

# Principles of Accounting

Singapore-Cambridge General Certificate of Education  
Advanced Level Higher 2 (2021)

(Syllabus 9593)

## CONTENTS

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	<i>Page</i>
INTRODUCTION	2
AIMS	2
ASSESSMENT OBJECTIVES	3
SCHEME OF ASSESSMENT	4
SUBJECT CONTENT	6
APPENDICES	22
SUGGESTED RESOURCES	32

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## INTRODUCTION

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There are two broad approaches to accounting education: the user and preparer perspectives. The user perspective focuses on learning how to use accounting information for decision-making, which is what non-accountants are interested in and accountants are increasingly required to do, whereas the preparer perspective focuses on learning how to prepare and present accounting information, which is the realm of what accountants do.

The syllabus places emphasis on developing students to become users of accounting information, knowledge and skills that will be valuable in any field of work or life. It is also recognised that the knowledge and skills in preparing and presenting accounting information are valuable and worth acquiring. Being able to prepare and present accounting information will help students to better appreciate how the information should be used. The knowledge and skills of a preparer will provide students who aspire to specialise in accounting after the A-Level with the necessary foundations.

Thus, the H2 Principles of Accounting syllabus is designed as an introductory accounting course offered as a three-year A-Level programme, and no prior knowledge in accounting is required. It is not the subject's intent to induct students into the accounting profession. Instead, it seeks to help students understand the principles of how financial numbers are used to represent and measure business economic activities. Principles of Accounting seeks to nurture in students the approaches to and qualities of thinking, and values that an accounting professional would adopt. This subject is not a pre-requisite for any business-related courses.

In using and applying financial analysis methods and tools, students will develop sound reasoning and decision-making skills which are relevant for the 21<sup>st</sup> century. The syllabus will also highlight the importance of business ethics, particularly integrity, objectivity and responsibility, from an understanding that the accounting information one prepares and presents are relied upon to support and facilitate decision-making.

## AIMS

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### Knowledge and Understanding

The syllabus seeks to develop in candidates the following knowledge and understanding:

- the purpose of accounting as providing financial information to support and facilitate decision-making, and the significance of the qualitative characteristics of useful financial information and the ethical values desired in the people who prepare the information
- the financial effects of economic activities by their economic characteristics, and the manner of representation of economic activities of the business
- the principles underlying accounting as a measurement system
- the aspects of the economic activities being measured so as to support decision-making, and the measurement methods and techniques
- the accounting information system and accounting cycle, and the double-entry recording method in maintaining records of economic activities
- the significance of the measurement results in relation to the economic performance and position of the business
- the tools and techniques used to analyse financial information in order to support and facilitate decision-making by external and internal stakeholders

### **Skills**

The syllabus seeks to develop in candidates the following skills:

- numeracy skill in detecting underlying patterns and relationships between financial numbers, and interpreting the patterns and relationships in relation to business economic activities
- synthesis and presentation skills in the preparation of accounting information in a suitable form
- analytical skill in breaking down business economic activities for their financial effects, in assessing financial impact for implications on the business, and in using financial information for decision-making
- evaluative skill in using financial information for decision-making

### **Values and Attitudes**

The syllabus seeks to develop in candidates the following values and attitudes:

- having integrity and being objective
- being accountable and responsible for one's actions
- having a sense of social responsibility to act with due care
- being logical, methodical, consistent and accurate

## **ASSESSMENT OBJECTIVES**

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Candidates are expected to:

### **AO1 Knowledge and Understanding**

Demonstrate knowledge and understanding of accounting principles and practices related to the representation, measurement and presentation of business economic activities

### **AO2 Application**

Select and apply relevant knowledge and understanding of accounting to given scenarios

### **AO3 Analysis and Synthesis**

Analyse, interpret, organise, synthesise accounting information appropriately, and communicate it in a clear and coherent manner

### **AO4 Evaluation**

Evaluate accounting information to make informed judgements, recommendations or decisions.

## SCHEME OF ASSESSMENT

The assessment comprises two written examination papers. Candidates are required to take both papers.

	Description	Duration	Overall Marks (Weighting)
<b>Paper 1</b>	<p>This paper tests Financial Accounting.</p> <p><u>Section A (60 marks, 30%)</u> 3 compulsory structured questions (20 marks each)</p> <p><u>Section B (40 marks, 20%)</u> 1 compulsory scenario-based structured question (40 marks)</p>	3 hours	100 marks (50%)
<b>Paper 2</b>	<p>This paper tests Managerial Accounting.</p> <p><u>Section A (60 marks, 30%)</u> 3 compulsory structured questions (20 marks each)</p> <p><u>Section B (40 marks, 20%)</u> 1 compulsory mini-case study (40 marks)</p>	3 hours	100 marks (50%)

### DESCRIPTION OF COMPONENTS

#### Paper 1

Paper 1 will focus on Financial Accounting and will have two sections: Section A and Section B.

Section A will have three compulsory structured questions. Each question will carry 20 marks and will be based mainly on one of the financial accounting topics of the syllabus but, where required, will integrate knowledge from other related topics of financial accounting. Each question in this section will begin with introductory information in a given context or scenario. Introductory information will be in the form of text and may include quantitative data. This will be followed by one or more part-questions. Additional information may be introduced for some part-questions. Each question may have up to five part-questions.

Section B will have one compulsory scenario-based structured question from financial accounting topics of the syllabus. The question will carry 40 marks and will be based on more than one topic of the syllabus. Additional information may be introduced for some part-questions. Candidates may be required to integrate knowledge from the different topics. The number of part-questions in this section will vary based on the context or the scenario.

In both sections, candidates may be expected to examine the information provided and consider its relevance for use in their responses. The questions will assess candidates' knowledge and understanding of financial accounting and also their ability to apply financial accounting principles and practices to analyse, synthesise and evaluate situations.

#### Paper 2

Paper 2 will focus on Managerial Accounting and will have two sections: Section A and Section B.

Section A will have three compulsory structured questions. Each question will carry 20 marks and will be based mainly on one of the managerial accounting topics of the syllabus but, where required, will integrate knowledge from other related topics of managerial accounting. As in the case of Paper 1, each question in this section will begin with introductory information in a given context or scenario. Introductory information will be in the form of text and may include quantitative data. This will be followed by one or more part-questions.

Additional information may be introduced for some part-questions. Each question may have up to five part-questions.

Section B will have one compulsory mini-case study based on managerial accounting topics in the syllabus. The case materials will comprise of a write-up about a given context or a scenario including any relevant quantitative data. The mini-case study may integrate concepts from more than one managerial accounting topic and would require candidates to process the information as a whole to identify and understand the issues involved. Candidates may be required to integrate knowledge from the different topics. The number of part-questions that follow a mini case study will depend on the issues involved.

In both sections, candidates may be expected to examine the information provided and consider its relevance for use in their responses. The questions will assess candidates' knowledge and understanding of managerial accounting and also their ability to apply managerial accounting principles and practices to analyse, synthesise and evaluate situations.

### Assessment Specification Grid

	<b>AO1 Knowledge and Understanding</b>	<b>AO2 Application</b>	<b>AO3 Analysis and Synthesis</b>	<b>AO4 Evaluation</b>	<b>Total</b>
<b>Paper 1</b>	10%	15%	15%	10%	50%
<b>Paper 2</b>	10%	15%	15%	10%	50%
<b>Total</b>	20%	30%	30%	20%	100%

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

## USE OF A CALCULATOR

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The use of a calculator as approved by the Singapore Examinations and Assessment Board is allowed for both papers.

# SYLLABUS CONTENT

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## Content Outline

### Key Understanding 1:

**Accounting information is used to support and facilitate decision-making**

- 1.1 Stakeholders and Decision-making
- 1.2 Business Ethics

#### *Financial Accounting*

- 1.3 Qualitative Characteristics of Useful Financial Information
- 1.4 Financial Statements Analysis

#### *Managerial Accounting*

- 1.5 Cost-volume-profit Analysis
- 1.6 Variance Analysis
- 1.7 Capital Investment Appraisal
- 1.8 Relevant Information for Decision-making

### Key Understanding 2:

**Accounting is a language used to represent business economic activities**

#### *Financial Accounting*

##### *Businesses and Economic Activities*

- 2.1 Types of Businesses
- 2.2 Forms of Business Ownerships
- 2.3 Business Economic Activities

##### *Representation and Presentation of Economic Activities*

- 2.4 Elements of Financial Statements
- 2.5 Accounting Equation
- 2.6 Financial Statements

##### *Representation and Presentation of Financing Activities*

- 2.7 Shareholders' Equity
- 2.8 Long-term and Short-term Borrowing

##### *Representation and Presentation of Investing Activities*

- 2.9 Property, Plant and Equipment

##### *Representation and Presentation of Operating Activities*

- 2.10 Income and Expenses
- 2.11 Inventories
- 2.12 Trade Receivables and Other Receivables
- 2.13 Trade Payables and Other Payables
- 2.14 Cash on hand and Cash at Bank

##### *Correcting Accounting Errors and Re-construction of Accounts*

- 2.15 Correcting Accounting Errors
- 2.16 Incomplete Records

**Key Understanding 3:****Accounting is a measurement system of business economic activities**Financial Accounting*Accounting Assumptions and Principles*

## 3.1 Accounting Principles

*Accounting Information System and Accounting Cycle*

## 3.2 Accounting Information System and Accounting Cycle

## 3.3 Double-Entry Recording

*Accounting Measurements*

## 3.4 Measuring Economic Activities

Managerial Accounting*Accounting Measurements*

## 3.5 Measuring Costs of Products, Services and Other Cost Objects

## 3.6 Cost Flow in a Manufacturing Business

## 3.7 Normal Job-costing System

## 3.8 Budgeting

**Detailed Content****Key Understanding 1:****Accounting information is used to support and facilitate decision-making**

	Students will be able to:
<p><b>1.1 Stakeholders and Decision-making</b></p> <ul style="list-style-type: none"> <li>Stakeholders of the business: shareholders; managers; suppliers; lenders; customers; employees; government; potential investors; general public. Classification by internal and external stakeholders, and the differences between the two groups and between stakeholders.</li> <li>Business economic decisions stakeholders made with respect to the business, and the consequences of stakeholders' decisions on the activities of the business.</li> <li>Stakeholders as users of financial information. The types of financial information stakeholders use to support and facilitate their decisions, and how the financial information is used.</li> <li>Role of the accounting function in providing financial information to support and facilitate users' decision-making.</li> <li>This syllabus requires only the preparations of these financial statements: balance sheet, income statement, statement of changes in equity and statement of cash flows.</li> <li>Limitations of financial and quantitative information for decision-making. Types of non-financial and non-quantitative information stakeholders are interested in, and how this information is used.</li> </ul>	<ul style="list-style-type: none"> <li>differentiate between the stakeholders and the financial information they need</li> <li>explain the limitations of financial information</li> <li>explain how stakeholders use financial and non-financial information</li> </ul>

	Students will be able to:
<p><b>1.2 Business Ethics</b></p> <ul style="list-style-type: none"> <li>Ethical values of integrity and objectivity. Examples and non-examples of ethical and non-ethical behaviours, and implications on users' decision-making.</li> <li>Common ethical issues in business of: <ul style="list-style-type: none"> <li>honesty and fairness</li> <li>conflict of interest involving business and personal interests; and</li> <li>frauds of financial statements and misappropriation of the assets of the business.</li> </ul> </li> <li>Financial effects of unethical accounting practices, and implications on users' decision-making.</li> </ul>	<ul style="list-style-type: none"> <li>evaluate situations involving conflicts with ethics</li> <li>analyse the financial effects and the impact on stakeholders' decisions of unethical accounting</li> </ul>
<p><b>1.3 Qualitative Characteristics of Useful Financial Information</b></p> <ul style="list-style-type: none"> <li>Fundamental qualitative characteristics of relevance and faithful representation. Materiality is a quality of relevance. Examples and non-examples of relevant information, faithful representation and materiality, and implications on users' decision-making.</li> <li>These are not required: The enhancing qualitative characteristics of useful financial information.</li> </ul>	<ul style="list-style-type: none"> <li>evaluate how the fundamental qualitative characteristics affect decision-making</li> </ul>
<p><b>1.4 Financial Statements Analysis</b></p> <ul style="list-style-type: none"> <li>Understanding the income statement, balance sheet and statement of cash flows, as well as the financial information contained within these statements and the manner of presentation of this information.</li> <li>Techniques of financial statements analysis.</li> <li>Analysis methods: horizontal analysis; vertical analysis; ratio analysis.</li> <li>Understanding that financial statement analysis is meaningful when financial performance and financial position of the business are compared over time, or compared with other comparable businesses or compared with industry benchmark.</li> <li>Presenting financial trends in a readable format.</li> <li>Limitations of using financial ratios and quantitative information for decision-making.</li> <li>Analysing for areas specified in paragraphs a. to e., including: <ul style="list-style-type: none"> <li>Implications of financial trend on the business.</li> <li>Improving financial performance, financial position and cash flows.</li> <li>Implications of recommendations on the business and decision-making.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>select appropriate areas of analysis to support decision to be made</li> <li>analyse using horizontal analysis, vertical analysis and ratio analysis</li> <li>explain the limitations of using financial ratios</li> <li>construct financial figures using financial ratios</li> </ul>



	Students will be able to:
<p><b>a.</b> Analysing for profitability and continual operations</p> <ul style="list-style-type: none"> <li>• Importance of profitability.</li> <li>• Understanding profitability trend.</li> <li>• Computing profitability financial ratios of:               <ol style="list-style-type: none"> <li>1 Gross profit margin (%)</li> <li>2 Mark-up on cost (%)</li> <li>3 Percentage of operating expense to net sales revenue (%)</li> <li>4 Net profit margin (%)</li> <li>5 Return on equity (%)</li> </ol> </li> <li>• Purpose of each ratio, when it is applicable and the relationship with other financial ratios.</li> </ul>	<ul style="list-style-type: none"> <li>• explain the importance of being profitable</li> <li>• select and compute profitability ratios for analysis</li> <li>• analyse and interpret financial figures and financial ratios on profitability</li> <li>• evaluate profitability of business and suggest recommendations</li> </ul>
<p><b>b.</b> Analysing for liquidity and going concern</p> <ul style="list-style-type: none"> <li>• Importance of being liquid, and understanding inventory and cash management. Differences between liquidity and profitability.</li> <li>• Understanding liquidity trend.</li> <li>• Computing working capital, quick assets and liquidity financial ratios of:               <ol style="list-style-type: none"> <li>1 Working capital ratio (current ratio)</li> <li>2 Quick ratio (acid test ratio)</li> </ol> </li> <li>• Purpose of each ratio, when it is applicable and the relationship with other financial ratio.</li> </ul>	<ul style="list-style-type: none"> <li>• explain the importance of being liquid</li> <li>• select and compute liquidity ratios for analysis</li> <li>• analyse and interpret financial figures and financial ratios on liquidity</li> <li>• evaluate liquidity of business and suggest recommendations</li> </ul>
<p><b>c.</b> Analysing for efficient use of assets</p> <ul style="list-style-type: none"> <li>• Importance of investing in assets.</li> <li>• Understanding efficiency trend.</li> <li>• Computing efficiency financial ratios of:               <ol style="list-style-type: none"> <li>1 Cash conversion cycle (working capital cycle) (days)</li> <li>2 Days-sales-in-inventory (days) and rate of inventory turnover (times)</li> <li>3 Accounts receivable collection period (days) and rate of accounts receivable turnover (times)</li> <li>4 Accounts payable payment period (days) and accounts payable (times)</li> </ol> </li> <li>• Purpose of each ratio, when it is applicable and the relationship with other financial ratios.</li> </ul>	<ul style="list-style-type: none"> <li>• explain the importance of being efficient</li> <li>• select and compute efficiency ratios for analysis</li> <li>• analyse and interpret financial figures and financial ratios on efficient use of assets</li> <li>• evaluate efficient use of assets of business and suggest recommendations</li> </ul>
<p><b>d.</b> Analysing for solvency and financing decisions</p> <ul style="list-style-type: none"> <li>• Importance of being solvent, and understanding long-term vs. short-term financing, internal vs. external financing, and financing by debt vs. financing by equity.</li> <li>• Understanding solvency trend.</li> <li>• Computing solvency financial ratios of:               <ol style="list-style-type: none"> <li>1 Debt-equity ratio</li> <li>2 Interest coverage ratio</li> </ol> </li> <li>• Purpose of each ratio and when it is applicable.</li> </ul>	<ul style="list-style-type: none"> <li>• explain the importance of being solvent</li> <li>• select and compute solvency ratios for analysis</li> <li>• analyse and interpret financial figures and financial ratios on solvency</li> <li>• evaluate solvency of business and suggest recommendations</li> </ul>

	Students will be able to:
<p><b>e. Analysing for shareholders rewards or shareholders' investment</b></p> <ul style="list-style-type: none"> <li>• Importance of rewarding shareholders, and understanding the implications of share issue and declaring dividends.</li> <li>• Understanding shareholders' investment trend.</li> <li>• Computing shareholders' investment ratios of:               <ol style="list-style-type: none"> <li>1 Earnings per ordinary share</li> <li>2 Price earnings ratio of ordinary shares</li> <li>3 Dividend yield</li> </ol> </li> <li>• Purpose of each ratio, when it is applicable and the relationship with other financial ratios.</li> </ul>	<ul style="list-style-type: none"> <li>• explain the importance of rewarding shareholders</li> <li>• select and compute shareholders' investment ratios for analysis</li> <li>• analyse and interpret financial figures and financial ratios on shareholders' investment</li> <li>• evaluate shareholders' investment of business and suggest recommendations</li> </ul>
<p><b>1.5 Cost-volume-profit Analysis</b></p> <ul style="list-style-type: none"> <li>• Cost-behaviour patterns: variable and fixed costs.</li> <li>• Relationships between total revenue, total costs and units sold or level of activity.           <ul style="list-style-type: none"> <li>– Contribution margin = revenue – variable costs, including alternative expression in terms of per unit.</li> <li>– Net profit = contribution margin – fixed costs.</li> <li>– Using the equation method. Reading, but not plotting, a cost-volume-profit graph.</li> </ul> </li> <li>• Analysing for the following to support and facilitate decision-making for a single product only:           <ul style="list-style-type: none"> <li>– Breakeven quantity and sales revenue.</li> <li>– Margin of safety, and target quantity and sales revenue.</li> </ul> </li> <li>• Limitations of the cost-volume-profit analysis for decision-making.</li> <li>• Presenting contribution margin, fixed costs and profit/loss in an appropriate statement.</li> <li>• Applying to both manufacturing and service businesses.</li> <li>• These are not required: Preparation of marginal costing statement, and reconciling margin costing and absorption costing statements.</li> </ul>	<ul style="list-style-type: none"> <li>• explain the limitations of cost-volume-profit analysis</li> <li>• select and compute contribution margin for analysis</li> <li>• analyse the breakeven quantity and sales revenue, and target quantity and sales revenue</li> <li>• evaluate proposals based on cost-volume-profit analysis and suggest recommendations</li> </ul>
<p><b>1.6 Variance Analysis</b></p> <ul style="list-style-type: none"> <li>• Using budget in the decision-making process.</li> <li>• Human aspects of using budgeting as a management tool.</li> <li>• Purpose of variance analysis.</li> <li>• Analysing for variances between budget and actual figures, including using flexible budget in the analysis, and improving financial performance and financial position.</li> <li>• Applying to both manufacturing and service businesses.</li> </ul>	<ul style="list-style-type: none"> <li>• explain the use of budgets as an effective management tool</li> <li>• analyse for variances</li> <li>• evaluate proposals based on budgets and suggest recommendations</li> </ul>

	Students will be able to:
<p><b>1.7 Capital Investment Analysis</b></p> <ul style="list-style-type: none"> <li>• Purpose of capital investment analysis.</li> <li>• Cash outflows and cash inflows, and applying to scenarios with even or uneven cash flows.</li> <li>• Analysing capital projects using the (i) payback period; and (ii) net present value methods to support and facilitate decision-making.</li> <li>• Net present value: Time value of money, compounding interest, present value and future value. Include using weighted average cost of capital as a discount rate. Computing relative proportion of funding based on book value. Computing weighted average cost of capital only, given cost of capital of each source of funding and relative proportion of funding.</li> <li>• Limitations of the capital investment analysis as well as net present value method for decision-making.</li> <li>• This is not required: Discounted payback period.</li> </ul>	<ul style="list-style-type: none"> <li>• compute cash flows and net cash flow</li> <li>• compute payback period and net present value</li> <li>• compute relative proportion of funding and weighted average cost of capital</li> <li>• evaluate proposals based on capital investment appraisal and suggest recommendations</li> </ul>
<p><b>1.8 Relevant Information for Decision-making</b></p> <ul style="list-style-type: none"> <li>• Relevant revenue, relevant cost, sunk cost, and opportunity cost.</li> <li>• Analysing for the following situations to support and facilitate decision-making: <ol style="list-style-type: none"> <li>1 Accept or reject one-time only special order, product/service, with or without excess capacity in the business.</li> <li>2 Make (i.e. insourcing) or buy (i.e. outsourcing) a component/product/ service with or without excess capacity in the business.</li> <li>3 Continue or discontinue a product/service with or without excess capacity in the business.</li> <li>4 Selection between products/services under situation of limited resources in the business and with or without limited market demand.</li> </ol> </li> <li>• Applying to both manufacturing and service businesses.</li> <li>• Limitations of using quantitative information for decision-making.</li> </ul>	<ul style="list-style-type: none"> <li>• explain relevant income, relevant costs and opportunity cost</li> <li>• evaluate proposals based on relevance of income and costs, and suggest recommendations</li> </ul>

<b>Key Understanding 2: Accounting is a language used to represent business economic activities</b>	
	Students will be able to:
<p><i>Businesses and Economic Activities</i></p> <p><b>2.1 Types of Businesses</b></p> <ul style="list-style-type: none"> <li>Classification of businesses by business objectives: profit-making; non-profit making. Features and differences between such businesses. How business objective affect business economic activities.</li> <li>Classification of businesses by trade: merchandising; service; manufacturing. Features and differences between such businesses. How the main income generating economic activities of each type of business are represented on the financial statements.</li> <li>This syllabus focuses on profit-making businesses only, of merchandising, service and manufacturing trades.</li> </ul>	<ul style="list-style-type: none"> <li>differentiate between businesses in merchandising, services and manufacturing</li> <li>differentiate between financial statements of businesses in merchandising, services and manufacturing</li> </ul>
<p><b>2.2 Forms of Business Ownerships</b></p> <ul style="list-style-type: none"> <li>Types of business ownerships: sole proprietorship; partnership; company. Features and differences between such business ownerships. How the financial statements reflect different forms of business ownerships.</li> <li>This syllabus focuses on accounting for company only.</li> <li>This is not required: Registration requirements of different forms of business ownerships.</li> </ul>	<ul style="list-style-type: none"> <li>differentiate between sole proprietorship, partnership and company</li> <li>differentiate between financial statements of sole proprietorship, partnership and company</li> </ul>
<p><b>2.3 Economic Activities</b></p> <ul style="list-style-type: none"> <li>Importance of and differences between financing, investing and operating activities. Relationships between the three categories of economic activities.</li> <li>Operating cycle.</li> <li>A business transaction is an economic activity that is to be processed by the accounting function.</li> </ul>	<ul style="list-style-type: none"> <li>differentiate between financing, investing and operating activities</li> <li>explain the relationships between financing, investing and operating activities</li> <li>explain the operating cycle</li> </ul>
<p><i>Representation and Presentation of Economic Activities</i></p> <p><b>2.4 Elements of Financial Statements</b></p> <ul style="list-style-type: none"> <li>Effects of economic activities are classified by their economic characteristics into asset, liability, equity, income and expense.</li> </ul>	<ul style="list-style-type: none"> <li>differentiate between assets, liabilities, equity, profit, income and expenses</li> </ul>

	Students will be able to:
<p><b>2.5 Accounting Equation</b></p> <ul style="list-style-type: none"> <li>Basic accounting equation: <math>\text{assets} = \text{equity} + \text{liabilities}</math>. Expanding the basic accounting equation to include income, expenses, share capital, reserves, non-current assets, current assets, etc.</li> <li>Relating the accounting equation to the financial statements.</li> <li>Effects of economic activities, also alternatively known as business transactions, on the accounting equation and financial statements.</li> </ul>	<ul style="list-style-type: none"> <li>compute the values of financial figures based on the accounting equation</li> <li>analyse the effects of transactions on the accounting equation</li> </ul>
<p><b>2.6 Financial Statements</b></p> <ul style="list-style-type: none"> <li>Effects of economic activities, also alternatively known as business transactions, are summarised and presented on financial statements.</li> <li>Generally accepted financial statement formats and financial terms other than those shown in the Appendix are also acceptable.</li> <li>This syllabus requires only the preparation of these financial statements: balance sheet, income statement, statement of changes in equity and statement of cash flows.</li> </ul> <p><b>Income Statement</b></p> <ul style="list-style-type: none"> <li>Purpose of the income statement.</li> <li>Preparing an income statement in good form in a narrative format for a merchandising, service or manufacturing business, with or without end of financial period adjustments to be made.</li> </ul> <p><b>Balance Sheet</b></p> <ul style="list-style-type: none"> <li>Purpose of the balance sheet.</li> <li>Preparing a properly classified balance sheet in a narrative format for a company, with or without end of financial period adjustments to be made.</li> </ul> <p><b>Statement of Changes in Equity</b></p> <ul style="list-style-type: none"> <li>Purpose of statement of changes in equity, with or without end of financial period adjustments to be made.</li> </ul> <p><b>Statement of Cash Flows</b></p> <ul style="list-style-type: none"> <li>Purpose of the statement of cash flows.</li> <li>A statement of cash flows in good form based on the indirect method only.</li> <li>Reconciling between cash and accrual basis of accounting.</li> </ul>	<ul style="list-style-type: none"> <li>analyse and present the effects of transactions on the financial statements</li> <li>differentiate between gross and net profits</li> <li>prepare an income statement for merchandising and service businesses</li> <li>differentiate between non-current and current assets</li> <li>differentiate between non-current and current liabilities</li> <li>prepare a balance sheet for a company</li> <li>prepare a statement of changes in equity for a company</li> <li>differentiate between cash inflow and cash outflow activities</li> <li>differentiate among cash flows from operating, investing and financing activities</li> <li>prepare a statement of cash flows</li> </ul>

	Students will be able to:
<p><i>Representation and Presentation of Financing Activities</i></p> <p><b>2.7 Shareholders' Equity</b></p> <ul style="list-style-type: none"> <li>• Company as a separate legal entity. Shares as the unit of ownership, either privately held or publicly-traded.</li> <li>• Effects of the following transactions on the accounting equation and financial statements: <ul style="list-style-type: none"> <li>– Issuance of shares: ordinary, cumulative preference and non-cumulative preference shares. Issuing ordinary shares by (i) subscription, (ii) bonus issue, and (iii) rights issue. Computing share capital.</li> <li>– Cash buy-back of ordinary shares only.</li> <li>– Declared dividends: Dividends on (i) ordinary shares, (ii) cumulative preference shares, and (iii) non-cumulative preference shares. Computing interim dividends and declared dividends.</li> <li>– Retained earnings.</li> <li>– Asset revaluation reserve: Creation of asset revaluation reserve only.</li> </ul> </li> <li>• Journal entries of transactions relating to the following are not required: <ul style="list-style-type: none"> <li>– Cash buy-back of ordinary shares.</li> <li>– Asset revaluation reserves.</li> </ul> </li> <li>• Presenting shareholders' equity on the financial statements in accordance with generally accepted accounting practices.</li> <li>• These are not required: Legal procedures on incorporation of company and declaration of dividends. Preparation of accounts for publication. Accounting for share premium or share discount. No subsequent re-issue of previously bought ordinary shares.</li> </ul>	<ul style="list-style-type: none"> <li>• compute share capital, dividends, retained earnings and asset revaluation reserve</li> <li>• prepare journal entries on transactions relating to share capital, dividends and retained earnings</li> <li>• analyse the effects of transactions relating to share capital, dividends, retained earnings and asset revaluation reserve on the accounting equation and financial statements</li> <li>• prepare extracts of financial statements showing the presentation of share capital and reserves</li> </ul>
<p><b>2.8 Long-term and Short-term Borrowing</b></p> <ul style="list-style-type: none"> <li>• Types of borrowings: loan, mortgage and bond.</li> <li>• Effects of the following transactions on the accounting equation and financial statements: <ul style="list-style-type: none"> <li>– New borrowing.</li> <li>– Repayment of borrowing. Computing loan repayment and outstanding loan, based on simple interest method.</li> <li>– Interest on borrowing. Computing interest expense and interest payable, based on simple interest method.</li> </ul> </li> <li>• Presenting long-term and short-term borrowing on the financial statements in accordance with generally accepted accounting practices.</li> <li>• These are not required: How interest rate is charged on the loan, at fixed or floating rate. Apportionment of loan repayment into amounts for repayments of principal sum and interest. Banking operations, such as opening a loan account.</li> </ul>	<ul style="list-style-type: none"> <li>• compute loan repayment, outstanding loan, interest expense and interest payable</li> <li>• prepare journal entries on transactions relating to long-term borrowing</li> <li>• analyse the effects of transactions relating to long-term borrowing on the accounting equation and financial statements</li> <li>• prepare extracts of financial statements showing the presentation of long-term borrowing</li> <li>• explain the representation of long-term and short-term borrowing, and their presentation on the financial statements in relation to accounting theory</li> </ul>

	Students will be able to:
<p><i>Representation and Presentation of Investing Activities</i></p> <p><b>2.9 Property, Plant and Equipment</b></p> <ul style="list-style-type: none"> <li>• Purpose of property, plant and equipment.</li> <li>• Effects of the following transactions on the accounting equation and financial statements: <ul style="list-style-type: none"> <li>– Acquisition of assets: <ul style="list-style-type: none"> <li>○ Cost of asset. Acquiring assets on cash term or credit term or by trading-in a used asset.</li> <li>○ Incurring subsequent costs relating to the asset: capital and revenue expenditure, and applying the materiality concept.</li> </ul> </li> <li>– Depreciation: <ul style="list-style-type: none"> <li>○ Causes and definition of depreciation.</li> <li>○ Depreciation methods of: (i) straight-line method, and (ii) reducing-balance method. Computing depreciation, with partial or full year of depreciation in year of acquisition or disposal. Computing accumulated depreciation and net book value.</li> <li>○ Effects of changing depreciation rate, useful life, scrap value and depreciation method.</li> </ul> </li> <li>– Revaluation of assets: <ul style="list-style-type: none"> <li>○ Understanding revalued amount.</li> <li>○ Adjusting net book value to revalued amount. Include upward and downward revaluations, and over two financial periods only.</li> <li>○ This is not required: Derivation of revalued amount.</li> </ul> </li> <li>– Impairment of assets: <ul style="list-style-type: none"> <li>○ Understanding recoverable amount.</li> <li>○ Adjusting net book value to recoverable amount.</li> <li>○ These are not required: Derivation of recoverable amount. Subsequent reversal of impairment loss is not required.</li> </ul> </li> <li>– Sale of assets: <ul style="list-style-type: none"> <li>○ Gain or loss on sale of asset, carried at cost or revalued cost, from a sale or trading-in for a new asset.</li> <li>○ This is not required: Disposal of asset.</li> </ul> </li> </ul> </li> <li>• Journal entries of transactions relating to the following are not required: <ul style="list-style-type: none"> <li>– Revaluation of assets</li> <li>– Impairment of assets</li> </ul> </li> <li>• Presenting property, plant and equipment on the financial statements in accordance with generally accepted accounting practices.</li> </ul>	<ul style="list-style-type: none"> <li>• explain depreciation, useful life and causes of depreciation</li> <li>• suggest appropriate depreciation method for a class of property, plant and equipment</li> <li>• differentiate between capital and revenue expenditure, with application of the materiality concept</li> <li>• analyse the effects of transactions relating to reclassification of capital and revenue expenditure on the accounting equation and financial statements</li> <li>• compute cost of property, plant and equipment, accumulated depreciation and net book value, and depreciation rate and depreciation</li> <li>• prepare journal entries on transactions relating to acquisition and depreciation of property, plant and equipment</li> <li>• analyse the effects of transactions relating to changing depreciation charged on the accounting equation and financial statements</li> <li>• compute adjustments relating to revaluation and impairment loss of property, plant and equipment</li> <li>• analyse the effects of transactions relating to revaluation and impairment of property, plant and equipment on the accounting equation and financial statements</li> <li>• compute gain/loss on sale of property, plant and equipment</li> <li>• prepare journal entries on transactions relating to sale of property, plant and equipment</li> <li>• analyse the effects of transactions relating to sale of property, plant and equipment on the accounting equation and financial statements</li> <li>• prepare extracts of financial statements showing the presentation of property, plant and equipment</li> <li>• explain the representation of property, plant and equipment, and their presentation on the financial statements in relation to accounting theory</li> </ul>

	Students will be able to:
<p><i>Representation and Presentation of Operating Activities</i></p> <p><b>2.10 Income and Expenses</b></p> <ul style="list-style-type: none"> <li>• Income and expenses in relation to the main income generating activities of the business.</li> <li>• Types of other income not earned from the main income generating activities of the business.</li> <li>• Types of expenses incurred in generating income.</li> <li>• Effects of the following transactions on the accounting equation and financial statements: <ul style="list-style-type: none"> <li>– Sale of goods on cash and credit term. Calculating trade discount. Inventory recorded based on the perpetual inventory recording method only.</li> <li>– Providing services on cash and credit term.</li> <li>– Other income. Adjusting for income receivable and income received in advance/unearned income.</li> <li>– Expenses. Adjusting for accrued expenses/ expenses payable and prepaid expenses.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• compute earned and unearned portions of income, and expired/consumed and unexpired/unconsumed portions of expenses</li> <li>• prepare the journal entries on transactions relating to income and expenses</li> <li>• analyse the effects of transactions relating to income and expenses on the accounting equation and financial statements</li> <li>• prepare extracts of financial statements showing the presentation of income and expense</li> <li>• explain the representation of income and expenses, and their presentation on the financial statements in relation to accounting theory</li> </ul>
<p><b>2.11 Inventories</b></p> <ul style="list-style-type: none"> <li>• Inventories in merchandising and manufacturing businesses. Materials or supplies to be consumed in the provision of services in a services business.</li> <li>• Effects of the following transactions/adjustments on the accounting equation and financial statements: <ul style="list-style-type: none"> <li>– Purchase of inventories: <ul style="list-style-type: none"> <li>○ Cost of inventories. Purchasing inventories on cash and credit term. Inventory recorded based on the perpetual inventory recording method only.</li> </ul> </li> <li>– Sale of inventories: <ul style="list-style-type: none"> <li>○ Inventory recorded based on the perpetual inventory recording method only.</li> <li>○ Physical flow and cost flow of inventories, and the need for an inventory costing method. Computing cost of goods sold and ending inventories, based on the inventory costing methods of (i) FIFO, and (ii) weighted average.</li> <li>○ Adjusting between inventory costing methods of (i) FIFO, and (ii) weighted average.</li> </ul> </li> <li>– Valuation of ending inventories and impairment of assets. <ul style="list-style-type: none"> <li>○ Understanding net realisable value.</li> <li>○ Adjusting ending inventories to net realisable value.</li> <li>○ This is not required: Derivation of net realisable value.</li> </ul> </li> </ul> </li> <li>• Presenting inventories on the financial statements in accordance with generally accepted accounting practices. <ul style="list-style-type: none"> <li>• This is not required: Use of stock card.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• compute cost of inventories at purchase, cost of sales, ending inventories and impairment loss</li> <li>• prepare journal entries on transactions relating to inventories</li> <li>• analyse the effects of transactions relating to inventories on the accounting equation and financial statements</li> <li>• prepare extracts of financial statements showing the presentation of inventories</li> <li>• explain the representation of inventories, and their presentation on the financial statements in relation to accounting theory</li> </ul>



	Students will be able to:
<p><b>2.12 Trade Receivables and Other Receivables</b></p> <ul style="list-style-type: none"> <li>• Effects of the following transactions on the accounting equation and financial statements: <ul style="list-style-type: none"> <li>– Sale of goods on credit term, and related transactions.</li> <li>– Providing services on credit term, and related transactions.</li> <li>– Impairment of trade receivables: Allowance for impairment of trade receivables is based on amounts owed from customers whose debts may not be collectible in the immediate future or based on a percentage of trade receivables. Allowance may be created for the first time, and adjusted in subsequent financial periods.</li> </ul> </li> <li>• Presenting trade receivables on the financial statements in accordance with generally accepted practices.</li> <li>• This is not required: Use of detailed ageing of trade receivables.</li> </ul>	<ul style="list-style-type: none"> <li>• compute trade receivables, allowance for impairment of trade receivables, net trade receivables and impairment loss on trade receivables</li> <li>• prepare journal entries on transactions relating to trade receivables</li> <li>• analyse the effects of transactions relating to trade receivables on the accounting equation and financial statements</li> <li>• prepare extracts of financial statements showing the presentation of trade receivables</li> <li>• explain the representation of trade receivables and other receivables, and their presentation on the financial statements in relation to accounting theory</li> </ul>
<p><b>2.13 Trade Payables and Other Payables</b></p> <ul style="list-style-type: none"> <li>• Effects of the following transactions on the accounting equation and financial statements: <ul style="list-style-type: none"> <li>– Purchase of goods on credit term, and related transactions.</li> <li>– Purchase of services provided on credit term, and related transactions.</li> </ul> </li> <li>• Presenting trade payables on the financial statements in accordance with generally accepted accounting practices.</li> </ul>	<ul style="list-style-type: none"> <li>• compute trade payables</li> <li>• prepare journal entries on transactions relating to trade payables</li> <li>• analyse the effects of transactions relating to trade payables on the accounting equation and financial statements</li> <li>• prepare extracts of financial statements showing the presentation of trade payables</li> <li>• explain the representation of trade payables and other payables, and their presentation on the financial statements in relation to accounting theory</li> </ul>
<p><b>2.14 Cash on hand and Cash at Bank</b></p> <ul style="list-style-type: none"> <li>• Effects of the following transactions on the accounting equation and financial statements: <ul style="list-style-type: none"> <li>– Cash receipts.</li> <li>– Cash payments.</li> <li>– Bank related transactions.</li> <li>– Bank reconciliation.</li> </ul> </li> <li>• Presenting cash on hand/cash at bank on the financial statements in accordance with generally accepted accounting practices.</li> <li>• Not required: Descriptions of how of electronic bank transactions are processed.</li> </ul>	<ul style="list-style-type: none"> <li>• prepare journal entries on transactions relating to cash on hand/cash at bank</li> <li>• analyse the effects of bank reconciliation items on balance on the bank statement</li> <li>• analyse the effects of transactions relating to cash on hand/cash at bank on the accounting equation and financial statements</li> <li>• prepare extracts of financial statements showing the presentation of cash on hand/cash at bank</li> <li>• explain the representation of cash on hand/cash at bank, and their presentation on the financial statements in relation to accounting theory</li> </ul>

	Students will be able to:
<p><i>Correcting Accounting Errors and Re-construction of Accounts</i></p> <p><b>2.15 Correcting Accounting Errors</b></p> <ul style="list-style-type: none"> <li>• Checking for arithmetic accuracy using a trial balance.</li> <li>• How accounting errors not revealed by the trial balance are created.</li> <li>• Effects of accounting errors and their corrections, in journal entries and on financial statements.</li> <li>• This is not required: Use of suspense account. Errors revealed by a trial balance.</li> </ul>	<ul style="list-style-type: none"> <li>• prepare journal entries to correct accounting errors</li> <li>• analyse the effects of accounting errors on the accounting equation and financial statements</li> <li>• analyse the effects of correcting accounting errors on the accounting equation and financial statements</li> <li>• prepare corrected profit and financial statements</li> </ul>
<p><b>2.16 Incomplete Records</b></p> <ul style="list-style-type: none"> <li>• Using the following techniques to derive financial items.</li> <li>• Capital comparison method: <ul style="list-style-type: none"> <li>– Relationship between net profit and change in net assets between two points in time, with or without end of financial period adjustments to be made.</li> </ul> </li> <li>• Accounts analysis method: <ul style="list-style-type: none"> <li>– Relationships between financial items on the financial statements.</li> </ul> </li> <li>• Financial ratios method: <ul style="list-style-type: none"> <li>– Relationships between financial items on the financial statements as expressed by financial ratios.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• re-construct net profit from changes in net assets</li> <li>• re-construct sales revenue, inventory purchased, cost of sales, expenses, other income, gain/loss on sale of property, plant and equipment from changes in relevant balance sheet items and/or relevant financial ratios</li> <li>• compute loss in inventory from changes in relevant balance sheet items and/or relevant financial ratios</li> <li>• prepare the balance sheet and income statements based on incomplete records</li> </ul>

<b>Key Understanding 3: Accounting is a measurement system of business economic activities</b>	
	Students will be able to:
<p><i>Accounting Principles</i></p> <p><b>3.1 Accounting Principles</b></p> <ul style="list-style-type: none"> <li>• Accounting principles, and the implications they have on the representation and presentation of economic activities. <ul style="list-style-type: none"> <li>– Accounting entity, also known as business entity concept</li> <li>– Going-concern</li> <li>– Monetary</li> <li>– Historical cost</li> <li>– Objectivity</li> <li>– Accounting period</li> <li>– Accrual</li> <li>– Matching</li> <li>– Consistency</li> <li>– Materiality</li> <li>– Prudence</li> </ul> </li> <li>• Relating relevant accounting principle to business ethics.</li> <li>• Limitations of accounting as a measurement system in relation to the following aspects only. <ul style="list-style-type: none"> <li>– Measuring economic activities in monetary terms, and limitations of quantifiable financial information for decision-making.</li> <li>– Historical cost vs. alternative valuation methods, and limitation of historical cost information for decision-making.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• explain the representation of economic activities and their presentation on the financial statements in relation to accounting theory</li> <li>• explain the accounting theory in relation to business and professional ethics, and vice-versa</li> <li>• explain the limitations of accounting as a measurement system in relation to decision-making</li> </ul>
<p><i>Accounting Information System and Accounting Cycle</i></p> <p><b>3.2 Accounting Information System and Accounting Cycle</b></p> <ul style="list-style-type: none"> <li>• Understanding that business economic activities are systematically recorded, processed and organised into information. Business economic activities are also known as business transactions during the process.</li> <li>• Components of the accounting information system. Source documents: receipt, invoice, credit and debit note, payment voucher and bank statement. Specifics about the accounting information system are not required, such as recording source documents, posting to journals and ledgers, closing of ledger accounts, preparation of trial balance, etc.</li> <li>• Understanding the accounting cycle and its role in the preparation of financial statements.</li> </ul>	<ul style="list-style-type: none"> <li>• explain the purpose of each phase of the accounting cycle</li> </ul>

	Students will be able to:
<p><b>3.3 Double-Entry Recording</b></p> <ul style="list-style-type: none"> <li>• The double-entry recording rule. Representing double-entry effects as journal entries and ledger entries.</li> <li>• Understanding the entries recorded in a columnar ledger account.</li> <li>• This is not required: Preparing ledgers.</li> </ul>	<ul style="list-style-type: none"> <li>• prepare journal entries</li> </ul>
<p><i>Accounting Measurements</i></p> <p><b>3.4 Measuring Economic Activities</b></p> <ul style="list-style-type: none"> <li>• Purpose of measuring economic activities.</li> </ul> <p>Measuring Performance</p> <ul style="list-style-type: none"> <li>• Profit/loss as measurement of performance.</li> <li>• Computing gross profit/loss and net profit/loss.</li> </ul> <p>Measuring Financial Position</p> <ul style="list-style-type: none"> <li>• Total assets, total liabilities and total equity as measurements of financial position. Net assets/net worth as claim of shareholders on the company.</li> <li>• Computing total assets, total liabilities, total equity and net assets.</li> <li>• Relationships between net assets, change in equity and net profit.</li> </ul> <p>Measuring Cash Flows</p> <ul style="list-style-type: none"> <li>• Cash flows from financing, investing and operating activities as measurements of cash flow for a period of time.</li> <li>• Computing cash flows from operating, investing and financing activities.</li> <li>• Relationships between cash flows and items on the balance sheet. Relationships between cash flows and net profit.</li> </ul>	<ul style="list-style-type: none"> <li>• compute gross profit/loss and net profit/loss</li> <li>• compute total assets, total liabilities, total equity and net assets</li> <li>• compute cash flows from operating, investing and financing activities</li> </ul>
<p><b>3.5 Measuring Costs of Products, Services and Other Cost Objects</b></p> <ul style="list-style-type: none"> <li>• Purpose of measuring cost objects.</li> <li>• Understanding that internal stakeholders consider cost as the resource given up in order to achieve a specific objective.</li> </ul> <p>Cost Objects and Cost Assignment</p> <ul style="list-style-type: none"> <li>• Understanding what cost objects are. This syllabus includes these cost objects only: a product or a service.</li> <li>• Relationship of costs to cost object: direct and indirect.</li> <li>• Cost assignment.</li> <li>• Cost-allocation bases. Computing plant and department cost-allocation rates.</li> <li>• Apply understanding to manufacturing and service businesses.</li> </ul>	<ul style="list-style-type: none"> <li>• identify and differentiate direct and indirect costs for a given product or service</li> <li>• select the appropriate cost-allocation base for a given manufacturing overhead and product or service</li> </ul>

	Students will be able to:
<p><b>3.6 Cost Flow in a Manufacturing Business</b></p> <ul style="list-style-type: none"> <li>• Cost flow and the accompanying computation in terms of units and values of materials, work-in-progress and finished goods in a manufacturing business. Computing total manufacturing costs.</li> <li>• Prime cost and conversion cost.</li> <li>• Preparing a schedule of cost of goods manufactured, and income statement of a manufacturing business.</li> <li>• Journal entries on cost flow are not required.</li> </ul>	<ul style="list-style-type: none"> <li>• prepare income statement and schedule of cost of goods manufactured and income statement of a manufacturing business</li> </ul>
<p><b>3.7 Normal Job-costing System</b></p> <ul style="list-style-type: none"> <li>• Cost object in job-costing is a unit or multiple units of a distinct product or service.</li> <li>• Normal job-costing system only. Apply understanding to costing a service as well.</li> <li>• Understanding how under and over applied overhead arises, and the financial effect on the accounting equation and financial statements.</li> <li>• These are not required: Journal entries relating to job-costing are not required. Job cost sheet, and treatment of under and over applied overheads. Process-costing system.</li> </ul>	<ul style="list-style-type: none"> <li>• compute direct material cost, direct manufacturing labour cost and allocated manufacturing overheads for one or multiple products</li> <li>• compute direct material cost, direct labour cost and allocated overheads for one or multiple services</li> <li>• explain how under and over applied overhead arises</li> <li>• analyse the effect of under and over applied overhead on the accounting equation and financial statements</li> </ul>
<p><b>3.8 Budgeting</b></p> <ul style="list-style-type: none"> <li>• Fixed budget and flexible budget.</li> <li>• Preparing the following budgets. <ol style="list-style-type: none"> <li>1 Sales budget in units and value</li> <li>2 Production budget in units and value</li> <li>3 Raw materials purchased in units and value</li> <li>4 Direct labour in hours and value</li> <li>5 Production overhead in value</li> <li>6 Expenses budget</li> <li>7 Budgeted cash budget</li> <li>8 Budgeted income statement and balance sheet</li> </ol> </li> </ul> <p>Applying to multiple financial periods.</p>	<ul style="list-style-type: none"> <li>• prepare budgets</li> </ul>

## APPENDIX A

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### List of Formulae

Other generally accepted formulae of the financial ratios shown in this Appendix are also acceptable.

#### 1 Financial Ratios

##### (a) Analysing for profitability and continual operations

$$(i) \quad \text{Gross profit margin (\%)} = \frac{\text{Gross profit}}{\text{Net sales revenue}} \times 100$$

$$(ii) \quad \text{Mark-up on cost (\%)} = \frac{\text{Gross profit}}{\text{Cost of sales}} \times 100$$

$$(iii) \quad \begin{array}{l} \text{Percentage of operating} \\ \text{expense} \\ \text{to net sales revenue (\%)} \end{array} = \frac{\text{Operating expenses}}{\text{Net sales revenue}} \times 100$$

$$(iv) \quad \text{Profit margin (\%)} = \frac{\text{Net profit after interest expense}}{\text{Net sales revenue}} \times 100$$

$$(v) \quad \text{Return on equity (\%)} = \frac{\text{Net profit after interest expense}}{\text{Average equity}} \times 100$$

For company, total equity is the shareholders' equity which comprises issued capital and reserves.

##### (b) Analysing for liquidity and going concern

$$(i) \quad \text{Working capital} = \text{Total current assets} - \text{Total current liabilities}$$

$$(ii) \quad \begin{array}{l} \text{Working capital ratio} \\ \text{or Current ratio} \end{array} = \frac{\text{Total current assets}}{\text{Total current liabilities}}$$

$$(iii) \quad \text{Quick ratio or Acid test ratio} = \frac{\text{Total quick assets}}{\text{Total current liabilities}}$$

Quick assets = Cash + Net current receivables + Short-term investments

Or

Quick assets = Total current assets - Inventory - Prepayments

**(c)** Analysing for efficient use of assets

- (i) Cash conversion cycle or Working capital cycle (days) =  $\frac{\text{Days-sales-in-inventory} + \text{Accounts receivable collection period} - \text{Accounts payable payment period}}{1}$
- (ii) Days-sales-in-inventory (days) =  $\frac{\text{Average inventory}}{\text{Cost of sales}} \times 365 \text{ days}$
- (iii) Rate of inventory turnover (times) =  $\frac{\text{Cost of sales}}{\text{Average inventory}}$
- (iv) Accounts receivable collection period (days) =  $\frac{\text{Average net accounts receivables}}{\text{Net credit sales revenue}} \times 365 \text{ days}$
- (v) Rate of accounts receivable turnover (times) =  $\frac{\text{Net credit sales revenue}}{\text{Average net accounts receivables}}$
- (vi) Accounts payable payment period (days) =  $\frac{\text{Average accounts payables}}{\text{Cost of sales}} \times 365 \text{ days}$
- (vii) Rate of accounts payable turnover (times) =  $\frac{\text{Cost of sales}}{\text{Average accounts payables}}$

**(d)** Analysing for solvency and financing decisions

- (i) Debt-equity ratio =  $\frac{\text{Total liabilities}}{\text{Total equity}}$
- (ii) Interest coverage ratio =  $\frac{\text{Net profit before interest expense}}{\text{Interest expense}}$

**(e)** Analysing for shareholders rewards

- (i) Earnings per ordinary share =  $\frac{\text{Net profit} - \text{preference share dividends}}{\text{Average number of ordinary shares}}$
- (ii) Price earnings ratio of ordinary shares =  $\frac{\text{Market price per ordinary share}}{\text{Earnings per ordinary share}}$
- (iii) Dividend yield =  $\frac{\text{Dividend per ordinary share}}{\text{Market price per ordinary share}}$

**2 Others**

$$(i) \quad \text{Rate of depreciation for straight-line method} = \frac{\text{Yearly depreciation}}{\text{Original cost} - \text{Scrap value or Residual value}} \times 100$$

(ii) Relative proportion of funding based on book value

$$\text{Debt weighting} = \frac{\text{Long-term liabilities}}{\text{Total assets} - \text{Total current liabilities}} \times 100$$

$$\text{Ordinary shares weighting} = \frac{\text{Issued share capital : ordinary shares} + \text{Retained earnings}}{\text{Total assets} - \text{Total current liabilities}} \times 100$$

$$\text{Preference shares weighting} = \frac{\text{Issued share capital : preference shares}}{\text{Total assets} - \text{Total current liabilities}} \times 100$$



## APPENDIX B

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### Formats of financial statements

Generally accepted financial statement formats and terms other than those shown in this Appendix are also acceptable.

#### 1 Ledger Account in columnar format

Cash at bank account

		Dr \$	Cr \$	\$
Mar	1			5,100 Dr
	5	2,340		7,440 Dr
	8		1,630	5,810 Dr
	16	7,300		13,110 Dr
	19		4,110	9,000 Dr
	22	700		9,700 Dr
	26		200	9,500 Dr
Apr	1			9,500 Dr

**2 Income Statement<sup>3</sup>****a. Merchandising business**

Name of Business	\$	\$
Income Statement for the year ended...		
Sales revenue	XXXX	
less: Sales returns	<u>XXXX</u>	
Net sales revenue		XXXX
less: Cost of sales		<u>XXXX</u>
Gross profit		XXXX
add: Other income		
Commission income	XXXX	
Discount received	XXXX	
<sup>a</sup> Gain on sale of property, plant and equipment	XXXX	
Rent income	<u>XXXX</u>	
		XXXX
less: Expenses <sup>c</sup>		
Impairment loss on trade receivables	XXXX	
<sup>b</sup> Depreciation of fixtures and fittings	XXXX	
<sup>b</sup> Depreciation of office equipment	XXXX	
<sup>b</sup> Depreciation of motor vehicles	XXXX	
Interest	XXXX	
Insurance	XXXX	
<sup>a</sup> Loss on sale of property, plant and equipment	XXXX	
Motor vehicle expenses	XXXX	
Office expenses	XXXX	
Rent and rates	XXXX	
Wages and salaries	<u>XXXX</u>	
		<u>XXXX</u>
Net profit		<u>XXXX</u>

<sup>a</sup> Either one of these items will appear if only one asset was sold during the year.

<sup>b</sup> The depreciation amounts may be aggregated and presented as one figure.

<sup>c</sup> It is not required to classify expenses by function.

\* The above statement does not show all income and expense items in this syllabus.

<sup>3</sup> This syllabus does not cover the Statement of Comprehensive Income.

**b. Service business**

Name of Business	Income Statement for the year ended...	\$	\$
Income			
Fees income		xxxx	
Commission income		xxxx	
Discount received		xxxx	
<sup>a</sup> Gain on sale of non-current assets		xxxx	
Rent income		<u>xxxx</u>	
			xxxx
less: Expenses <sup>c</sup>			
Impairment loss on trade receivables		xxxx	
<sup>b</sup> Depreciation of fixtures and fittings		xxxx	
<sup>b</sup> Depreciation of office equipment		xxxx	
<sup>b</sup> Depreciation of motor vehicles		xxxx	
Interest		xxxx	
Insurance		xxxx	
<sup>a</sup> Loss on sale of property, plant and equipment		xxxx	
Motor vehicle expenses		xxxx	
Office expenses		xxxx	
Rent and rates		xxxx	
Selling expenses		xxxx	
Wages and salaries		<u>xxxx</u>	
			<u>xxxx</u>
Net profit			<u>xxxx</u>

<sup>a</sup> Either one of these items will appear if only one asset was sold during the year.

<sup>b</sup> The depreciation amounts may be aggregated and presented as one figure.

<sup>c</sup> It is not required to classify expenses by function.

\* The above statement does not show all income and expense items in this syllabus.

**c. Manufacturing business**

<b>Name of Business</b>	<b>Schedule of Cost of Goods Manufactured for the year ended...</b>	<b>\$</b>	<b>\$</b>
Direct materials			
Beginning inventory of raw material	xxxx		
Purchases of raw material	xxxx		
Carriage on raw material	xxxx		
less: Ending inventory of raw material	<u>xxxx</u>	xxxx	
Direct wages			xxxx
Manufacturing overheads			
Indirect wages	xxxx		
Factory rent and rates	xxxx		
Factory insurance	xxxx		
Factory general expenses	xxxx		
Depreciation of factory machinery	<u>xxxx</u>	<u>xxxx</u>	
Total production cost			xxxx
add: Beginning inventory of work in progress			xxxx
less: Ending inventory of work in progress			<u>xxxx</u>
Production cost of finished goods			<u>xxxx</u>

<b>Name of Business</b>	<b>Extract of the Income Statement for the year ended...</b>	<b>\$</b>	<b>\$</b>
Sales revenue	xxxx		
less: Sales returns	<u>xxxx</u>		
Net sales revenue			xxxx
less: Cost of sales			
Beginning inventory of finished goods	xxxx		
Production cost of finished goods	xxxx		
less: Ending inventory of finished goods	<u>xxxx</u>	<u>xxxx</u>	
Gross profit			<u>xxxx</u>

**3 Statement of Changes in Equity**

	Name of Business Statement of Changes in Equity for the year ended...			
	Share capital	Retained earnings	Asset Revaluation Reserve	Total
	\$	\$	\$	\$
Beginning balance	xxxx	xxxx	xxxx	xxxx
Changes in equity for the year				
Issue of share capital	xxxx			
Net profit		xxxx		
Dividends		(xxxx)		
Revaluation of assets	—	—	<u>xxxx</u>	—
Ending balance	<u>xxxx</u>	<u>xxxx</u>	<u>xxxx</u>	<u>xxxx</u>

## 4 Balance Sheet

Name of Business			
Balance Sheet as at...			
	\$	\$	\$
<b>Assets</b>			
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net book value</b>
<b><u>Non-current assets</u></b>			
Property	xxxx	-	xxxx
Fixtures and fittings	xxxx	xxxx	xxxx
Equipment	xxxx	xxxx	xxxx
Motor vehicles	xxxx	xxxx	xxxx
Total non-current assets	<u>xxxx</u>	<u>xxxx</u>	xxxx
<b><u>Current assets</u></b>			
Inventories			xxxx
Trade receivables		xxxx	
less: Allowance for impairment of trade receivables		<u>xxxx</u>	xxxx
Other receivables			xxxx
Cash at bank			xxxx
Cash in hand			<u>xxxx</u>
Total current assets			<u>xxxx</u>
<b>Total assets</b>			<u>xxxx</u>
<b>Equity and Liabilities</b>			
<b><u>Shareholders' equity</u></b>			
Issued share capital			
xxx x% preference shares of \$x each		xxxx	
xxx ordinary shares of \$x each		<u>xxxx</u>	xxxx
Reserves			
Asset revaluation reserve		xxxx	
Retained earnings		<u>xxxx</u>	<u>xxxx</u>
Total equity			xxxx
<b><u>Non-current liabilities</u></b>			
Long-term borrowings			<u>xxxx</u>
Total non-current liabilities			xxxx
<b><u>Current liabilities</u></b>			
Trade payables			xxxx
Other payables			xxxx
Short-term borrowings			xxxx
Current portion of long-term borrowings			<u>xxxx</u>
Total current liabilities			<u>xxxx</u>
<b>Total equity and liabilities</b>			<u>xxxx</u>

\* The Singapore Companies Act has abolished par value shares and authorised share capital.

\* The above statement does not show all asset and liability items in this syllabus.

**5 Statement of Cash Flows**

	\$	\$
<b><u>Cash flows from operating activities</u></b>		
Net profit for the year before interest	XXXX	
Adjustments for		
Depreciation	XXXX	
(Gain)/loss on sale of property, plant and equipment	<u>XXXX</u>	
Operating cash flows before movements in working capital		XXXX
(Increase)/decrease in inventories	XXXX	
(Increase)/decrease in trade receivables	XXXX	
(Increase)/decrease in other receivables	XXXX	
Increase/(decrease) in trade payables	XXXX	
Increase/(decrease) in other payables	<u>XXXX</u>	
Cash generated from/used in operations		XXXX
Interest paid		<u>XXXX</u>
Net cash provided by/(used in) operating activities		<u>XXXX</u>
<b><u>Cash flows from investing activities</u></b>		
Purchase of non-current assets	(XXXX)	
Purchase investments	(XXXX)	
Interest paid	(XXXX)	
Proceed from sale of non-current assets	XXXX	
Dividend received	XXXX	
Interest received	<u>XXXX</u>	
Net cash provided by/(used in) investing activities		<u>XXXX</u>
<b><u>Cash flows from financing activities</u></b>		
Proceeds from issuance of share issues	XXXX	
Proceeds from borrowings	XXXX	
Repayment of borrowings	(XXXX)	
Dividend paid	<u>XXXX</u>	
Net cash provided by/(used in) financing activities		<u>XXXX</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u>XXXX</u>
Cash and bank balance at beginning of year		XXXX
Net increase/(decrease) in cash and cash equivalents		<u>XXXX</u>
<b>Cash and bank balance at end of year</b>		<u>XXXX</u>

\* The above statement does not show all the adjustment items.

## SUGGESTED RESOURCES

	<b>Title</b>	<b>Authors</b>	<b>Publisher</b>
<i>Financial Accounting only</i>			
1	Fundamental Financial Accounting Concepts	Thomas P Edmonds, Frances M McNair, Philip R Olds and Edward . Milam	McGraw-Hill Irwin, 2016
2	Financial Accounting: Global Edition: International Financial Reporting Standards	Walter T Harrison, Charles Horngren, Bill Thomas and Themin Suwardy	Pearson, 2013
3	Intermediate Accounting	J David Spiceland, James F Sepe and Mark W Nelson	McGraw-Hill Irwin, 2015
<i>Managerial Accounting only</i>			
4	Management Accounting for Decision Makers	Peter Atrill and Eddie McLaney	Pearson, 2015
5	Managerial Accounting, Global Edition	Karen W Braun and Wendy M Tietz	Pearson, 2014
6	Managerial Accounting	Ray Garrison, Eric Noreen and Peter Brewer	McGraw-Hill Irwin, 2015
7	Managerial Accounting: Creating Value in a Dynamic Business Environment	Ronald Hilton and David Platt	McGraw-Hill Irwin, 2014
8	Cost Accounting, Global Edition	Madhav Rajan, Srikant M Datar and Charles T Horngren	Pearson, 2014
9	Managerial Accounting	Stacey Whitecotton, Robert Libby and Fred Phillips	McGraw-Hill Irwin, 2011
<i>Financial Accounting and Managerial Accounting</i>			
10	Survey of Accounting	Thomas P Edmonds, Christopher T Edmonds, Philip R Olds, Frances M. McNair and Bor-Yi Tsay	McGraw-Hill Irwin, 2015
11	College Accounting	John Ellis Price, M David Haddock, Jr., and Michael J Farina	McGraw-Hill Irwin, 2015
12	Fundamental Accounting Principles: Including International Financial Reporting Standards (IFRS)	John J. Wild, Winston Kwok, Sundar Venkatesh, Ken W Shaw and Barbara Chiappetta	McGraw-Hill Irwin, 2016
13	Financial and Managerial Accounting: Information for Decisions	John J. Wild, Ken W Shaw and Barbara Chiappetta	McGraw-Hill Irwin, 2012