

## Knowledge, skills and understanding

### Content

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

#### 1. Recording Financial Transactions

Subject content	What students need to learn:
1.1 The principles of double- entry accounting	a) The functions of the ledger (general ledger and subsidiary ledgers)
	b) The importance of the documentation used in recording and monitoring business transactions

#### 2. Control Accounts

Subject content	What students need to learn:
2.1 The preparation of control accounts	a) Understanding of the sources of information for control accounts
	b) Preparation of control accounts, to include dealing with minority balances
	c) Recording control account balances in the statement of financial position
2.2 Reconciliation of control accounts	a) Preparation of a statement reconciling the trade receivables ledger control account to the sum of the balances in the trade receivables ledger, including correction of errors.
	b) Preparation of a statement reconciling the trade payables ledger control account to sum of the balances in the trade payables ledger, including correction of errors

### 3. Correction of Errors and the Journal

Subject content	What students need to learn:
3.1 Correction of errors not affecting the trial balance	a) Identification and correction of errors that do not affect the trial balance
	b) Preparation of journal entries to record correction of errors
3.2 Correction of errors affecting the trial balance	a) Identification and correction of errors that affect the trial balance
	b) Opening and posting entries to a suspense account
	c) Preparation of journal entries to record correction of errors
	d) Preparation of a revised statement of profit or loss after correction of errors
	e) Preparation of a revised statement of financial position
3.3 The Journal	a) Understand other uses of the journal: <ul style="list-style-type: none"> <li>• to open or close a set of books</li> <li>• purchase or sale of a non-current asset</li> <li>• transfer of period end balances to the financial statements</li> <li>• internal transfers of balances</li> </ul>

#### 4. Adjustments in Financial Statements

Subject content	What students need to learn:
<b>4.1 Accounting concepts</b>	a) The understanding and application of the following accounting concepts: <ul style="list-style-type: none"> <li>• accruals</li> <li>• business entity</li> <li>• consistency</li> <li>• going concern</li> <li>• materiality</li> <li>• prudence</li> <li>• realisation</li> </ul>
<b>4.2 Accounting for depreciation</b>	a) What is depreciation and what are the causes of depreciation? b) Understanding of the need to account for depreciation of non-current assets c) The recording of the depreciation charge and accumulated depreciation in the ledger using: <ul style="list-style-type: none"> <li>• straight line method</li> <li>• reducing (diminishing) balance method</li> <li>• revaluation method</li> </ul> d) accounting entries for the acquisition and disposal of non-current assets, to include the calculation of profit or loss on disposal
<b>4.3 Accounting for irrecoverable debts and allowance for doubtful debts</b>	a) Understanding of the need to account for irrecoverable debts b) Understanding of the need for maintaining an allowance for doubtful debts c) accounting entries for irrecoverable debts and the allowance for doubtful debts d) accounting entries for irrecoverable debts recovered
<b>4.4 Accounting for accruals and prepayments</b>	a) Understanding of the need to account for accrued and prepaid expenses and income b) accounting entries for accrued and prepaid expenses and income

## 5. Preparation of Financial Statements

Subject content	What students need to learn:
5.1 Partnerships	a) Understand the advantages and disadvantages of forming partnerships
	b) Understanding of the need for a partnership agreement and the implications for the business if one is not drawn up
	c) The correct treatment of interest on partners' loans
	d) Purpose and preparation of: <ul style="list-style-type: none"> <li>• current accounts</li> <li>• capital accounts</li> </ul> in both ledger format and as part of the statement of financial position
	e) Understanding of the nature and purpose of an appropriation account
	f) Preparation of: <p>an appropriation account to include:</p> <ul style="list-style-type: none"> <li>• interest on drawings</li> <li>• interest on capitals</li> <li>• partners' salaries</li> <li>• share of profits</li> </ul> <p>a statement of financial position to include:</p> <ul style="list-style-type: none"> <li>• partners' capital balances</li> <li>• partners' current account balances</li> </ul>
	g) accounting entries on the admission of a new partner, including the correct treatment of goodwill to include the preparation of a revaluation account
	h) accounting entries on retirement of partners to include the correct treatment of goodwill to include the preparation of a revaluation account
	i) Accounting entries for a change in partnership interests, to include preparation of a revaluation account
	j) accounting entries for the dissolution of a partnership, to include the preparation of a realisation account

Subject content	What students need to learn:
<b>5.2 Limited liability companies</b>	a) Understanding of the term 'limited liability'
	b) Understand the difference between: <ul style="list-style-type: none"> <li>• public limited company (PLC) and private limited company (Ltd)</li> <li>• ordinary shares and preference shares</li> <li>• share capital and loan capital</li> <li>• capital reserves and provisions</li> </ul>
	c) Preparation for internal uses of: <ul style="list-style-type: none"> <li>• statement of profit or loss</li> <li>• statement of changes in equity</li> <li>• statement of financial position</li> </ul>
<b>5.3 Incomplete records of a sole trader</b>	a) Preparation of opening and closing statements of affairs to calculate capital or profit for the year
	b) Calculation of revenue and cost of purchases from incomplete data
	c) Calculation and application of accounting ratios to calculate gross profit and profit for the year, to include: <ul style="list-style-type: none"> <li>• gross profit as a percentage of revenue (margin)</li> <li>• gross profit as a percentage of cost of sales (mark-up)</li> <li>• profit for the year as a percentage of revenue</li> </ul>
	d) Preparation of: <ul style="list-style-type: none"> <li>• statement of profit or loss</li> <li>• statement of financial position</li> </ul>

Subject content	What students need to learn:
<b>5.4 Manufacturing businesses</b>	a) Understanding of the difference between direct and indirect costs
	b) Understanding of the difference between the following inventories: <ul style="list-style-type: none"> <li>• raw materials</li> <li>• work in progress</li> <li>• finished goods</li> </ul> Candidates will <b>not</b> be required to carry out detailed inventory valuation calculations
	c) Preparation of a manufacturing account to show: <ul style="list-style-type: none"> <li>• prime cost</li> <li>• production cost</li> <li>• total cost</li> </ul> Candidates will <b>not</b> be required to make entries for unrealised profit, or make entries for manufacturing profit (transfer pricing)
	d) Preparation of: <ul style="list-style-type: none"> <li>• statement of profit or loss</li> <li>• statement of financial position</li> </ul> for a manufacturing business

Subject content	What students need to learn:
<b>5.5 Non-profit making organisations</b>	a) The nature of the accumulated fund
	b) The calculation of the accumulated fund
	c) Preparation of a subscriptions account, including the correct treatment of: <ul style="list-style-type: none"> <li>• subscriptions in arrears</li> <li>• subscriptions in advance</li> <li>• subscriptions unpaid</li> <li>• life subscriptions</li> </ul>
	d) Understanding of the difference between: <ul style="list-style-type: none"> <li>• receipts and payments account</li> <li>• income and expenditure account</li> </ul>
	e) Preparation of a receipts and payment account to show: <ul style="list-style-type: none"> <li>• closing cash and bank balances</li> </ul>
	f) Preparation of a trading account for fund raising activities to identify profit from fund raising activity
	g) Preparation of an income and expenditure account to show: <ul style="list-style-type: none"> <li>• surplus/deficit of income over expenditure for the year</li> </ul>
	h) Preparation of a statement of financial position

## 6. Accounting Ratios

Subject content	What students need to learn:
<b>6.1 The calculation and interpretation of accounting ratios</b>	a) Profitability and liquidity ratios: <ul style="list-style-type: none"> <li>• gross profit as a percentage of revenue (margin)</li> <li>• gross profit as a percentage of cost of sales sold (markup)</li> <li>• profit for the year as a percentage of revenue</li> <li>• Return on Capital Employed (ROCE)</li> <li>• current (working capital) ratio</li> <li>• liquid (decisive test) ratio</li> <li>• accounts receivables collection period</li> <li>• accounts payables payment period</li> <li>• rate of inventory turnover</li> </ul>

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) use appropriate numeracy skills for the calculation of accounting data
	c) prepare control accounts for trade receivables and trade payables
	d) prepare journal entries and ledger accounts with accuracy
	e) correct errors in accounts and show the use of a suspense account
	f) adjust financial statements after the correction of errors
	g) Adjust given data at period end for: <ul style="list-style-type: none"> <li>• irrecoverable debts and allowance for doubtful debts</li> <li>• depreciation of non-current assets</li> <li>• accrued and prepaid income and expenditure</li> </ul>
	h) prepare financial statements for sole traders, partnerships, limited companies, manufacturing, and non-trading organisations
	i) calculate and interpret ratios