the following accounting standard: <ul style="list-style-type: none"> • IAS 2 – inventories.
	c) The effect on profit or loss of business due to change in the method of inventory valuation.
	d) The adjustments of inventory movement before or after the end of accounting period in the absence of physical inventory count.
	e) The reconciliation of inventory ledger balance with physical inventory count.
	f) The adjustments at period end in relation to inventory.
2.2 Account for tangible and intangible non-current assets	a) Understand the differences between tangible and intangible non-current assets.
	b) The principles incorporated in the following accounting standard: <ul style="list-style-type: none"> • IAS 16 – property, plant and equipment.
	c) The capital expenditure on purchase of non-current assets, including all costs.
	d) An understanding of the methods of funding the purchase of non-current assets, including: <ul style="list-style-type: none"> • internal sources (owner’s capital, bank, cash) • external sources (borrowed capital, bank loan, commercial mortgage) • hire purchase/leasing • trade-in allowance.

Subject content	What students need to learn:
	e) The accounting treatment, including journals and ledger postings for acquisition and disposal of non-current assets.
	f) The importance and maintenance of an up-to-date non-current assets register for acquisition and disposal of non-current assets and its contents.
2.3 Account for depreciation	a) The purpose of depreciation.
	b) The principles and operation of depreciation for non-current assets, including journals and ledger postings, using the following methods: <ul style="list-style-type: none"> • straight line • revaluation • reducing (diminishing) balance.
	c) The importance and maintenance of an up-to-date non-current assets register for depreciation and accumulated depreciation.
	d) The effect on profit or loss of business due to change in the basis of depreciation of non-current assets.
	e) The effect on the depreciation charge due to change in the life and/or residual value of non-current assets.

3. Preparation of an extended trial balance

Subject content	What students need to learn:
3.1 The preparation of the extended trial balance	a) To process adjustments of trial balance figures at the period end to prepare financial statements for business: <ul style="list-style-type: none"> • inventory • accrued and prepaid income and expenditure • depreciation of non-current assets • irrecoverable debts and allowance for doubtful debts • correction of errors.
	b) The extension of the ledger balance and adjustment column into the statement of profit or loss and the statement of financial position columns.
	c) Calculate the profit or loss for the period from the statement of profit or loss columns of the extended trial balance

4. Preparation of financial statements

Subject content	What students need to learn:
4.1 Partnerships	a) The purpose of a partnership agreement.
	b) The purpose and preparation of: <ul style="list-style-type: none"> • current accounts • capital accounts. Including drawings for the partners in columnar format for ledgers, and as a part of the statement of financial position.
	c) The statement of profit or loss appropriation account, including changes in partnership interests during the year, including: <ul style="list-style-type: none"> • interest on drawings • interest on capitals • partners' salaries • share of profits or losses.
	d) The merger of sole traders to form a partnership.
	e) The merger of partnerships, or conversion of a partnership into a limited company or partnership taken over by a limited company, including: <ul style="list-style-type: none"> • purchase consideration • accounting treatment – journal and ledger postings in relation to realisation account • distribution of proceeds between partners • closure of ledger accounts relating to partners' current and capital accounts in partnership books on dissolution of partnership.
	f) Preparation of statements from given data set for single entities and partnership <ul style="list-style-type: none"> • statement of profit or loss • statement of financial position
4.2 Limited Liability Companies	a) The differences between: <ul style="list-style-type: none"> • redeemable and irredeemable shares • rights issues and bonus issues

b) The preparation of financial statements (for external use) with adjustments, including:

- statement of profit or loss
- statement of changes in equity
- statement of financial position
- statement of cash flows (IAS 7 format).

Subject content	What students need to learn:
4.3 Accounting for groups of companies	a) The principles incorporated in the following accounting standards: <ul style="list-style-type: none"> • IFRS 3 – accounting for business combinations • IAS 27 – consolidated financial statements.
	b) The understanding of the following terms: <ul style="list-style-type: none"> • parent • subsidiary • non-controlling interest • goodwill • fair values • pre- and post-acquisition profits.
	c) The calculation of goodwill arising on consolidation.
	d) The calculation and treatment of pre- and post-acquisition profits, including non-controlling interest.
	e) Preparation of a consolidated statement of profit or loss with one subsidiary (acquisition taking place at the beginning of the financial year) (IFRS 10).
	f) Preparation of a consolidated statement of financial position with one subsidiary (acquisition taking place at the beginning of the financial year) (IFRS 10).

5. Preparation of accounting from incomplete records

Subject content	What students need to learn:
5.1 Preparation of accounting records from incomplete records	a) The use of accounting ratios to calculate revenue, cost of purchases, inventory, gross profit and profit for the year due to loss of records as a result of theft, fire or natural disaster, including: <ul style="list-style-type: none"> • gross profit as a percentage of revenue (margin) • gross profit as a percentage of cost of sales (markup) • profit for the year as a percentage of revenue • opening and closing statement of affairs to calculate capital or profit for the year.
	b) The statement of profit or loss and statement of financial position from incomplete records for different types of businesses, including sole traders.

6. Interpretation of financial statements

Subject content	What students need to learn:
6.1 The calculation and interpretation of accounting ratios	a) The importance of measuring business performance and the elements of business performance that can be measured by the main financial statement used in business.
	b) The calculation and use of the following ratios to produce financial statements: <ul style="list-style-type: none"> • gross profit percentage/margin • profit for the year as a percentage of revenue • current ratio • quick ratio (acid test) • return on capital employed (ROCE) • trade receivables collection period • trade payables payment period • inventory turnover • asset turnover.
	c) The analysis of results obtained from different ratios to make recommendations and decisions.

7. Budgetary control

Subject content	What students need to learn:
7.1 Budgets	a) The benefits and limitations of budgetary control
	b) The preparation and interpretation of the following budgets for a given period: <ul style="list-style-type: none"> • cash budget • inventory budget • trade receivables budget • trade payables budget.
	c) The preparation and interpretation of the following budgeted statements: <ul style="list-style-type: none"> • statement of profit or loss • statement of financial position.

8. Introduction to decision making

Subject content	What students need to learn:
8.1 Short-term decision making	a) Benefits and limitations of marginal and absorption costing
	b) The use of marginal costing for calculating: <ul style="list-style-type: none"> • breakeven point, both in sales units and sales value • profit or loss for a given number of units sold • number of units required in order to generate targeted profit • the interpretation of the results obtained by using marginal costing techniques and making recommendations.
8.2 Long-term decision making	a) The characteristics, advantages and disadvantages of the following methods of investment appraisal: <ul style="list-style-type: none"> • payback period • accounting rate of return • net present value.
	b) The calculation and interpretation of the results obtained for different projects to make recommendations and decisions by using the following methods: <ul style="list-style-type: none"> • payback period • accounting rate of return • net present value.

The following skills should be developed throughout the course of study.

Skills	Students should:
	a) Demonstrate accuracy, orderliness and appropriate presentation of accounting information.
	b) Demonstrate an understanding of the principles of professional ethics.
	c) Demonstrate a knowledge of accounting concepts and principles.
	d) Make adjustments using journals and ledger accounts.
	e) Prepare and extend a trial balance for adjustments and to calculate profit or loss for the period.
	f) Prepare financial statements with adjustments and from incomplete records for sole trader, partnership and group, including: <ul style="list-style-type: none"> • statement of profit or loss • statement of profit or loss appropriation • statement of financial position • statement of change in equity • statement of cash flows.
	g) Calculate and analyse ratios to make recommendations and decisions.
	h) Prepare cash, inventories, trade receivables, trade payables and budgeted financial statements
	i) Use marginal costing for decision making
	j) Calculate, analyse the results and make recommendations and decisions by using payback period, accounting rate of return and net present value for investment appraisal.