

6. Detailed study guide

A Accounting principles, concepts and characteristics

1. The key principles, concepts and characteristics of accounting

- a) Explain key principles and concepts of accounting.^[K]
 - i) Going concern
 - ii) Accrual accounting
 - iii) Materiality
 - iv) Consistency
 - v) Prudence
 - vi) Duality
 - vii) Business entity
 - viii) Historical cost
- b) Explain the qualitative characteristics of useful financial information.^[K]
 - i) Relevance
 - ii) Faithful representation
 - iii) Comparability
 - iv) Verifiability
 - v) Timeliness
 - vi) Understandability

2. Maintaining financial records

- a) Explain the importance of maintaining financial records for internal and external use.^[K]
- b) Describe the type of accounting records that a business should maintain and the main uses of these records.^[K]
- c) Describe the key features of a computerised accounting system, including the use of external servers to store data (the cloud).^[K]

3. The regulatory framework

- a) Describe the main requirements of IFRS[®] Accounting Standards in relation to syllabus area D.^[K]

B The principles and process of double-entry bookkeeping

1. The elements of financial statements

- a) Explain the meaning of the accounting equation and demonstrate its impact on double-entry bookkeeping.^[K]
- b) Describe the meaning of income, expenses, assets, liabilities and capital in an accounting context.^[K]
- c) Describe the components of financial statements for a sole trader.^[K]

2. Recording financial data and the flow of accounting information in the production of financial statements

- a) Explain how financial data is initially recorded in the accounting system.^[K]
- b) Identify reasons for closing off general ledger accounts and producing a trial balance.^[K]
- c) Explain the process of preparing a set of financial statements from a trial balance.^[K]

C The preparation of journal entries and general ledger accounts

1. Preparation of journal entries

- a) Prepare journal entries to record transactions in an appropriate format.^[S]

2. Preparation of general ledger accounts

- a) Explain the purpose and use of general ledger accounts.^[K]
- b) Post journal entries into the appropriate general ledger account.^[S]

- c) Illustrate the year-end procedures on the general ledger accounts, bringing forward and carrying forward balances as appropriate.^[S]

D Recording transactions and events

1. Sales and purchases

- a) Record sales and purchase transactions.^[S]
- b) Record sales and purchase returns.^[S]
- c) Account for discounts received.^[S]
- d) Account for the following discounts allowed to customers in accordance with IFRS Accounting Standards:^[S]
 - i) trade discounts
 - ii) settlement discounts.
- e) Identify sources of information on sales tax and explain the relationship between the entity and the relevant government agency (revenue/ tax authority).^[K]
- f) Explain the general principles of the operation of a sales tax including:^[K]
 - i) requirements for registration
 - ii) main information to be included on business documentation
 - iii) types of taxable supplies and their classification for sales tax
 - iv) accounting for and payment of sales tax
 - v) penalties for late returns or late payment of sales tax.
- g) Explain the different methods of accounting for and reporting of sales tax.^[K]
- h) Identify and obtain sales tax data from the accounting system.^[S]
- i) Calculate sales tax on inputs (purchases) and outputs (sales), enter the appropriate information into the accounting system and calculate the sales tax due to/ from the business.^[S]

- j) Illustrate the main components of a sales tax return.^[S]

- k) Calculate the cash flow impact on the business of the payment of sales tax and the potential impact on the business of any changes in legislation for sales tax.^[S]

2. Cash and bank

- a) Record cash and bank transactions in general ledger accounts.^[S]
- b) Report cash and bank balances in the financial statements.^[S]

3. Inventories

- a) Describe the need for adjustments for inventories when preparing financial statements.^[K]
- b) Record cost of sales and closing inventories.^[S]
- c) Identify and apply the alternative methods of valuing inventories.^[K]
- d) Explain and apply the requirements of IFRS Accounting Standards for valuing inventories.^[S]
- e) Identify which costs should be included when measuring inventories.^[K]
- f) Explain the use of continuous and period-end inventories records.^[K]
- g) Calculate the value of closing inventories using 'FIFO' (first in, first out) and 'AVCO' (average cost) – both periodic weighted average and continuous weighted average.^[S]
- h) Identify the impact of inventories valuation methods on profit, assets and capital, including:^[S]
 - i) periodic weighted average
 - ii) continuous weighted average
 - iii) FIFO
 - iv) Report inventories in the financial statements.

4. Tangible non-current assets and depreciation

- a) Define non-current assets.^[K]
- b) Explain the difference between current and non-current assets.^[K]
- c) Explain the difference between asset (capitalised) and expense items.^[K]
- d) Classify expenditure as asset expenditure (capitalised) or expenses charged to profit or loss.^[S]
- e) Explain the impact of misclassification of asset expenditure as expenses and vice versa on the statement of profit or loss and the statement of financial position.^[K]
- f) Prepare journal entries to record the acquisition and disposal of non-current assets (including part exchange) in accordance with IFRS Accounting Standards.^[S]
- g) Calculate and record gains or losses on disposal of non-current assets in the statement of profit or loss, including part exchange transactions and scrapping of assets.^[S]
- h) Explain the purpose of depreciation.^[K]
- i) Calculate depreciation charge using straight-line and diminishing-balance (reducing-balance) methods.^[S]
- j) Identify the circumstances where different methods of calculating depreciation would be appropriate.^[K]
- k) Illustrate how the depreciation charge and accumulated depreciation are recorded in general ledger accounts.^[S]
- l) Explain the purpose and function of a non-current asset register.^[K]
- m) Prepare the non-current asset register for all or part of the following:^[S]
 - i) Acquisition, including authorisation

- ii) Part exchange and cash non-current asset purchases
- iii) Depreciation
- n) Identify and resolve any discrepancies relating to the accounting records for non-current assets.^[S]
- o) Report non-current assets and depreciation in the financial statements.^[S]

5. Accrued expenses (accruals), prepaid expenses (prepayments), accrued income and deferred income

- a) Apply accrual accounting to accruals, prepayments, accrued income and deferred income.^[S]
- b) Calculate the adjustments needed for accruals, prepayments, accrued income and deferred income when preparing financial statements.^[S]
- c) Illustrate the process of adjusting for accruals, prepayments, accrued income and deferred income when preparing financial statements.^[S]
- d) Prepare manual journal entries and update the general ledger accounts for the creation and reversal of accruals, prepayments, accrued income and deferred income.^[S]
- e) Identify the impact of accruals, prepayments, accrued income and deferred income on profit, net assets and capital.^[K]
- f) Report accruals, prepayments, accrued income and deferred income in the financial statements.^[S]

6. Receivables, payables and provisions

- a) Explain and identify examples of receivables and payables.^[K]
- b) Prepare manual journal entries to write off an irrecoverable debt.^[S]

- c) Identify the impact of irrecoverable debts on the statement of profit or loss and on the statement of financial position.^[S]
- d) Calculate the movement in the allowance for irrecoverable debts and the closing balance.^[S]
- e) Prepare manual journal entries to create and adjust an allowance for irrecoverable debts.^[S]
- f) Illustrate how to include movements in the allowance for irrecoverable debts in the statement of profit or loss and how the closing balance of the allowance should be reported in the statement of financial position.^[S]
- g) Account for contras between receivables and payables.^[S]
- h) Explain the nature of provisions and liabilities in accordance with IFRS Accounting Standards.^[K]
- i) Distinguish between a provision and other liabilities.^[S]
- j) Account for provisions and other liabilities.^[S]
- k) Report provisions and other liabilities in the financial statements.^[S]

7. Capital and finance costs

- a) Distinguish between capital injected by the business owner(s) and amounts received from third parties for an unincorporated business (sole trade/ partnership).^[K]
- b) Demonstrate the impact of changes in capital on the financial statements.^[K]
- c) Prepare the capital general ledger account for an unincorporated business.^[S]

E Reconciliations

1. Bank reconciliation

- a) Explain the purpose of reconciling the bank general ledger account to the corresponding bank statement or internet banking records.^[K]
- b) Prepare the reconciliation of the bank general ledger account to the bank statement or internet banking records.^[S]
- c) Identify errors and omissions in the bank general ledger account and the bank statement or internet banking records.^[K]
- d) Identify timing differences in a bank reconciliation.^[K]
- e) Make correcting entries in the bank general ledger account.^[S]
- f) Identify the bank balance to be reported in the financial statements.^[K]

2. Payables account reconciliations

- a) Explain the purpose of reconciling the payables general ledger account to external documents.^[K]
- b) Prepare a reconciliation of the payables general ledger account to supplier statements.^[S]
- c) Identify errors and omissions in the payables general ledger account and supplier statements.^[S]
- d) Make correcting entries in the payables general ledger account.^[S]
- e) Identify the payables balance to be reported in the financial statements.^[S]

F Preparing a trial balance and correcting errors

1. Preparing a trial balance

- a) Explain the purpose of the trial balance.^[K]
- b) Distinguish between errors which will be detected by extracting a trial balance and those which will not.^[S]
- c) Calculate and explain the impact of errors on the statement of profit or loss and the statement of financial position.^[S]
- d) Identify the limitations of the trial balance.^[K]
- e) Prepare the initial trial balance.^[S]
- f) Explain the process of finalising the trial balance.^[K]
- g) Explain and record year-end adjustments on the trial balance, including:^[S]
 - i) Inventories
 - ii) Non-current asset transactions
 - iii) Depreciation
 - iv) Accruals, prepayments, accrued income and deferred income
 - v) Allowance for irrecoverable debts
 - vi) Irrecoverable debts
 - vii) Provisions
- h) Prepare a final trial balance including calculating the final reported profit or loss.^[S]
- i) Prepare the opening trial balance for the next accounting period.^[S]

2. Correction of errors using manual journal entries

- a) Explain the purpose of and reasons for creating a suspense account.^[K]
- b) Identify different types of bookkeeping errors, including those that result in suspense accounts.^[K]

- c) Describe the action required to correct errors, including clearing any suspense accounts.^[K]

- d) Prepare correcting manual journal entries and update the general ledger accounts and trial balance for any corrections made.^[S]

- e) Explain how the financial statements are affected by the correction of errors.^[S]

G Preparing financial statements

1. Preparation of the financial statements, including incomplete records

- a) Explain the process of preparing a set of financial statements from a trial balance.^[K]
- b) Explain the format and purpose of the statement of profit or loss and the statement of financial position for a sole trader.^[K]
- c) Prepare the financial statements for a sole trader from a trial balance.^[S]
- d) Describe the circumstances which lead to incomplete records.^[K]
- e) Describe the methods of constructing accounts from incomplete records.^[K]
- f) Prepare the financial statements or elements thereof using incomplete record techniques such as:^[S]
 - i) Markups and margins
 - ii) General ledger accounts to derive missing figures
 - iii) Manipulation of the accounting equation

H Partnerships

1. Partnership agreement

- a) Define a partnership.^[K]
- b) Explain the purpose and content of a partnership agreement.^[K]
- c) Explain, calculate and account for appropriations of profit.^[S]
 - i) Salaries of partners
 - ii) Interest on drawings
 - iii) Interest on capital
 - iv) Share of residual profit or loss

2. Partnership accounting records

- a) Explain the difference between partners' capital and current accounts.^[K]
- b) Prepare the partners' capital and current accounts.^[S]

3. Partnership financial statements and change in partnership

- a) Prepare the financial statements for a partnership.^[S]
- b) Explain and account for the admission of a new partner including the treatment of any goodwill arising.^[S]

Note: Candidates will not be expected to calculate the value of goodwill in a partnership