

Knowledge, skills and understanding

Content

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

1. The purpose of maintaining financial records

Subject content	What students need to learn:
1.1 The scope of the financial accounting function	a) An understanding of the differences between financial accounting and management accounting
	b) An understanding of financial statements and their purpose
	c) The understanding and application of the following accounting concepts: <ul style="list-style-type: none"> • accruals • business entity • consistency • going concern • materiality • prudence • realisation
	d) Identify the qualitative characteristics of financial reporting under the International Accounting Standards Board (IASB) framework: <ul style="list-style-type: none"> • relevance • faithful representation • comparability • verifiability • timeliness • understandability.
1.2 Different types of business organisations	a) The difference between the public and private sectors
	b) The understanding of the characteristics of different types of private sector business organisations: <ul style="list-style-type: none"> • sole trader • partnership

Subject content	What students need to learn:
	<ul style="list-style-type: none">• limited partnership• private limited companies (Ltd)• public limited companies (Plc)
	c) The advantages and disadvantages of different types of private sector business entities

Subject content	What students need to learn:
1.3 How financial statements contribute towards meeting the needs of different stakeholders and users	a) The main stakeholders in business and other users of financial statements: <ul style="list-style-type: none"> • owners • managers • suppliers • customers • employees • trade associations • government • investors • providers of external finance • competitors • local community • trade union
1.4 The importance of ethical behaviour in accounting practices	a) The principles of professional ethics: <ul style="list-style-type: none"> • honesty • integrity • objectivity • independence
	b) The application of professional ethics when undertaking accounting roles and functions

2. Recording financial transactions

Subject content	What students need to learn:
2.1 The principles of double- entry accounting	a) Understanding and application of the ledger (general ledger and subsidiary ledger)

Subject content	What students need to learn:
2.2 Recording sales and purchases	a) Recording sales, sales returns, purchases and purchase returns in the relevant ledger accounts
	b) The understanding and application for recording discounts in respect of sales and purchases
2.3 Recording cash transactions	a) The role and operation of the cash book in the accounting system
2.4 Undertake a bank reconciliation	a) The role and operations of bank reconciliation
	b) The preparation of a bank reconciliation statement from a given data set
2.5 Recording receivables and payables	a) The principles and operation of receivables and payables
	b) The principles and operation of irrecoverable receivables and allowance for doubtful debt
2.6 Recording changes in inventory	a) The principles and valuation of inventory in accordance with the relevant international financial reporting standards (IAS 2 – inventories)
2.7 Make adjustments for accruals and prepayments	a) The principles and operation of accruals and prepayments
2.8 The accounting treatment of tangible and non-current assets	a) The classification of revenue and capital in accounting systems
	b) The principles and operation of non-current assets, including acquisitions, disposals and depreciation
	c) The importance and maintenance of an up-to-date non-current asset register
2.9 Account for depreciation costs	a) 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

3. Balancing accounts and the trial balance

Subject content	What students need to learn:
3.1 The purpose of the trial balance	a) The errors which may be made in a double-entry accounting system
	b) The purpose and limitations of a trial balance
3.2 Correction of errors in transaction recording	a) Errors following the preparation of the trial balance
3.3 Operate a control account	a) The principles and operations of control accounts
	b) Balancing control accounts, following the correction of errors
3.4 Operate a suspense account	a) The principles and operation of a suspense account

4. Adjustments and the extended trial balance

Subject content	What students need to learn:
4.1 The purpose 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

5. Produce financial statements of a sole trader and partnership

Subject content	What students need to learn:
5.1 Prepare the main financial statements	a) The purpose of the main financial statements
	b) The preparation of a statement of financial position from a given data set for a sole trader and partnership
	c) The preparation of a statement of profit or loss from a given data set for a sole trader and partnership
	d) The preparation of a statement of financial position and statement of profit or loss from incomplete records, including mark-up and margin
	e) The preparation of an appropriation account for a partnership
	f) The preparation of a statement of cash flows for a company from a given data set

6. Introduction to interpretation of financial statements

Subject content	What students need to learn:
6.1 The contribution of financial statements measuring business performance	a) The importance of measuring business performance
	b) The elements of business performance which can be measured by the main financial statement used in business
	c) 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

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

Skills	Students should:
	a) Record financial transactions and understand their importance
	b) Understand and record transactions undertaken by a business, including: <ul style="list-style-type: none"> • double-entry accounting • sales and purchases • cash and credit transactions • accounting for receivables, irrecoverable debts and allowance for receivables • accruals and prepayments • accounting for tangible non-current assets, including acquisitions, disposals and depreciation
	c) Construct a trial balance including correction of errors and bank reconciliation
	d) Prepare the statement of profit or loss and the statement of financial position for a sole trader
	e) Calculate main ratios for the measurement of financial performance