

PRINCIPLES OF ACCOUNTS

GCE ORDINARY LEVEL

(SYLLABUS 7092)

INTRODUCTION

The syllabus aims to develop an understanding of the principles and concepts of accounting and their applications in a variety of business situations. Candidates will acquire basic knowledge in double entry and develop the ability to prepare, present, analyse and interpret financial statements.

The syllabus is organised into six sections:

- (i) **role of accounting** which is to provide information for monitoring and decision making by different users;
- (ii) **double entry system of book-keeping** which comprises the accounting equation, source documents, books of prime entry, the cash book, the general journal, the ledger and the trial balance;
- (iii) **accounting procedures** regarding capital and revenue expenditure, depreciation, adjustments to ledger accounts, the correction of errors and control accounts;
- (iv) **fundamentals of preparing the final accounts** i.e. Trading Account, Profit and Loss Account, Balance Sheet and the operation of partnerships;
- (v) **preparation of final accounts** for sole traders and partnerships, including the use of incomplete records; and
- (vi) **analysis and interpretation of final accounts** involving ratios.

AIMS

To enable students to:

- acquire knowledge and understanding of fundamental accounting concepts, principles, and procedures in the context of business aims and activities;
- develop skills in preparing, analysing and interpreting accounting information and understanding their implication;
- develop an understanding of the role of accounting in providing an information system for monitoring and decision making;
- develop skills of numeracy, information technology literacy, communication, inquiry, presentation and interpretation;
- develop attitudes of accuracy, orderliness and logical thought and an appreciation of professional ethics.

SYLLABUS CONTENT

The syllabus content is presented together with learning outcomes to provide teachers with more specific guidance as to what each of the syllabus areas requires. The arrangement of the topics in this section is not an indication of the sequence in which they should be taught.

CONTENT	CANDIDATES SHOULD BE ABLE TO:	REMARKS
1 THE ROLE OF ACCOUNTING		
1.1 Book-keeping and Accounting <ul style="list-style-type: none"> - Difference between book-keeping and accounting - Role of accounting 	<ul style="list-style-type: none"> - Define book-keeping - Define accounting - Explain the main difference between book-keeping and accounting - Explain the main role of accounting - Explain how past performance can be analysed to provide a guide for future decision making 	<i>In this syllabus, the definition of accounting is defined as the process of recording, summarising, reporting, analysing and interpretation of financial information of an organisation.</i>
1.2 Accounting Principles <ul style="list-style-type: none"> - Main accounting concepts and principles underlying the preparation of final accounts 	<ul style="list-style-type: none"> - Explain the basic accounting concepts and principles <ul style="list-style-type: none"> - accounting entity (or business entity) - accounting period - accrual concept/matching principle - consistency - duality - going concern - historical cost - monetary assumption or money measurement - materiality - objectivity - prudence or conservatism - realisation concept - Identify the accounting concepts and principles applied in given situations 	<i>Candidates should be introduced to these accounting concepts and principles at relevant sections of the syllabus, where appropriate.</i>
2 DOUBLE ENTRY SYSTEM OF BOOK-KEEPING		
2.1 The Accounting Equation <ul style="list-style-type: none"> - Assets, Liabilities and Owners' Equity - Accounting equation: relationship between Assets, Liabilities and Owners' Equity - Cash and credit transactions 	<ul style="list-style-type: none"> - Explain the meaning of assets, liabilities and owners' equity - List examples of assets, liabilities and owners' equity - Classify items as assets and liabilities - State the accounting equation: Assets = Capital + Liabilities - Calculate the value of assets, liabilities and capital using the accounting equation - Analyse and state the effects of transactions on the accounting equation - Distinguish between cash transactions (resulting in immediate cash payment) and credit transactions (payments are postponed) 	

CONTENT	CANDIDATES SHOULD BE ABLE TO:	REMARKS
2.2 <ul style="list-style-type: none"> - The Double Entry System - Process accounting data using the double entry system - Double entry rules 	<ul style="list-style-type: none"> - Explain the meaning of revenue and expenses - State the double entry rules - Identify the accounts to be debited and credited for various transactions - Apply the double entry rules for recording: <ul style="list-style-type: none"> - purchases and sales of stock on cash and on credit terms - returns of stock previously purchased on cash and/or credit terms - returns of stock previously sold on cash and/or credit terms - withdrawal of stock and cash for owners' personal use - all other cash and credit transactions 	
2.3 <ul style="list-style-type: none"> - Source Documents - Purpose of source documents - Types of source documents 	<ul style="list-style-type: none"> - Explain the purpose of source documents - Identify and state the use of the following source documents: <ul style="list-style-type: none"> - invoice - credit note - debit note - payment voucher - cheque and cheque counterfoil - receipt and cash register slips - bank statement - petty cash voucher 	<p><i>Candidates will not be required to know the details in these documents.</i></p>
2.4 <ul style="list-style-type: none"> - Books of Prime Entry - Purpose of books of prime entry - Advantages of using subsidiary books 	<ul style="list-style-type: none"> - Explain the purpose of using books of prime entry - Explain the usefulness of recording transactions in the subsidiary books e.g. <ul style="list-style-type: none"> - records similar transactions - reduces unnecessary details in the ledger as only totals are posted to the ledger - Identify the types of books of prime entry: <ul style="list-style-type: none"> - special journals i.e. purchases journal, purchases returns journal, sales journal and sales returns journal - cash book (including petty cash book) - general journal 	<p><i>Candidates are required to know that books of prime entry are also known as books of original entry or day books.</i></p>
2.4.1 <ul style="list-style-type: none"> - Purchases Journal - Purpose of purchases journal - Trade discount 	<ul style="list-style-type: none"> - Explain the purpose of the purchases journal - State the source document for recording transactions in the purchases journal - Interpret the items posted from the purchases journal to the appropriate accounts in the ledgers - Explain the meaning of trade discount - Outline the reasons for giving trade discount - Calculate trade discount given by suppliers 	<p><i>Questions will not be set on drawing up the purchases journal.</i></p>

CONTENT	CANDIDATES SHOULD BE ABLE TO:	REMARKS
2.4.2 Purchases Returns Journal or Returns Outwards Journal - Purpose of purchases returns journal	<ul style="list-style-type: none"> - Explain the purpose of the purchases returns journal - Outline the reasons why goods previously purchased are returned to suppliers - State the source document for recording transactions in the purchases returns journal - Interpret the items posted from the purchases returns journal to the appropriate accounts in the ledgers - Calculate the amount of returns allowance taking into consideration the trade discount received on purchase of goods 	<i>Questions will not be set on drawing up the purchases returns journal.</i>
2.4.3 Sales Journal - Purpose of sales journal - Trade discount	<ul style="list-style-type: none"> - Explain the purpose of the sales journal - State the source document for recording transactions in the sales journal - Interpret the items posted from the sales journal to the appropriate accounts in the ledgers - Calculate trade discount given to customers 	<i>Questions will not be set on drawing up the sales journal.</i>
2.4.4 Sales Returns Journal or Returns Inwards Journal - Purpose of sales returns journal	<ul style="list-style-type: none"> - Explain the purpose of the sales returns journal - Outline the reasons why goods previously sold to customers are returned - State the source document for recording transactions in the sales returns journal - Interpret the items posted from the sales returns journal to the appropriate accounts in the ledgers - Calculate the amount of returns allowance taking into consideration the trade discount given on sales of goods 	<i>Questions will not be set on drawing up the sales returns journal.</i>
2.5 The General Journal - Purpose of general journal	<ul style="list-style-type: none"> - Explain the purpose of the general journal i.e. to record the following: <ul style="list-style-type: none"> - opening entries - closing entries - purchase and sale of fixed assets on credit - correction of errors, adjustments and transactions not recorded in the other subsidiary books - Post transactions from the general journal to the appropriate accounts in the ledgers 	<i>Questions will not be set specifically on recording closing entries in the general journal as part of the process of transferring expenses and revenue to the Trading and Profit and Loss Accounts on balance day.</i>

CONTENT	CANDIDATES SHOULD BE ABLE TO:	REMARKS
<p>2.6 The Cash Book</p> <ul style="list-style-type: none"> - Dual function as a book of prime entry and as a ledger account for bank and cash by use of analysis columns - Cash discount - Dishonoured cheques 	<ul style="list-style-type: none"> - Explain the advantages of keeping cash in the bank - Explain the purpose of the cash book - Record transactions in the cash column and bank column of the cash book - Post the entries from the cash book to the respective ledgers - Interpret transactions and details in the cash book e.g. discount, total banked or withdrawn etc. - Explain the meaning of cash discount - Outline the reasons for giving cash discounts - Calculate cash discounts - Explain the differences between cash discount and trade discount - Explain the effect of giving and receiving cash discount on net profit - Outline the reasons for a dishonoured cheque - Record dishonoured cheque and discounts disallowed in the ledgers 	<p><i>Questions will not be set on drawing up a 3-column cash book.</i></p>
<p>2.6.1 Bank Reconciliation Statement</p> <ul style="list-style-type: none"> - Causes of discrepancy between the cash book balance and the bank statement balance - Purpose of preparing bank reconciliation statement 	<ul style="list-style-type: none"> - Explain the differences between bank loan and bank overdraft - Classify bank accounts, bank overdrafts and bank loans correctly in the Balance Sheet - Interpret a bank statement - Identify and explain the causes of discrepancy between the cash book balance and the balance on the bank statement - Explain the need for preparing a bank reconciliation statement - Reconcile the cash book balance with the bank statement balance by adjusting entries in the cash book and preparing a bank reconciliation statement, in respect of the following: unpresented cheques, dishonoured cheques, bank charges, direct debits, standing orders, credit transfers, dividends, correction of errors and uncredited deposits 	
<p>2.6.2 Petty Cash</p> <ul style="list-style-type: none"> - Need for a petty cash fund - Purpose of petty cash book - Advantages of the imprest system 	<ul style="list-style-type: none"> - Explain the need for a petty cash fund - Explain the purpose of a petty cash book in relation to the cash book - Explain the meaning of 'float' - Explain the meaning of the imprest system - Outline the advantages of the imprest system of keeping petty cash - Interpret the details in the petty cash book - Calculate and record the amount of reimbursement required to restore the petty cash balance to the imprest amount 	<p><i>Questions will not be set on drawing up a petty cash book.</i></p>

CONTENT	CANDIDATES SHOULD BE ABLE TO:	REMARKS
<p>2.7 The Ledger</p> <ul style="list-style-type: none"> - 'T' accounts - Sub-division of ledger into the sales ledger, purchases ledger and the general ledger - Transactions related to drawings - Transactions relating to stock 	<ul style="list-style-type: none"> - Prepare ledger accounts using 'T' account format - Analyse transactions and post relevant details to the appropriate accounts in the ledgers - Balance ledger accounts as required - Interpret the details and the balances in ledger accounts - Explain that with the high volume of credit transactions involving debtors and creditors, separate ledgers are kept for debtors and creditors i.e. <ul style="list-style-type: none"> - all trade debtors accounts are kept in the sales ledger - all trade creditors accounts are kept in the purchases ledger - all other accounts are kept in the general ledger - Explain the meaning of drawings - Distinguish between withdrawals of stock for business use and for owners' use - Record drawings of stock, cash or other assets for owners' use - Record the transfer of drawings to the capital account - Explain the effect of drawings on capital - Explain the purpose of preparing the following accounts: <ul style="list-style-type: none"> - Purchases account - Sales account - Returns inwards account (or sales returns account) - Returns outwards account (or purchases returns account) - Draw up the following accounts to record transactions pertaining to the movement of stock: <ul style="list-style-type: none"> - Purchases account - Sales account - Returns inwards account (or sales returns account) - Returns outwards account (or purchases returns account) 	<p>Candidates are not required to</p> <ul style="list-style-type: none"> - know the use of the folio columns - give headings to the columnar details i.e. date, particulars and amount in the 'T' account.

CONTENT	CANDIDATES SHOULD BE ABLE TO:	REMARKS
<p>2.8 The Trial Balance</p> <ul style="list-style-type: none"> - Purpose of a trial balance - Limitations of a trial balance - Errors not revealed by a trial balance - Errors revealed by a trial balance 	<ul style="list-style-type: none"> - Explain what is meant by a trial balance - Explain the purpose of preparing a trial balance - Prepare a trial balance - Explain why an agreed trial balance is not an absolute proof of accuracy - Explain the limitations of a trial balance i.e. unable to reveal certain errors - State the types of errors that are not revealed by a trial balance: <ul style="list-style-type: none"> - compensating errors - complete reversal of entries - errors of commission - errors of omission - errors of original entry - errors of principle - Explain the effect of errors on the profit and asset valuation - State the types of errors that are revealed by a trial balance i.e. <ul style="list-style-type: none"> - errors in calculation - errors in omitting either the debit or the credit entry - posting of entries to the wrong side of the account - errors in debiting an account with one amount and crediting the corresponding account with another amount - Prepare an adjusted trial balance after correcting errors 	
<p>3 ACCOUNTING PROCEDURES</p>		
<p>3.1 Capital and Revenue Expenditure</p> <ul style="list-style-type: none"> - Distinction between capital and revenue expenditure 	<ul style="list-style-type: none"> - Explain the meaning of capital and revenue expenditure - Distinguish and account for the different treatment of capital and revenue expenditure - Classify business expenditure into capital or revenue expenditure - Explain and show by calculation the effect of the treatment of expenditure on profit and asset valuation - Distinguish between capital and revenue receipts 	

CONTENT	CANDIDATES SHOULD BE ABLE TO:	REMARKS
<p>3.3.2 Bad Debts and Provision for Doubtful Debts</p> <ul style="list-style-type: none"> - Reasons for incurring bad debts - Difference between bad debts and doubtful debts - Provision for doubtful debts 	<ul style="list-style-type: none"> - Explain the reasons for incurring bad debts - Explain the difference between bad debts and doubtful debts - Explain the need for provision for doubtful debts - Prepare adjusting entries in the general journal and ledgers for: <ul style="list-style-type: none"> - writing off bad debts - recovering bad debts including partial settlement of debts - provision for doubtful debts i.e. creating, increasing and reducing the provision for doubtful debts <p>Explain the effect of bad debts, recovery of bad debts and provision for doubtful debts on net profit and net debtors in the Balance Sheet</p> <div data-bbox="568 544 1778 1058" style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p><i>The suggested accounting entries for provision for doubtful debts are shown below. Alternative methods, which are in line with the accounting conventions, are accepted.</i></p> <p>1. <u>Creating provision for doubtful debts and increasing the provision for doubtful debts</u></p> <ul style="list-style-type: none"> - debit Doubtful debts account - credit Provision for doubtful debts account <p><i>Close the Doubtful debts account and transfer the balance to the Profit and Loss Account</i></p> <ul style="list-style-type: none"> - debit Profit and Loss Account - credit Doubtful debts account <p><i>Doubtful debts will be deducted from gross profit as an expense in the Profit and Loss Account.</i></p> <p>2. <u>Decreasing the provision for doubtful debts is as follows:</u></p> <ul style="list-style-type: none"> - debit Provision for doubtful debts account - credit Decrease in doubtful debts account <p><i>Close the Decrease in doubtful debts account and transfer the balance to the Profit and Loss Account</i></p> <ul style="list-style-type: none"> - debit Decrease in doubtful debts account - credit Profit and Loss Account <p><i>Decrease in doubtful debts will be added to gross profit as 'revenue' in the Profit and Loss Account.</i></p> </div>	<p><i>Candidates are required to calculate provision for doubtful debts based on the adjusted value of debtors i.e. after writing off all bad debts.</i></p>
<p>3.4 Correction of Errors</p> <ul style="list-style-type: none"> - Double entry to correct errors - Effects of errors on the profit 	<ul style="list-style-type: none"> - Write up journal entries and/or draw up ledger accounts to correct errors not revealed by trial balance i.e. errors of omission, errors of commission, errors of principle, errors of reversal of entries, errors of original entry, compensating errors - Explain the effects of errors on profit - Prepare a statement of adjusted profit after correcting errors, both revealed and not revealed by trial balance - Prepare an adjusted Balance Sheet or an extract of the Balance Sheet after correcting the errors, both revealed and not revealed by trial balance 	<p><i>Questions will not be set on suspense account.</i></p>

CONTENT	CANDIDATES SHOULD BE ABLE TO:	REMARKS
<p>3.5 Control Accounts</p> <ul style="list-style-type: none"> - Debtors control account - Creditors control account - Advantages of control accounts - Sources of information for control accounts 	<ul style="list-style-type: none"> - Explain the purpose of the Debtors control account - Explain the purpose of the Creditors control account - State the ledger in which the Debtors control account and Creditors control account are found - Outline the advantages of keeping control accounts e.g. serve as an independent check on the sales and purchases ledgers, used to provide totals of debtors and creditors etc. - Identify the sources of information for the control account entries from the books of original entry - Draw up the Debtors control account showing details in total figures of items such as credit sales, amount received from debtors, cash discounts allowed, returns inwards, bad debts, dishonoured cheques, interest on overdue accounts, and contra entries to Creditors control account etc. - Draw up the Creditors control account showing details in total figures of items such as credit purchases, amount paid to creditors, cash discounts received, returns outwards, carriage charges and contra entries to Debtors control account etc 	<p><i>Questions will not:</i></p> <ul style="list-style-type: none"> - <i>be set on reconciliation of control accounts</i> - <i>involve refunds to customer or from supplier</i> - <i>involve credit balances in the Debtors control account</i> - <i>involve debit balances in the Creditors control account.</i>
4 FUNDAMENTALS OF PREPARING THE FINAL ACCOUNTS		
<p>4.1 Trading Account</p> <ul style="list-style-type: none"> - Purpose of Trading Account - Gross profit/loss - Cost of purchases - Stock 	<ul style="list-style-type: none"> - Explain the purpose of the Trading Account - Explain the meaning of gross profit/loss - Identify the components which contribute to the cost of goods purchased i.e. cost of item purchased + carriage inwards + freight inwards + insurance for shipment of item to business + all other related cost in getting the item ready for sale - Explain why closing stock is valued at cost price or net realisable value, whichever is lower i.e. prudence concept - Define net realisable value - Prepare a Trading Account in a suitable format from a list of account balances or a trial balance with the following details: <ul style="list-style-type: none"> - opening stock - net purchases (cost of purchases less returns outwards) - cost of goods available for sale - closing stock - cost of goods sold - net sales/turnover (sales - returns inwards) - gross profit/loss - Calculate the gross profit/loss, based on accounting principles, for a specified period 	<p><i>Calculation of net realisable value (saleable value less expenses needed before completion of sale) is not required.</i></p>

CONTENT	CANDIDATES SHOULD BE ABLE TO:	REMARKS
<p>4.2 Profit and Loss Account</p> <ul style="list-style-type: none"> - Purpose of Profit and Loss Account - Net profit/loss - Operating expenses - Realisation of profit 	<ul style="list-style-type: none"> - Explain the purpose of the Profit and Loss Account - Explain the meaning of net profit/loss - Distinguish the various operating expenses from the cost of purchases - Explain the differences between gross profit and net profit - Prepare a Profit and Loss Account in a suitable format from a list of account balances or a trial balance - Explain that net profit is represented by a net increase in assets, not necessarily an increase in cash 	<p><i>Candidates should be able to distinguish between a trading and service business, recognising terminology such as 'fees', 'income' as well as 'sales'.</i></p> <p><i>Candidates are not required to classify expenses.</i></p>
<p>4.3 Balance Sheet</p> <ul style="list-style-type: none"> - Differences between fixed assets, current assets, intangible assets, long-term liabilities, current liabilities and capital - Effect of business transactions on the Balance Sheet 	<ul style="list-style-type: none"> - Define Balance Sheet - Explain the meaning of fixed assets, current assets, intangible assets, long term liabilities, current liabilities, owners' equity, working capital and capital employed (owners' equity + long-term liabilities) - Explain the basis of valuation of assets i.e. <ul style="list-style-type: none"> - fixed assets at cost less provision for depreciation (or accumulated depreciation) - stock in trade at cost or net realisable value, whichever is lower - trade debtors at expected collectible amount i.e. after deduction of provision for doubtful debts - Prepare a classified Balance Sheet in a suitable format showing: <ul style="list-style-type: none"> - fixed assets and current assets - long term liabilities and current liabilities - details of the capital of the proprietor - Compute the net worth of the business from details of assets and liabilities presented in the Balance Sheet - Explain the effects of business transactions on items in the Balance Sheet - State the effect of transactions on working capital, capital owned and capital employed - Draw up an adjusted Balance Sheet after taking into account transactions that occurred after the preparation of the Balance Sheet 	<p><i>Candidates are not required to prepare the Balance Sheet in statement form.</i></p>
5 PREPARATION OF FINAL ACCOUNTS		
<p>5.1 Sole Trader</p>	<ul style="list-style-type: none"> - Prepare Trading Account, Profit and Loss Account and Balance Sheet - Make adjustments for provision for depreciation using straight-line, diminishing (reducing) balance and revaluation methods - Make adjustments for provision for doubtful debts - Make adjustments for accruals and prepayments to take account of accrued and prepaid expenses and outstanding and prepaid income - Make adjustments for goods taken by owner for own use 	<p><i>Questions may be set on service businesses where a Trading Account is not required.</i></p>

CONTENT	CANDIDATES SHOULD BE ABLE TO:	REMARKS
<p>5.2 Partnership</p> <ul style="list-style-type: none"> - Advantages and disadvantages of forming a partnership - Need for partnership agreement - Common terms in partnership agreement - Features and capital structure - Capital accounts - Current accounts - Profit and Loss Appropriation Account 	<ul style="list-style-type: none"> - Explain the advantages and disadvantages of forming a partnership - Explain why a partnership agreement is drawn up - List the common terms contained in the Partnership Agreement - Apply the rules governing the interests of partners in the Partnership Act, Singapore, in the absence of the Partnership Agreement, i.e. <ul style="list-style-type: none"> - all partners share the profits and losses equally - no interest on capital will be paid - no partners are entitled to salary - loans by partners are paid an interest of 5% per annum - Compare and contrast sole trader with partnership in terms of their features, capital structure and profit sharing - Record the capital contributions made by partners both in cash or non-cash assets in the formation of a partnership - Explain the advantages of using current accounts to record appropriated profits, interest on capital, interest on partners' loans and drawings of partners etc - Explain why a current account may have a debit balance - Draw up the Trading, Profit and Loss and Appropriation Accounts and Balance Sheet of a partnership - Draw up partners' capital and current accounts both in ledger form or as part of a balance sheet presentation - Prepare the final accounts of a partnership showing the treatment of interest on capital, partners' salaries, interest on drawings and interest on partners' loans where appropriate 	<p><i>In the absence of a partnership agreement, the rules governing the interests of partners in the Partnership Act will be provided in the question.</i></p> <p><i>Candidates will present:</i></p> <ul style="list-style-type: none"> - partners' capital accounts separate from the current accounts in the Balance Sheet - interest on partners' loans in the Profit and Loss Account - interest on capital, partners' salaries, and interest on drawings in the Appropriation Account in a suitable format.
<p>5.2.1 Amalgamation of Businesses</p> <ul style="list-style-type: none"> - Reasons for amalgamation - Need for revaluation of assets - Meaning of goodwill - Factors contributing to goodwill - Need for determining the value of goodwill - Classification of goodwill 	<ul style="list-style-type: none"> - Explain why two sole proprietors amalgamate their businesses to form a partnership - Explain the need to revalue assets of the existing businesses upon the amalgamation of two sole proprietorships - Adjust the capital accounts of the two sole proprietorships when assets are revalued and liabilities paid off before the amalgamation - Draw up the revised Balance Sheets of the two sole proprietors after the adjustments - Draw up the Balance Sheet of the newly formed partnership - Explain the meaning of goodwill - State the factors that give rise to goodwill e.g. management skill or "know-how", reputation for service and quality of goods, favourable location of the business, good public relations, branding strategy etc. - Explain the need for determining the value of goodwill when the ownership of business changes - Prepare a Goodwill account i.e. debit goodwill account, credit capital account for a sole proprietorship - Classify goodwill in the Balance Sheet as an intangible asset 	<p><i>Candidates are not required to draw up a revaluation account.</i></p> <p><i>The following are not required:</i></p> <ul style="list-style-type: none"> - admission of partner - dissolution of partnership - purchase of a business - premium paid for goodwill - writing off goodwill.

CONTENT	CANDIDATES SHOULD BE ABLE TO:	REMARKS
<p>5.3 Incomplete Records</p> <ul style="list-style-type: none"> - Determine a business' profit or loss from incomplete records, by <ul style="list-style-type: none"> - comparing changes in capital over time - analysing records to derive the missing information in preparing the final accounts 	<ul style="list-style-type: none"> - Explain why accounting information may be incomplete e.g. due to non-adherence to the double-entry system of recording transactions or unfortunate circumstances e.g. fire destroying partial records etc. - Prepare opening and closing statement of affairs - Calculate net profit/loss by comparing the capital at the end of the period with capital at the beginning of the period, with adjustments made to drawings and new capital contributions - Compute figures from incomplete information: <ul style="list-style-type: none"> - <i>Capital</i>: drawing up a statement of affairs with adjustments made to assets and liabilities (e.g. depreciation, bad debts etc.) - <i>Credit sales</i>: drawing up debtors account from information available - <i>Total sales</i>: deriving the total sales figure from information available - <i>Credit purchases</i>: drawing up creditors account from information available - <i>Total purchases</i>: deriving the total purchases figure from information available - <i>Expenses</i>: drawing up the expense account from information available to ascertain the actual amount of expenses incurred, taking into account the prepayments and accruals - <i>Depreciation</i>: calculate rate of depreciation, length of useful life, amount of depreciation, cost of fixed asset - <i>Gain/loss on disposal of assets</i>: disposal of asset account to ascertain the gain or loss on assets disposed for the period - <i>Financial ratios and formulae</i>: calculate mark-up, margin and stockturn (or rate of stock turnover) 	

CONTENT	CANDIDATES SHOULD BE ABLE TO:	REMARKS
6	ANALYSIS AND INTERPRETATION OF FINAL ACCOUNTS	
6.1 Financial Relationships <ul style="list-style-type: none"> - Users of accounting information - Importance of professional ethics in accounting - Accounting ratios and formulae - Effect of stock valuation on profit, capital and assets 	<ul style="list-style-type: none"> - Identify the internal and external users who have an interest in the accounting information of a business e.g. internal users include owners and managers; external users include prospective partner, prospective buyer, creditors, competitors and the bank - Explain the importance of professional ethics in accounting - Explain how the stewardship function of accounting for business units requires objectiveness - Explain the need to report and present a true and fair view of the profit or loss and financial position of business - Explain how a user would use business reports - Calculate the following accounting ratios and formulae: <ul style="list-style-type: none"> - Working capital ratio (current ratio) - Quick ratio (acid test ratio) - Gross profit margin (gross profit as a percentage of sales) - Mark-up on cost - Percentage of expenses to turnover - Net profit margin (net profit as a percentage of sales) - Stockturn (or rate of stock turnover) - Explain the importance of measuring the liquidity and profitability of a business - Interpret the ratios and performance indicators calculated e.g. give possible reasons for a change in ratios or the significance of ratios in relation to a given situation. - Compare the liquidity and profitability of a business over two years or with that of another business i.e. comment with supporting figures given or calculated - Explain the effect of incorrect valuation of stock (i.e. understatement or overstatement) on <ul style="list-style-type: none"> - gross profit, net profit, capital and asset valuation - current and following year's gross and net profits 	<p><i>Guidance should be given to candidates to relate the importance of professional ethics to the accounting theories.</i></p> <p><i>Questions will not be set on return on capital employed.</i></p> <p><i>Questions will not be set on:</i></p> <ul style="list-style-type: none"> - <i>goods received or sent on sale or return basis</i> - <i>adjusting stock take figures before and after balance-day.</i>

SUMMARY OF ACCOUNTING RATIOS AND FORMULAE

1. RATIOS MEASURING THE LIQUIDITY OF A BUSINESS:

- a. Working capital ratio (current ratio) = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$
- b. Quick ratio (acid test ratio) = $\frac{\text{Current Assets} - \text{Stock} - \text{Prepayments}}{\text{Current Liabilities}}$

2. FORMULAE MEASURING THE PROFITABILITY OF A BUSINESS:

- a. Gross profit margin = $\frac{\text{Gross Profit}}{\text{Turnover (Net Sales)}} \times 100\%$
- b. Mark-up on cost = $\frac{\text{Gross Profit}}{\text{Cost of Goods Sold}} \times 100\%$
- c. Percentage of expenses to turnover = $\frac{\text{Total Expenses}}{\text{Turnover (Net Sales)}} \times 100\%$
- d. Net profit margin = $\frac{\text{Net Profit}}{\text{Turnover (Net Sales)}} \times 100\%$
- e. Stockturn (rate of stock turnover) = $\frac{\text{Cost of Goods Sold}}{\text{Average Stock at Cost Price}} = \text{number of times}$

3. OTHER FORMULAE:

- a. Working capital = Current Assets - Current Liabilities
- b. Capital owned = Total Assets - Total Liabilities
- c. Capital employed = Owners' Equity + Long-term Liabilities

ASSESSMENT OBJECTIVES

The assessment objectives tested in Principles of Accounts are broadly categorised in the following hierarchical order:

- AO1** Knowledge with understanding
- AO2** Knowledge with application
- AO3** Analysis
- AO4** Evaluation

A description of each assessment objective is as follows:

AO1 Knowledge with understanding

Candidates should be able to:

- demonstrate knowledge and understanding of facts, concepts, principles and procedures appropriate to the syllabus;
- demonstrate understanding of knowledge through numeracy, literacy, presentation and comprehension;

AO2 Knowledge with application

Candidates should be able to:

- apply knowledge and information to various accounting situations and problems;

AO3 Analysis

Candidates should be able to:

- select, analyse and order information in written, numerical and tabular form;
- present appropriate information in an accepted accounting form;

AO4 Evaluation

Candidates should be able to:

- interpret and evaluate accounting information and to draw reasoned conclusions.

SPECIFICATION GRID

The relationship between the assessment objectives and components of the scheme of assessment is as follows:

Assessment Objectives	AO1 Knowledge with understanding	AO2 Knowledge with application	AO3 Analysis	AO4 Evaluation	Overall Weighting
Paper 1	15%	10%	10%	5%	40%
Paper 2	10%	20%	20%	10%	60%
Total	25%	30%	30%	15%	100%

The assessment objectives are weighted to give an indication of their relative importance. They are not intended to provide a precise statement of the number of marks in particular skills.

SCHEME OF ASSESSMENT

	DETAILS	DURATION	WEIGHTING
Paper 1	3 to 4 compulsory structured questions (40 marks)	1 hr	40%

In Paper 1 candidates will write their answers on the question paper.

	DETAILS	DURATION	WEIGHTING
Paper 2	4 structured questions (60 marks) <u>Section A (48 marks)</u> 3 compulsory structured questions <u>Section B (12 marks)</u> Choose 1 out of 2 structured questions	2 hrs	60%

In Paper 2 Section A will have one question on the preparation of final accounts, which carries 20 marks. Candidates will be provided with multi-column accounting stationery for answering questions in this Paper.

While candidates are expected to have exposure to the use of IT in the preparation and presentation of accounting information, the use of computerised accounting software is not required in the examination. An appreciation of the usefulness of computerised accounting systems in the preparation of accurate accounting information will suffice.