

Principles of Accounts

Singapore-Cambridge General Certificate of Education
Ordinary Level (2020)

(Syllabus 7175)

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The Common Last Topics highlighted in Yellow will not be examined in 2020 O-Level national examination.



INTRODUCTION

Accounting is an information system based on generally accepted accounting principles. It involves the recording and processing of business transactions, and communicating the information to stakeholders. The accounting information is used to evaluate business performance and facilitate decision-making. What sets the accountancy profession apart is the responsibility to act in the public's interest.

Principles of Accounts (syllabus code 7175) is designed to provide students with a meaningful basic introduction to financial accounting and to develop an appreciation of the discipline of accounting. It is grounded in preparing, communicating and using financial information, and appreciating the need for ethical conduct. The subject places emphasis on the understanding and application of accounting knowledge to develop lifelong skills and values that will be of value in the increasingly complex world of business.

This subject forms part of a broad-based education to equip students with strong fundamentals for future learning. It is offered as an elective subject at Secondary Three and examinable at the GCE Ordinary Level.

AIMS

It is the intent of this syllabus that students develop the abilities to **prepare, communicate** and **use** accounting information.

- (i) *As preparers of accounting information*, students are to develop
 - an understanding of the elements, theories and procedures of accounting;
 - an understanding of the accounting information system;
 - the skills of recording, organising, summarising and analysing business transactions;
- (ii) *As communicators of accounting information*, students are to develop
 - an understanding of how accounting information is being presented;
 - the skills of presenting quantitative accounting information;
- (iii) *As users of accounting information*, students are to develop
 - an understanding of how accounting information is being used; and
 - the skills of analysing, interpreting and evaluating business performance and status.

In the learning process, students will develop an understanding of the importance of **professional ethics**.

Knowledge and understanding

The syllabus intends for students to develop knowledge and understanding of:

- the general environment that accounting operates in, particularly about the stakeholders, professional ethics, business context and accounting theories
- the accounting information system and the methodology used to collate, record, organise and summarise the information
- the elements of the financial statements, and the practices and procedures applied on them
- the basic financial statements, their preparation and the information they convey
- the basic forms of business entities, and the practices and procedures applied to represent the owner's or owners' interests
- the use of financial information and financial ratios for evaluation of profitability, liquidity and inventory management

Skills

The syllabus intends for students to develop the skills of:

- applying the double entry system of recording business transactions
- organising and presenting accounting information in ledger accounts and financial statements
- analysing the effects of accounting transactions on financial statements
- analysing and interpreting financial statements
- evaluating businesses for their profitability, liquidity and inventory management using financial information and ratios

Values and attitudes

The syllabus intends for students to develop the values and attitudes of:

- integrity and objectivity
- social responsibility, through the context of accounting and how it can affect users of financial information
- being logical, methodical, consistent and accurate
- being interested in accounting and aware of further pathways in accounting

ASSESSMENT OBJECTIVES

Students should be able to:

- AO1** *Knowledge and Comprehension*
Identify and comprehend accounting knowledge appropriate to the syllabus.
- AO2** *Application*
Select and apply accounting knowledge to various accounting situations.
- AO3** *Analysis and Synthesis*
Analyse, interpret, organise and synthesise accounting information.
- AO4** *Evaluation*
Interpret and evaluate accounting information to make judgements and recommendations.

SCHEME OF ASSESSMENT

There are *two compulsory papers*.

	Details	Weighting	Duration
Paper 1	Answer 3 to 4 compulsory structured questions. (40 marks)	40%	1 hour
Paper 2	<p><u>Section A</u> (48 marks) Answer 3 compulsory structured questions. One question will be on the preparation of financial statement, which carries 20 marks. The remaining two questions average 14 marks.</p> <p><u>Section B</u> (12 marks) Answer any 1 out of 2 structured questions.</p>	60%	2 hours

Candidates will write their answers on the question paper in **Paper 1**. They will be provided with multi-column accounting paper for answering questions in **Paper 2**.

Assessment specification grid

The following weighting of the assessment objectives gives an indication of their relative importance. They are not intended to provide a precise statement of the number of marks allocated to particular assessment objective.

	AO1 Knowledge and Comprehension	AO2 Application	AO3 Analysis and Synthesis	AO4 Evaluation	Total
Paper 1	15%	10%	10%	5%	40%
Paper 2	10%	20%	20%	10%	60%
Total	25%	30%	30%	15%	100%

USE OF CALCULATORS

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

SYLLABUS OUTLINE

Section 1: The Roles of Accounting

Understanding the general environment that accounting operates in. In particular, the roles of accounting, the stakeholders, the importance of professional ethics, the business context of accounting and the theories that underline accounting practices.

- 1.1 Accounting and Book-keeping
- 1.2 Roles of Accounting
- 1.3 Stakeholders
- 1.4 Professional Ethics
- 1.5 Profit-making Entities
- 1.6 Forms of Entities
- 1.7 Accounting Theories

Section 2: The Accounting Information System

Understanding the methodology that applies to the collation, recording and organisation of accounting information. These include the representations of business transactions, and the components and workings of the accounting information system.

- 2.1 Elements of Financial Statements
- 2.2 Double entry Recording
- 2.3 Accounting Equation
- 2.4 Journal Entry
- 2.5 Ledger Account
- 2.6 Accounting System and Accounting Cycle
- 2.7 Source Documents
- 2.8 Journals
- 2.9 Cash Book
- 2.10 Special Journals
- 2.11 General Journal
- 2.12 Petty Cash Book
- 2.13 General and Subsidiary Ledgers
- 2.14 Trial Balance
- 2.15 Bank Reconciliation

Section 3: Elements of the Financial Statements

Understanding the accounting practices and procedures applied to business activities in trading and services. The practices and procedures that impact on income, expenses, trade receivables and payables, inventories, non-current assets, long-term borrowings, as well as the correction of any error.

- 3.1 Sales Revenue, Other Income, Cost of Sales and Expenses
- 3.2 Balance Day Adjustments
- 3.3 Trade Receivables
- 3.4 Inventories
- 3.5 Trade Payables
- 3.6 Control Accounts
- 3.7 Capital and Revenue Expenditure
- 3.8 Non-current Assets
- 3.9 Sale of Non-current Assets
- 3.10 Long-term Borrowings
- 3.11 Correction of Errors

Section 4: The Financial Statements

Understanding the preparation of the financial statements and the significance of financial results and status. The financial statements involved are the income statement and balance sheet only.

- 4.1 Balance Sheet
- 4.2 Income Statement
- 4.3 Incomplete Records

Section 5: Business Entities

Understanding the practices and procedures applied to represent the owner's interest in the entities of sole proprietor and limited company only.

- 5.1 Sole proprietorship
- 5.2 Limited Company

Section 6: Financial Statements Analysis

Understanding the use of financial ratios to analyse financial results and status.

- 6.1 Financial Analysis
- 6.2 Profitability
- 6.3 Liquidity
- 6.4 Inventory Management

SUBJECT CONTENT

1. THE ROLES OF ACCOUNTING

Understanding the general environment that accounting operates in. In particular, the roles of accounting, the stakeholders, the importance of professional ethics, the business context of accounting and the theories that underline accounting practices.

Content	Learning Outcomes Students will be able to:
<p>1.1 <i>Accounting and Book-keeping</i></p> <ul style="list-style-type: none"> • Definition of accounting: recording, analysing, summarising, interpreting and communicating an entity's activities • Book-keeping and accounting 	<ul style="list-style-type: none"> • define book-keeping • define accounting • distinguish between book-keeping and accounting
<p>1.2 <i>Roles of Accounting</i></p> <ul style="list-style-type: none"> • <i>Stewardship</i> <ul style="list-style-type: none"> – The stewardship role – How it leads to the setting up of an accounting system to collate, record, organise and report financial information • <i>Decision-making</i> <ul style="list-style-type: none"> – Use of accounting information for decision-making by internal and external users – Internal stakeholders: analysing, monitoring and controlling the performance of the business, and planning – External stakeholders: analysing and evaluating the performance of the business 	<ul style="list-style-type: none"> • state the roles of accounting • explain how the stewardship role leads to the creation of the accounting system • explain how accounting information is used for decision-making

Content	Learning Outcomes Students will be able to:
<p>1.3 Stakeholders</p> <ul style="list-style-type: none"> Users of accounting information: owners, suppliers (creditors), bankers, customers (debtors), employees and government Other parties: potential investors, competitors and increasingly, the general public Decisions that each stakeholder makes, and the accounting information he would need Examples of accounting information needed are: profit for the period, assets (current assets, cash, etc.), borrowings, etc. Examples of analysis carried out by stakeholders: comparison and trend of accounting information and financial ratios 	<ul style="list-style-type: none"> state the stakeholders who are interested in the affairs of the business state the accounting information needed by the stakeholders explain why stakeholders are interested in accounting information
<p>1.4 Professional Ethics</p> <ul style="list-style-type: none"> Principles of professional ethics are: (i) integrity and (ii) objectivity Integrity is being straightforward and honest in all professional and business relationships Objectivity is not letting bias, conflict of interest or undue influence of others to override professional judgement Responsibility of the preparer to adopt professional ethical practices in the preparation and presentation of accounting information to fulfil the roles of accounting. Include only the effects of unethical behaviour on decisions made by stakeholders Legal consequences of unethical behaviour are not required <p><u>Note:</u> The Institute of Certified Public Accountants of Singapore Code of Professional Conduct and Ethics states five principles that a member is to comply with. The first two principles are integrity and objectivity.</p>	<ul style="list-style-type: none"> define integrity and objectivity explain the importance of having integrity and being objective in the preparation and presentation of accounting information
<p>1.5 Profit-making Entities</p> <ul style="list-style-type: none"> Main business activities of profit-making businesses: trading and service Difference between the business activities of trading and service businesses as seen on the Balance Sheets and Income Statement: the trading portion of the Income Statement, the presence of inventory, the types of income and expenses, etc. 	<ul style="list-style-type: none"> distinguish between financial statements of businesses in trading and services

Content	Learning Outcomes Students will be able to:
<p>1.6 Forms of Entities</p> <ul style="list-style-type: none"> • Forms of entities: sole proprietorship, partnership and limited company • Differences in terms of: capital structure, extent of liability and management of business • Differences in the Balance Sheets and Income Statements only for sole proprietorship and limited company • Advantages and disadvantages between sole proprietorship and limited company only • Legal formations of business entities are not required. Knowledge of Board of Directors and Annual General Meeting are not required • A basic understanding that the sole proprietor usually manages the business himself while limited company is usually managed by professionals is sufficient 	<ul style="list-style-type: none"> • distinguish between financial statements of sole proprietorship and limited company • explain the advantages and disadvantages of sole proprietorship and limited company
<p>1.7 Accounting Theories</p> <ul style="list-style-type: none"> • Accounting theories and their implications on the preparation and presentation of Balance Sheet and Income Statement • Theories: <ul style="list-style-type: none"> – accounting entity (business entity) – monetary – accounting period – going-concern – historical cost – consistency – materiality – objectivity – prudence – matching – accrual <p>Accounting theories applicable to each accounting element are mainly laid out in Section 3 and 4.</p> <p>Some accounting theories apply to the entire preparation of the financial statement and are not specific to any accounting element. Examples: accounting period, monetary, objectivity, etc.</p>	<ul style="list-style-type: none"> • define each accounting theory • identify the accounting theory applied in a given scenario • explain how each accounting theory affects the preparation and presentation of financial statements

2. THE ACCOUNTING INFORMATION SYSTEM

Understanding the methodology that applies to the collation, recording and organisation of accounting information. These include the representations of business transactions, and the components and workings of the accounting information system.

Content	Learning Outcomes Students will be able to:
<p>2.1 <i>Elements of Financial Statements</i></p> <ul style="list-style-type: none"> • All business activities are represented by these elements: asset, liability, equity, income and expense, and their examples • To understand how the trade of the business affects the classification of items • To distinguish between (i) inventory and non-current assets, and (ii) expenses and non-current assets • An expense to a business may be an income to another 	<ul style="list-style-type: none"> • define assets, liabilities, equity, profit, income and expenses • give examples of assets, liabilities, income and expenses for a specific business • classify elements according to assets, liabilities, equity, income and expenses
<p>2.2 <i>Double entry Recording</i></p> <ul style="list-style-type: none"> • Double entry effects of recording 	<ul style="list-style-type: none"> • state the double entry recording rule
<p>2.3 <i>Accounting Equation</i></p> <ul style="list-style-type: none"> • Basic accounting equation of assets = equity + liabilities, and its expansion to include income and expenses • The accounting equation is the basis of the Balance Sheet • Accounting transactions for analysis are limited to those covered in this syllabus only 	<ul style="list-style-type: none"> • state the basic accounting equation • calculate the values of assets, liabilities and equity using the accounting equation • apply the accounting equation to the Balance Sheet • analyse the effects of accounting transactions on the accounting equation
<p>2.4 <i>Journal Entry</i></p> <ul style="list-style-type: none"> • Double-entry recording method: the accounts to be debited and credited, and the value • Representation of double-entry effects in journal entries • Journal entries are prepared from business transactions • Accounting transactions are limited to those covered in this syllabus only • Journal entries to transfer income and expenses to the trading account and profit and loss account are not required 	<ul style="list-style-type: none"> • state the accounts to be debited and credited • prepare journal entries

Content	Learning Outcomes Students will be able to:
<p>2.5 Ledger Account</p> <ul style="list-style-type: none"> • Posting of transactions from journal entries to ledger accounts • Representation of the double entry effects in ledger accounts • Format of ledger: (i) T format, or (ii) columnar format. Use of folio column is not required • Examination question showing any ledger account will be presented in both the T and columnar formats. Answer to examination question requiring any ledger account can be prepared using either the T or columnar format • For answering examination question, only the beginning and ending balances in the running total column in the columnar format need to be shown • Ledger accounts are prepared from (i) business transactions, or (ii) journal entries • Understanding transactions in relation to the nature of the ledger account – they either increase or decrease the account value • Understanding of beginning and ending ledger balances – they represent the cumulative values to date • Ledger accounts are limited to those covered in this syllabus only • Closing of income and expenses to the trading ledger account, and profit and loss ledger account are required to be shown on the income and expense ledger accounts whenever relevant to the question 	<ul style="list-style-type: none"> • prepare ledger accounts • interpret the transactions recorded and the balances in ledger accounts
<p>2.6 Accounting System and Accounting Cycle</p> <ul style="list-style-type: none"> • Accounting system comprises: source documents, journals, general and subsidiary ledgers, Trial Balance, Balance Sheet and Income Statement • Purpose of each stage of the accounting system is in the respective topics of source documents, special and general journals, etc. • The accounting cycle is the processing of accounting transactions through the accounting system • It involves the classification of accounting transactions and their processing through the accounting system 	<ul style="list-style-type: none"> • state the order of how each type of accounting transaction is processed through the accounting system • explain how each type of accounting transaction is processed through the accounting system

Content	Learning Outcomes Students will be able to:
<p>2.7 Source Documents</p> <ul style="list-style-type: none"> • Purposes of source documents (in general) • Types of source documents: receipts and cash register slip, cheque, payment voucher, invoice, credit note, debit note, petty cash voucher and bank statement • Details of the content on the documents are not required • Types of accounting transactions recorded in each type of document • The issue and receipt of documents in relation to seller/provider and buyer/consumer of goods/services • Recording of source document in the special journals or general journal or cash book • Details of how the source documents are recorded in the books are not required 	<ul style="list-style-type: none"> • state the purposes of source documents • state the source documents used in accounting transactions • state the purpose of each type of source document • identify the journals into which the source documents are recorded
<p>2.8 Journals</p> <ul style="list-style-type: none"> • Comprises the cash book, special journals and general journal • Purposes of using cash book, special journals and general journal in general • Types of accounting transactions recorded in cash book, special journals and general journal 	<ul style="list-style-type: none"> • explain the purposes of using journals and cash book • state the journals used to record accounting transactions

Content	Learning Outcomes Students will be able to:
<p>2.9 Cash Book</p> <ul style="list-style-type: none"> • Types of accounting transactions recorded in the cash book • Cash book comprises cash in hand and cash at bank accounts • Accounting for cash receipts and payments • Cash at bank account reflects the amount placed with the bank for safe keeping • The use of cheque and how dishonoured cheque happens • Accounting for dishonoured cheque, with and without cash discount previously provided/received • Bank overdraft and its classification on the Balance Sheet • Recording of accounting transactions in the cash book is not required • Recording of accounting transactions in individual cash in hand and cash at bank ledger accounts are required • Posting of recorded transactions in a 3-column cash book to the general and subsidiary ledgers, and affected ledger accounts • How the details and aggregate in the cash book are posted • Use of folio column is not required • Understanding how entries recorded in the cash book impact the financial statements • Purpose of cash discount, when it is given and its calculation at receipt and payment • The application of trade and cash discounts • Accounting of discount allowed and received 	<ul style="list-style-type: none"> • explain the purpose of the cash book • state the causes of dishonoured cheque • prepare journal entries for dishonoured cheque • prepare the cash in hand and cash at bank ledger accounts for the current financial period • state the general and subsidiary ledgers posted to from the transactions in the cash book • prepare the relevant ledger accounts based on transactions recorded in the cash book for the current financial period • interpret transactions recorded and the balances in the cash book • prepare an extract of the Balance Sheet showing the presentation of cash at bank and bank overdraft • define cash discount • explain why cash discount is given/received • distinguish between trade and cash discounts • calculate cash discount at receipt and payment • prepare journal entries after cash discount • analyse the effects of providing/receiving cash discount on profit for the period and trade receivables/trade payables

Content	Learning Outcomes Students will be able to:
<p><i>2.10 Special Journals</i></p> <ul style="list-style-type: none"> • Special journals: sales journal, sales returns journal, purchases journal and purchases returns journal • Types of accounting transactions recorded in each special journal • Recording of accounting transactions in the special journals are not required • Posting of transactions from the special journals to the general and subsidiary ledgers, and affected ledger accounts • How the details and aggregate in the special journals are posted • Use of folio column is not required • Purpose of trade discount, when it is applied and its calculation at purchase of, sale of and return of goods 	<ul style="list-style-type: none"> • explain the purpose of each special journal • state general and subsidiary ledgers posted to from each special journal • interpret the special journal for items posted to the ledger accounts • define trade discount • explain why trade discount is given/received • calculate trade discount at purchase of, sale of and return of goods • calculate amounts recorded in the special journals • calculate amounts recorded in the affected ledger accounts • prepare journal entries for credit purchases and sales of goods, including their returns
<p><i>2.11 General Journal</i></p> <ul style="list-style-type: none"> • Types of accounting transactions recorded in the general journal are: <ul style="list-style-type: none"> – opening and closing entries; and – accounting transactions that are not recorded in the special journals and cash book, e.g. correction of errors, credit purchase and sale of non-current assets, non-cash capital contribution and drawings, adjustments for accruals/prepayments/depreciation/allowance for impairment of trade receivables, declared dividend, transfer of profit/loss to capital or retained earnings, etc. • Journal entries to transfer income and expenses to the trading account and profit and loss account are not required • Recording of accounting transactions in the general journal. Writing narration and its purpose • Use of folio column is not required 	<ul style="list-style-type: none"> • state examples of accounting transactions recorded in the general journal • explain the purposes of general journal • explain the purpose of providing narration

Content	Learning Outcomes Students will be able to:
<p><i>2.12 Petty Cash Book</i></p> <ul style="list-style-type: none"> • Purposes of maintaining a petty cash fund • Workings of the imprest system as a control over petty cash • Understanding and computing (i) reimbursement to restore to the 'float'/imprest amount, and (ii) 'float'/imprest amount • Relationship between petty cash book and cash book for reimbursement to restore the imprest amount. To include: imprest at the beginning or end of the period • Both the recording and posting of business transactions in the petty cash book are not required 	<ul style="list-style-type: none"> • explain the purposes for a petty cash fund • explain the workings of imprest system • state the advantages of the imprest system • calculate the reimbursement required to restore to the 'float' or imprest amount • calculate the 'float'/imprest amount • explain the relationship between the petty cash book and cash book
<p><i>2.13 General and Subsidiary Ledgers</i></p> <ul style="list-style-type: none"> • Purposes of using the subsidiary ledgers of purchases and sales ledgers • Types of accounting transactions recorded and the types of ledger accounts in the general and subsidiary ledgers • Relationship between the subsidiary ledgers and the general ledger 	<ul style="list-style-type: none"> • state the types of accounting transactions recorded in the general and subsidiary ledgers • state the types of ledger accounts in the general and subsidiary ledgers • explain the purposes of using subsidiary ledgers

Content	Learning Outcomes Students will be able to:
<p><i>2.14 Trial Balance</i></p> <ul style="list-style-type: none"> • Definition of Trial Balance • Main purpose of Trial Balance as a check on arithmetic accuracy • Format and features of a Trial Balance • Limitation of Trial Balance as an absolute proof of accuracy • Errors not revealed by a Trial Balance and their examples: <ul style="list-style-type: none"> – compensating errors – complete reversal of entries – errors of commission – errors of omission – errors of original entry – errors of principle • Errors revealed by a Trial Balance are not required 	<ul style="list-style-type: none"> • define the Trial Balance • explain the purpose of Trial Balance • explain the limitations of Trial Balance • prepare a Trial Balance • state errors not revealed by a Trial Balance • explain how errors not revealed by a Trial Balance happen

Content	Learning Outcomes Students will be able to:
<p><i>2.15 Bank Reconciliation</i></p> <ul style="list-style-type: none"> • Main purpose of preparing bank reconciliation: check the cash at bank balance of the business against the bank's record as shown on the bank statement • Reconciliation of differences between the business cash at bank balance and the balance on the bank statement • Differences are due to timing of transactions being recorded by the business and the bank, as well as errors in recording by any of the two parties • Types of differences are: (i) direct deposits, (ii) direct payments, (iii) cheques not yet presented, (iv) cheques not yet credited/deposits not yet credited/deposits in transit and (v) dishonoured cheques • Understanding how electronic bank transactions (e.g. credit transfer, standing order, etc.) are recorded in the accounts of the business is required but descriptions of their processing are not required • Adjusting the cash at bank ledger account • Format and features of a bank reconciliation statement • Scenarios to include: (i) same opening balance between business cash at bank and bank statement, (ii) different opening balance between business cash at bank and bank statement and the difference is limited to only one transaction, (iii) ending overdraft in business cash at bank, (iv) ending overdraft in bank statement • Question must include extracts of bank column from the cash book and bank statements 	<ul style="list-style-type: none"> • explain the purpose of preparing bank reconciliation • identify what the differences between the business cash at bank balance and the balance on the bank statement comprise of • explain the causes of differences between the business cash at bank balance and the balance on the bank statement • prepare an adjusted cash at bank ledger account • prepare the bank reconciliation statement • analyse the effects of adjusting for the differences between the business cash at bank balance and the balance on the bank statement on cash at bank and profit for the period

3. ELEMENTS OF THE FINANCIAL STATEMENTS

Understanding the accounting practices and procedures applied to business activities in trading and services. The practices and procedures that impact on income, expenses, trade receivables and payables, inventories, non-current assets, long-term borrowings, as well as the correction of any error.

Content	Learning Outcomes Students will be able to:
<p>3.1 Sales Revenue, Other Income, Cost of Sales and Expenses</p> <ul style="list-style-type: none"> • Accounting for sale of goods, provision of services on cash and credit terms, and returns of goods or allowances on unsatisfactory services • Accounting for cost of sales for trading business • Accounting for other income items received in cash, income earned not received and received income not earned yet • Examples: rent, commission, etc. Exclude dividend • Accounting for other expense items paid by cash, the expired portion of expense, and incurrence of expense not paid yet • Examples: insurance, office expenses, rates, rent, salaries, wages, etc. • Presentation of sales revenue, sales returns and cost of sales on the Income Statement for a trading business • Presentation of fee income on the Income Statement for a service business • Accounting theories which apply to the accounting of income and expenses 	<ul style="list-style-type: none"> • prepare the journal entries for transactions affecting sales revenue, sales returns, fee income, cost of sales, other income items and other expense items • prepare the sales revenue, sales returns, fee income, cost of sales, other income and other expense ledger accounts for the current financial period • prepare an extract of the Income Statement showing the presentation of sales revenue, sales returns and cost of sales for a trading business for the current financial period • prepare an extract of the Income Statement showing the presentation of fee income for a service business for the current financial period • explain the accounting of sales revenue, other income and expenses in relation to relevant accounting theories

Content	Learning Outcomes Students will be able to:
<p>3.2 Balance Day Adjustments</p> <ul style="list-style-type: none"> • Calculation and accounting of prepaid expenses, accrued expenses/expenses payable, income received in advance/earned income and income receivables • Concepts: (i) expired/consumed and unexpired/unconsumed portions of expenses, (ii) expenses incurred not paid yet, (iii) earned and unearned portions of income, (iv) income earned not received yet, and (v) accrual basis of accounting • Accounting practice required: • Balance day adjustments are to be made against separate prepaid expense, accrued expense, income received in advance and income receivable ledger accounts • Prepaid expenses and income receivables are shown as current assets on the Balance Sheet • Accrued expenses and income received in advance are shown as current liabilities on the Balance Sheet • No outstanding balances in the income and expense ledger accounts • Scenarios to include: (i) only one financial period with opening and/or closing prepaid expenses, accrued expenses, income received in advance and income receivables, (ii) amounts paid and received are recorded as income and expenses at the points of payments and receipts, and any unexpired or unearned portions are adjusted at the end of the financial period • Accounting theories which apply to the adjustments for prepaid expenses, accrued expenses, income received in advance/earned income and income receivables 	<ul style="list-style-type: none"> • calculate the amounts adjusted for prepaid expenses, accrued expenses/expenses payable, income received in advance/earned income and income receivables for the current financial period • calculate the amounts for income and expenses for the Income Statement for the current financial period • prepare the journal entries showing the adjustments for prepaid expenses, accrued expenses/expenses payable, income received in advance/earned income and income receivables • prepare the income and expense ledger accounts showing the adjustments for prepaid expenses, accrued expenses/expenses payable, income received in advance/earned income and income receivables for the current financial period • prepare an extract of the Balance Sheet and Income Statement showing the presentation of prepaid expenses, accrued expenses/expenses payable, income received in advance/earned income and income receivables for the current financial period • explain the adjustments for prepaid expenses, accrued expenses/expenses payable, income received in advance/earned income and income receivables in relation to relevant accounting theories • analyse the effects of prepaid expenses, accrued expenses/expenses payable, income received in advance/earned income and income receivables on current liabilities, current assets and profit for the period in the current financial period

Content	Learning Outcomes Students will be able to:
<p>3.3 Trade Receivables</p> <ul style="list-style-type: none"> • Accounting for transactions affecting trade receivables of trading business: credit sales, sales returns, cash discounts, write-off of trade receivables, receipts, dishonoured cheques, interests on late payments and off-set against trade payables • Accounting for transactions affecting trade receivables of service business: services provided on credit term, refund of fees, cash discounts, write-off of trade receivables, receipts, dishonoured cheques, interests on late payments and off-set against trade payables • Scenario to include: partial payment of outstanding debts • Calculation and accounting of allowance for impairment of trade receivables over several financial periods • Scenarios to include: (i) providing allowance for the first time, (ii) increase in allowance over prior year, and (iii) decrease in allowance over prior year • A decrease in allowance is treated as a reduction against expenses in the Income Statement • Accounting theories which apply to the presentation of trade receivables and allowance for impairment of trade receivables • Presentation of trade receivables and allowance for impairment of trade receivables in the Balance Sheet • Trade receivables represent the collections in the immediate future. Allowance for impairment loss of trade receivables is an estimate of the value of debts that may be uncollectible in the future • Preparation of ledger accounts over a maximum of three financial periods 	<ul style="list-style-type: none"> • prepare the journal entries of transactions affecting trade receivables • prepare a trade receivable ledger account for an individual customer for the current financial period • explain the purposes of accounting for allowance for impairment of trade receivables • prepare the journal entries on allowance for impairment of trade receivables for a maximum of three financial periods • prepare an allowance for impairment of trade receivables ledger account for a maximum of three financial periods • prepare the impairment loss on trade receivables ledger accounts for a maximum of three financial periods • interpret the (i) trade receivables, (ii) allowance for impairment of trade receivables, (iii) impairment loss on trade receivables for a maximum of three financial periods • prepare an extract of the Balance Sheet and Income Statement showing the presentation of trade receivables, allowance for impairment of trade receivables and impairment loss on trade receivables for a maximum of three financial periods • analyse the effects from changes in allowance for impairment of trade receivables and impairment loss on trade receivables and profit for the period for a maximum of three financial periods • explain the accounting and presentation of trade receivables in relation to relevant accounting theories

Content	Learning Outcomes Students will be able to:
<p><u>Note:</u> Singapore's Financial Reporting Standard 39 on trade receivable:</p> <ul style="list-style-type: none"> • General provision is prohibited. Hence, provision for doubtful debts which is based on a percentage of or an estimated fixed amount of trade receivables is no longer permissible. The term 'provision' used in the FRS refers to a present obligation that arises from a past event, which therefore cannot be used in the context of reducing the amount collectible from trade receivables. • Allowance for impairment of trade receivables is to be made by identifying specific customer whose debt may not be collectible in the immediate future. 	

Content	Learning Outcomes Students will be able to:
<p>3.4 <i>Inventories</i></p> <ul style="list-style-type: none"> • Perpetual inventory recording method • Accounting for purchases and sales of goods for trading business • Goods are inventoried at the points of purchases and expensed as cost of sales at the points of sales • Costs of purchases inventoried include the purchase price and expenses on purchase less returns • Balance day adjustments on expenses on purchase, or adjustments between inventory and profit and loss are not included • Adjustments to costs of purchases that will affect cost of sales and ending inventory are not included • Calculation of cost of sales and ending inventory using the FIFO method only • Scenario to include: (i) only one financial period, (ii) beginning inventory comprising a single batch of goods, (iii) a batch of goods described by value and quantity for the batch (iv) cost of sales is identified by FIFO method to entire batch or batches of goods, with no part apportionment of any batch • Calculation of unit cost, of deriving inventory value from unit cost and quantity and recording in stock card are not required • Accounting for cost of sales • Goods returned from customers will not lead to return of the same goods to the supplier • Presentation of sales revenue, sales returns and cost of sales in the Income Statement • The valuation of ending inventory at the lower of cost and net realisable value • Accounting for impairment loss when the net realisable value is lower than inventory value at the end of the financial period • No recording of gain is permitted when net realisable value is higher than inventory value • Adjustment for differences between ending inventory values derived from perpetual inventory recording method and physical inventory count arise is not required 	<ul style="list-style-type: none"> • identify the costs of purchases • prepare the journal entries on inventory at points of purchases and cost of sales at points of sales • prepare the inventory ledger account for the current financial period • calculate the cost of sales and ending inventory for the current financial period • prepare an extract of the Balance Sheet and Income Statement showing the values and presentation of ending inventory and cost of sales for the current financial period • analyse the effects of understatement or overstatement of inventory on gross profit and profit for the period for a maximum of two financial periods • explain the valuation of inventory in relation to relevant accounting theories

Content	Learning Outcomes Students will be able to:
<ul style="list-style-type: none"> • Understatement and overstatement of inventory in the current and subsequent financial period • Accounting theories which apply to the presentation of ending inventory <p><u>Note:</u> Singapore's Financial Reporting Standard (FRS) 2 states that inventories shall be measured at the lower of cost <i>and</i> net realisable value. This is interpreted as inventories are at the lower of cost <i>or</i> net realisable value. The same FRS also states that the cost of inventories shall comprise all cost of purchases, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.</p>	
<p>3.5 Trade Payables</p> <ul style="list-style-type: none"> • Accounting for transactions affecting trade payables of trading business: credit purchases of inventory, returns of goods, cash discounts, payments, freight charges and off-set against trade receivables • Accounting for transactions affecting trade payables of service business: services provided on credit term, reduction of fees, cash discounts, payments, freight charges and off-set against trade receivables • Scenario to include: partial payment of amount owed 	<ul style="list-style-type: none"> • prepare the journal entries of transactions affecting trade payables • prepare a trade payable ledger account for an individual supplier for the current financial period

Content	Learning Outcomes Students will be able to:
<p>3.6 Control Accounts</p> <ul style="list-style-type: none"> • Main purpose of control accounts (total trade receivables and trade payables accounts): independent check on the trade receivables and trade payables in the sales and purchases ledgers respectively • Other purposes of control accounts • How information on control accounts are derived from the special journals, general journal and cash book • Accounting for transactions affecting control account for trade receivables (total trade receivables) of trading business: credit sales, sales returns, cash discounts, allowance for impairment of trade receivables, receipts, dishonoured cheques, interests on late payments and off-set against trade payables • Accounting for transactions affecting control account for trade payables (total trade payables) of trading business: credit purchases of inventory, returns of goods, cash discounts, payments, freight charges and off-set against trade receivables 	<ul style="list-style-type: none"> • state the purposes of the control accounts • state the ledger in which the control accounts are found • state the sources of information for transactions recorded on the control accounts • prepare the control accounts for the current financial period
<p>3.7 Capital and Revenue Expenditure</p> <ul style="list-style-type: none"> • Capital and revenue expenditure, and the respective accounting treatments – specifically whether expenditure incurred in relation to non-current asset is to be capitalised as part of the non-current asset's cost or to be written-off to the Income Statement • Examples of capital and revenue expenditure • Application of the materiality concept on the treatment of capital and revenue expenditure 	<ul style="list-style-type: none"> • define capital and revenue expenditure • distinguish between capital and revenue expenditure • classify accounting transactions into capital and revenue expenditure • explain the application of the materiality concept on the treatment of capital and revenue expenditure • analyse the effects of differences in treatments of capital and revenue expenditure on profit for the period and non-current assets for the current financial period

Content	Learning Outcomes Students will be able to:
<p>3.8 <i>Non-current Assets</i></p> <ul style="list-style-type: none"> • Accounting for the purchases of non-current assets • Scenarios to include: purchases of non-current assets by cash and on credit, and contribution of non-current assets by the owner • Cost of non-current assets comprising purchase prices and the costs of bringing the non-current assets to operating condition • Computing and accounting for depreciation and accumulated depreciation (depreciation to-date) according to the (i) straight-line and (ii) reducing-balance methods • The suitability of depreciation methods for different classes of non-current assets • Scenarios to include: part (by whole month) or full year of depreciation in the year of acquisition • Accounting theories which apply to the presentation of net book value and accumulated depreciation • Net book value represents the estimated future economic value of the non-current asset • Non-current assets lose their economic values over time due to various causes • Accumulated depreciation is an approximation of the reduction in economic value of the non-current asset • Preparation of ledger accounts over a maximum of three financial periods 	<ul style="list-style-type: none"> • prepare the journal entries on purchases of non-current assets • define depreciation and accumulated depreciation • state the causes of depreciation • state and distinguish the depreciation methods of (i) straight-line and (ii) reducing-balance methods • explain the suitability of selected depreciation method for classes of non-current assets • calculate depreciation and accumulated depreciation according to the (i) straight-line and (ii) reducing-balance methods for a maximum of three financial periods • prepare the journal entries on depreciation and accumulated depreciation for a maximum of three financial periods • calculate the rate of depreciation, length of useful life, yearly depreciation, accumulated depreciation and cost of non-current asset • analyse the effects of different depreciation methods on profit for the period for a maximum of three financial periods • explain the need to charge depreciation and accumulated depreciation in relation to relevant accounting concepts • explain the presentation of net book value in relation to relevant accounting theories • prepare the (i) non-current asset, (ii) depreciation, (iii) accumulated depreciation ledger accounts for a maximum of three financial periods

Content	Learning Outcomes Students will be able to:
	<ul style="list-style-type: none"> • interpret the (i) non-current asset, (ii) depreciation, (iii) accumulated depreciation ledger accounts for a maximum of three financial periods • prepare an extract of the Balance Sheet and the Income Statement showing the presentation of net book value and accumulated depreciation for a maximum of three financial periods
<p>3.9 Sale of Non-current Assets</p> <ul style="list-style-type: none"> • Computing and accounting for sale of non-current asset • Scenarios to include: <ul style="list-style-type: none"> – starting from purchase of one non-current asset which is subsequently sold, with or without replacement, – starting from purchase of two or more non-current assets and subsequently sold one of them, with or without replacement, – starting with balances in the non-current asset and accumulated depreciation ledger accounts and one of the non-current assets is sold in the current financial period, – part (by whole month) or full year of depreciation in the year of purchase but no depreciation in the year of sale, – either straight-line or reducing-balance depreciation methods 	<ul style="list-style-type: none"> • calculate the gain or loss on sale of non-current asset • prepare the journal entries on the sale of non-current asset • prepare the (i) non-current asset, (ii) depreciation, (iii) accumulated depreciation and (iv) sale of non-current asset ledger accounts in the financial period the sale happens • prepare an extract of the Income Statement showing the presentation of gain or loss on sale of non-current asset
<p>3.10 Long-term Borrowings</p> <ul style="list-style-type: none"> • Accounting for new loan, loan repayment, interest expense and accrued interest/interest payable • Reclassify portion of liability payable within the next financial period as current liability • Calculation of accrued interest from interest expense incurred and interest paid 	<ul style="list-style-type: none"> • distinguish between bank loan and an overdrawn cash at bank (i.e. a bank overdraft) • calculate interest expense and accrued interest • prepare journal entries on new loan, loan repayment, interest expense and accrued interest • prepare an extract of the Balance Sheet and the Income Statement showing the presentation of loan, interest expense and accrued interest

Content	Learning Outcomes Students will be able to:
<p>3.11 <i>Correction of Errors</i></p> <ul style="list-style-type: none"> • Correction of errors not revealed by the Trial Balance • Errors revealed by a trial balance are not required • Only one financial period • Adjusted Trial Balance after correction of errors • Statement of adjusted profit after correction of errors • Adjusted Balance Sheet after correction of errors 	<ul style="list-style-type: none"> • prepare the journal entries to correct errors • analyse the effects of errors on profit for the period and on items on the Balance Sheet • analyse the effects of correction of errors on profit for the period and on items on the Balance Sheet • prepare an adjusted Trial Balance after correction of errors • prepare a statement of adjusted profit after correction of errors • prepare an adjusted Balance Sheet or an extraction after correction of errors

4. THE FINANCIAL STATEMENTS

Understanding the preparation of the financial statements and the significance of financial results and status. The financial statements involved are the income statement and balance sheet only.

Content	Learning Outcomes Students will be able to:
<p>4.1 Balance Sheet</p> <ul style="list-style-type: none"> • Balance Sheet shows the financial status as at a point in time • Represents the accounting equation • Classification of items into non-current assets, current assets, non-current liabilities, current liabilities and equity • Examples of non-current assets, current assets, non-current liabilities, current liabilities and equity • Owner's equity for sole proprietor and shareholders' equity for limited company • The terms net worth or capital owned are not used • Only the narrative/report format of Balance Sheet • Presentation details to show: <ul style="list-style-type: none"> – non-current and current assets – non-current and current liabilities – details of capital of sole proprietor or details of issued share capital and retained earnings for limited company • Current assets are not required to be listed in order of liquidity • Include only the Balance Sheet of the following businesses: <ul style="list-style-type: none"> – trading and service – sole proprietor and limited company 	<ul style="list-style-type: none"> • define Balance Sheet • define and distinguish between non-current and current assets • define and distinguish between non-current and current liabilities • define net assets, equity and working capital • calculate net assets, equity and working capital • prepare a properly classified Balance Sheet for a sole proprietorship or limited company • state the valuation methods for non-current assets, inventory and trade receivables on the Balance Sheet • explain the valuation methods for non-current assets, inventory and trade receivables on the Balance Sheet in relation to relevant accounting theories

Content	Learning Outcomes Students will be able to:
<ul style="list-style-type: none"> • Basic interpretation and significance of relationships of financial figures on the Balance Sheet • Only the following: <ul style="list-style-type: none"> – sources of funds and utilisation of funds – current assets, current liabilities and working capital (current assets – current liabilities) – equity and net assets (total assets – total liabilities) – changes in net assets between two points in time and the profit for the period – cash in hand and cash at bank, net assets and profit for the period for a sole proprietor • Understanding the relationships of financial figures on the Balance Sheet will aid in understanding Section 6 • Valuation methods used on the Balance Sheet: <ul style="list-style-type: none"> – non-current assets at net book value, of cost less accumulated depreciation – inventory at lower of cost or net realisable value – trade receivables at trade receivables less allowance for impairment of trade receivables • Accounting theory(ies) which apply to each valuation method 	<ul style="list-style-type: none"> • analyse the effects of accounting transactions on owner's or shareholders' equity, non-current assets, current assets, non-current liabilities, current liabilities and working capital • prepare the revised Balance Sheet including transactions that occur after the statement is prepared
<p>4.2 Income Statement</p> <ul style="list-style-type: none"> • The Income Statement shows the financial figures and profit for a period of time • Represents the excess of income over expenses for a period of time • Only the narrative/report format of Income Statement • For trading business, the perpetual inventory recording method is adopted and details to show in the trading portion of the Income Statement are: <ul style="list-style-type: none"> – net sales revenue (sales revenue – sales returns) – cost of sales – gross profit/loss 	<ul style="list-style-type: none"> • define and distinguish gross profit/loss and profit/loss for the period • explain the purposes of the trading portion, and profit and loss portion of the Income Statement • calculate net sales revenue, gross profit/loss and profit/loss for the period

Content	Learning Outcomes Students will be able to:
<ul style="list-style-type: none"> • Operating expenses in the profit and loss portion of the Income Statement are not required to be classified by function • Include only the Income Statement of the following businesses: <ul style="list-style-type: none"> – trading and service – sole proprietor and limited company • Basic interpretation and significance of relationships of financial figures on the Income Statement • Only the following: <ul style="list-style-type: none"> – sales revenue, cost of sales and gross profit/loss – gross profit/loss, expenses and profit/loss for the period – sales revenue, cost of sales, expenses and profit/loss for the period • Understanding the relationships of financial figures on the Income Statement will aid in understanding Section 6 • Accounting theory(ies) which apply to the accounting of income and expenses on the Income Statement 	<ul style="list-style-type: none"> • prepare an Income Statement in good form for a sole proprietorship or limited company • explain the accounting of income and expenses in relation to relevant accounting theory(ies)
<p><i>4.3 Incomplete Records</i></p> <ul style="list-style-type: none"> • <i>Capital Comparison Method</i> <ul style="list-style-type: none"> – Method of applying the relationship between changes in net assets between two points in time and profit for the period – The accounting equation relating assets, liabilities and equity at a point in time – Only for sole proprietor account – Include only the following end of financial period adjustments: <ul style="list-style-type: none"> ○ drawings not recorded during the financial period ○ depreciation of non-current assets ○ impairment loss on trade receivables arising during the financial period and allowance for impairment of trade receivables ○ prepaid expenses, accrued expenses, income received in advance/unearned income and income receivables 	<ul style="list-style-type: none"> • prepare Balance Sheet for beginning and ending positions • construct the profit for the period from changes in net assets

Content	Learning Outcomes Students will be able to:
<ul style="list-style-type: none"> • <i>Accounts Analysis Method</i> <ul style="list-style-type: none"> – Method of applying the relationships between items on the Balance Sheet and the Income Statement. – Only the following: <ul style="list-style-type: none"> ○ derive sales revenue from changes to trade receivables and from cash transactions ○ derive inventory purchased during the year from changes to trade payables and from cash transactions ○ derive cost of sales from changes to inventory and from inventory purchased during the year ○ derive expenses from changes in accrued expenses and/or prepaid expenses, and from cash transactions ○ derive depreciation from changes in net book values (without sale of non-current assets) ○ derive other income from changes in income received in advance and/or income receivable, and from cash transactions ○ derive the gross profit, profit for the period and Income Statement from the above procedures ○ derive the Balance Sheet from the above procedures ○ derive loss in inventory from changes in inventory – Financial analysis ratios in Section 6 may be applied in deriving the above – Only for sole proprietor account and for one financial period 	<ul style="list-style-type: none"> • construct sales revenue for the current financial period • construct inventory purchased for the current financial period • construct cost of sales for the current financial period • calculate gross profit for the current financial period • construct expenses for the current financial period • construct depreciation for the current financial period • construct other income for the current financial period • calculate profit for the current financial period • prepare the Income Statement or an extract from the above procedures only • prepare an extract of the Balance Sheet from the above procedures only • calculate loss in inventory for the current financial period

5. BUSINESS ENTITIES

Understanding the practices and procedures applied to represent the owner's interest in the entities of sole proprietor and limited company only.

Content	Learning Outcomes Students will be able to:
<p>5.1 Sole Proprietorship</p> <ul style="list-style-type: none"> • The sole proprietor's interest (owner's equity) in the business • Accounting for transactions affecting the sole proprietor's interest: capital, drawings and profit for the period • Scenarios to include: contribution of capital and drawings in cash and in kind • Drawings would reduce capital on the Balance Sheet, and would not be taken to the Income Statement • To distinguish between use of business's assets for personal use and business use • Closing of the drawings ledger account to the capital ledger account at the end of the financial period • Profit/Loss for the period is added to the capital on the Balance Sheet • Transfer of profit/loss for the financial period to the capital ledger account at the end of the period • Accounting theory which applies to the accounting of capital and drawings • Significance of drawings and profit/loss for the period on owner's equity • Significance of drawings exceeding profit for the period 	<ul style="list-style-type: none"> • define drawings • explain the accounting of drawings and capital in relation to relevant accounting theory • prepare the journal entries on capital, drawings and profit/loss for the period • prepare the drawings and capital ledger accounts for a maximum of three financial periods • analyse the changes in owner's equity to identify the reasons for the changes for a maximum of three financial periods • prepare an extract of the Balance Sheet showing the presentation of sole proprietorship's interest in the business • prepare an Income Statement in good form with end of financial period adjustments for a sole proprietorship • prepare a properly classified Balance Sheet with end of financial period adjustments for a sole proprietorship

Content	Learning Outcomes Students will be able to:
<ul style="list-style-type: none"> • Adjustments at the end of financial period include only: <ul style="list-style-type: none"> – drawings not recorded during the financial period – depreciation of non-current assets with or without beginning accumulated depreciation – impairment loss on trade receivables arising during the financial period and allowance for impairment of trade receivables with or without beginning balance – prepaid expenses, accrued expenses/expenses payable, other income receivables and income received in advance/unearned income – re-classification of short term portion of non-current liability – correction of errors not revealed by the Trial Balance – goods damaged during the financial period not adjusted yet – Financial statements are to be prepared from a list of account balances or a trial balance 	

Content	Learning Outcomes Students will be able to:
<p>5.2 <i>Limited Company</i></p> <ul style="list-style-type: none"> • Shareholders' interests (shareholders' equity) in the business • Accounting for transactions affecting the shareholders' interests: issued share capital, declared dividends and retained earnings • Only ordinary shares as the unit of ownership in the company • Only issuance of ordinary shares fully paid up • Calculation of issued share capital based on unit issue price and quantity issued • Accounting for issued share capital fully paid up in cash only • Dividends: the return on shareholders' interests in the business • Calculation of declared dividends based on dividend per share and quantity of issued ordinary shares • Accounting for declared dividends and payment of dividends • Only one final dividend is paid, and the declared dividend is paid out in full • How the decision on the amount of dividend per share is arrived at and the legal procedures on declared dividends are not required • Retained earnings: accumulation of the business past profit less declared dividends • The transfer of profit/loss for the financial period to the retained earnings ledger account at the end of the financial period 	<ul style="list-style-type: none"> • define share, dividend and retained earnings • prepare the journal entries on issued share capital, declared dividends, payment of dividends and profit/loss for the period • prepare the share capital and retained earnings ledger accounts for a maximum of two financial periods • analyse the changes in shareholders' interests to identify the reasons for the changes for a maximum of two financial periods • prepare an extract of the Balance Sheet showing the presentation of shareholders' interests in the business • prepare an Income Statement in good form with end of financial period adjustments for a limited company • calculate the ending retained earnings after profit/loss for the period and declared dividend • prepare a properly classified Balance Sheet with end of financial period adjustments for a limited company

Content	Learning Outcomes Students will be able to:
<ul style="list-style-type: none"> • The only movement in share capital is issuance of capital • Movements in retained earnings to include only profit/loss for the period and dividends declared during the financial period • The significance of declared dividends and profit/loss for the period on retained earnings and shareholders' equity • The significance of retained losses • Adjustments at the end of financial period include only: <ul style="list-style-type: none"> – declared dividends – depreciation of non-current assets with or without beginning accumulated depreciation – impairment loss on trade receivables arising during the financial period and allowance for impairment of trade receivables with or without beginning balance – prepaid expenses, accrued expenses/expenses payable, other income receivables and income received in advance/unearned income – re-classification of short term portion of non-current liability – correction of errors not revealed by the Trial Balance – goods damaged during the financial period not adjusted yet • Financial statements are to be prepared from a list of account balances or a trial balance <p><u>Note:</u></p> <ul style="list-style-type: none"> • The Singapore Companies Act (Chapter 50) has abolished par value shares and authorised share capital • The Singapore Companies Act (Chapter 50) describes that a resolution for proposed dividends needs to be passed at the AGM, and only the shareholders have the authority to approve the declared dividends. Singapore's Financial Reporting Standard (FRS) 32 mentions that dividend is treated as a liability when it is declared. FRS 10 mentions that if dividend is declared after the end of the financial period, it is not to be recorded as a liability in that financial period. Instead, it becomes a liability in the next financial period. 	

6. FINANCIAL STATEMENT ANALYSIS

Understanding the use of financial ratios to analyse financial results and status.

Content	Learning Outcomes Students will be able to:
<p>6.1 Financial Analysis</p> <ul style="list-style-type: none"> • Making comparisons using absolute values and ratios • Basis of comparison: against self over a period of time or against comparable businesses • To relate to Section 1 on decisions made by stakeholders, and how the financial ratios could help stakeholders to understand the business's financial affairs 	
<p>6.2 Profitability</p> <ul style="list-style-type: none"> • Importance of being profitable • Consequences of not being profitable • <i>Analysis of absolute values</i> <ul style="list-style-type: none"> – Analysing the components of gross profit/loss and means of improvement: net sales revenue and cost of sales – Analysing the components of profit/loss for the year and means of improvement: net sales revenue, cost of sales, gross profit and expenses – Analysis at unit cost level is not required – May include presentation of figures on an Income Statement or extract of the Income Statement 	<ul style="list-style-type: none"> • explain the importance of being profitable • analyse the gross profit/loss and profit/loss for the year • interpret sales revenue, cost of sales, gross profit/loss, expenses and profit/loss for the period across a maximum of three time periods or against one other business • evaluate the profitability of businesses from trend of sales revenue, cost of sales, gross profit/loss, expenses and profit/loss for the period

Content	Learning Outcomes Students will be able to:
<ul style="list-style-type: none"> - Comparison of sales revenue, cost of sales, gross profit/loss, expenses and profit/loss for the period across a maximum of three time periods or against one other business - Understanding the trend of financial figures across time and across businesses with respect to the given scenario - Understanding the implications of the trend on the business - Improving gross profit/loss and/or profit/loss for the period with respect to the given scenario <ul style="list-style-type: none"> • <i>Analysis of ratios</i> <ul style="list-style-type: none"> - Understanding and computing the profitability ratios: <ol style="list-style-type: none"> (i) gross profit margin (ii) mark-up on cost (iii) percentage of expenses to net sales revenue (iv) profit margin (v) return on equity - The relationship between gross profit margin, percentage of expenses to net sales and profit margin <ul style="list-style-type: none"> - Comparison of profitability ratios across a maximum of three time periods or against one other business - Understanding the trend of ratios across time and across businesses with respect to the given scenario - Probable reasons for changes in ratios and understanding the implications of the changes on the business - Improving the profitability ratio with respect to the given scenario 	<ul style="list-style-type: none"> • recommend means to improve gross profit/loss and profit/loss for the year • state and calculate the profitability ratios of gross profit margin, mark-up on cost, percentage of expenses to net sales revenue, profit margin and return on equity • interpret profitability ratios across a maximum of three time periods or against one other business • evaluate the profitability of businesses from trend of profitability ratios • recommend means to improve profitability ratios

Content	Learning Outcomes Students will be able to:
<p>6.3 Liquidity</p> <ul style="list-style-type: none"> • Liquidity: ability of the business to meet current liabilities • Importance of being liquid • Consequences of not being liquid • Differences between liquidity and profitability: inclusion of non-cash items in the calculation of profitability, accrual basis of recording profitability, cash items not affecting profitability, etc. • <i>Analysis of absolute values</i> <ul style="list-style-type: none"> – Understanding and computing working capital – Analysing the components of working capital and means of improvement: current asset items and current liability items – Means of increasing liquidity/cash and their consequences – May include presentation of figures in a Balance Sheet or extract of the Balance Sheet – Comparison of working capital, current asset items or aggregate and current liability items or aggregate across a maximum of three time periods or against one other business – Understanding the trend of financial figures across time and across businesses with respect to the given scenario – Understanding the implications of the trend on the business – Improving liquidity/cash for the period with respect to the given scenario • <i>Analysis of ratios</i> <ul style="list-style-type: none"> – Understanding and computing liquidity ratios: <ul style="list-style-type: none"> (i) working capital ratio (current ratio) (ii) quick ratio (acid test ratio) – Difference between working capital ratio and quick ratio, and the significance of the difference – Why quick ratio is a better indicator of liquidity than working capital ratio 	<ul style="list-style-type: none"> • explain the importance of being liquid • state and explain the differences between liquidity and profitability • state and calculate working capital • analyse the mix of current asset items and current liability items • interpret current asset items and current liability items across a maximum of three time periods or against one other business • evaluate the liquidity of businesses from trend of working capital, current asset items and current liability items • recommend means to improve liquidity/cash • state and calculate liquidity ratios of current ratio and quick ratio • interpret liquidity ratios across a maximum of three time periods or against one other business • evaluate the liquidity of businesses from trend of liquidity ratios • recommend means to improve liquidity ratios

Content	Learning Outcomes Students will be able to:
<ul style="list-style-type: none"> - Comparison of liquidity ratios across a maximum of three time periods or against one other business - Understanding the trend of ratios across time and across businesses with respect to the given scenario - Probable reasons for changes in ratios and understanding the implications of the changes on the business - Improving the liquidity ratio with respect to the given scenario 	
<p>6.4 Inventory Management</p> <ul style="list-style-type: none"> • Inventory turnover: decision of the business to stock up inventory and the ability to sell the inventory • Importance of a trading business being able to manage its inventory turnover • Consequences of not being able to manage inventory turnover • <i>Analysis of absolute values</i> <ul style="list-style-type: none"> - Comparison of beginning inventory, ending inventory and cost of sales across a maximum of three time periods or against one other business - Understanding the trend of financial figures across time and across businesses with respect to the given scenario - Understanding the implications of the trend on the business - May include presentation of figures in the Income Statement and Balance Sheet or extract of the financial statements • <i>Analysis of ratios</i> <ul style="list-style-type: none"> - Understanding and computing the inventory turnover rate, with the implicit relationship between average inventory and cost of sales - Comparison of inventory turnover rate across a maximum of three time periods or against one other business - Understanding the trend of ratios across time and across businesses with respect to the given scenario - Probable reasons for changes in ratios and understanding the implications of the change on the business - Improving the inventory turnover rate with respect to the given scenario 	<ul style="list-style-type: none"> • explain the importance of being able to manage inventory turnover • interpret beginning inventory, ending inventory and cost of sales across a maximum of three time periods or against one other business • evaluate the ability to manage inventory turnover of businesses from trend of beginning inventory, ending inventory and cost of sales • state and calculate inventory turnover rate • interpret inventory turnover rate across a maximum of three time periods or against one other business • evaluate the ability to sell inventory of businesses from trend of inventory turnover rate • recommend means to improve inventory turnover rate

APPENDICES

List of Formulae

Appendix A

Profitability ratios

- (i) Gross profit margin = $\frac{\text{Gross profit}}{\text{Net sales revenue}} \times 100$
- (ii) Mark-up on cost = $\frac{\text{Gross profit}}{\text{Cost of sales}} \times 100$
- (iii) Expenses to net sales revenue = $\frac{\text{Operating expenses}}{\text{Net sales revenue}} \times 100$
- (iv) Profit margin = $\frac{\text{Profit for the period}}{\text{Net sales revenue}} \times 100$
- (v) Return on equity = $\frac{\text{Profit for the period}}{\text{Average equity}} \times 100$

Average equity = (Total equity at the beginning of the financial period + Total equity at the end of the financial period) / 2

For Sole Proprietor, total equity is the owner's equity which comprises the capital amount after profit/loss and drawings.

For Limited Company, total equity is the shareholders' equity which comprises issued capital and retained earnings.

Liquidity ratio

- (i) Working capital = Total current assets – Total current liabilities
- (ii) Working capital ratio or Current ratio = $\frac{\text{Total current assets}}{\text{Total current liabilities}}$
- (iii) Quick ratio or Acid test ratio = $\frac{\text{Total current assets} - \text{inventory} - \text{prepayments}}{\text{Total current liabilities}}$

Inventory Management ratio

- (i) Inventory turnover rate = $\frac{\text{Cost of sales}}{\text{Average inventory}}$

Average inventory = (Inventory at the beginning of the financial period + Inventory at the end of the financial period) / 2

Others

- (i) Rate of depreciation for straight-line method = $\frac{\text{Yearly depreciation}}{\text{Original cost} - \text{Scrap value or Residual value}} \times 100$
- (ii) Owner's Equity = Total assets – Total liabilities
- (iii) Net sales revenue (for trading business) = Sales revenue – Sales returns
- (iv) Cost of purchases = Purchase price – Returns + Expenses on purchases

Formats of Financial Statements**Appendix B****1 Terminology**

The following is a list of the terminology used in the financial statements in this syllabus¹. Schools should use the new terminology in their teaching and learning materials.

<i>In this syllabus (terminology in the financial statements)</i>	<i>Previously</i>
Balance sheet	Balance sheet
Income statement	Trading, profit and loss account
End of the reporting period	Balance date
Equity	Equity
Capital (for Sole Proprietor) or Issued share capital (for Limited Company)	Capital
Retained earnings	Retained profit
Non-current assets	Fixed assets
Land (for non-depreciable land)	Land
Property	Land and buildings
Plant and equipment (only plant machinery and plant equipment)	Plant and equipment
Fixtures and fittings (all fixtures and fittings, office equipment and furniture)	Fixtures and fittings
Accumulated depreciation	Provision for depreciation
Current assets	Current assets
Inventory	Stock
Other receivables/prepaid expenses/income receivables	Prepayments Accrued income/Income receivable
Trade receivables	Debtors
Allowance for impairment of trade receivables	Provision for doubtful debts
Cash at bank	Bank
Cash in hand	Cash

¹ In keeping with the Singapore Financial Reporting Standard (FRS) 1 and with generally adopted accounting practices.

<i>In this syllabus (terminology in the financial statements)</i>	<i>Previously</i>
Non-current liabilities	Long term liabilities
Long-term borrowings	Loan (portion not payable within next financial period)
Current liabilities	Current liabilities
Trade payables	Creditors
Other payables/accrued expense/expenses payable/income received in advance	Accruals Income received in advance/Prepaid income
Short-term borrowings	Bank overdraft
Current portion of long-term borrowings	Loan (portion payable within next financial period)
Sales revenue	Sales
Cost of sales	Cost of goods sold
Gross profit	Gross profit
Other income	Sundry income/Other income
Interest	Interest
Impairment loss on trade receivables	Doubtful debts/Bad debts
Gain/Loss on sale of non-current assets	Profit/Loss on disposal of fixed assets
Profit/Loss for the period	Net profit/loss

* The above table does not show all asset, liability, income and expense items in this syllabus.

2 Ledger Account**(A) In T account format**

Cash at bank account					
date		\$	date		\$
Mar 1	Balance b/d	5,100	Mar 8	Gordon	1,630
5	Tung	2,340	19	Inventory	4,110
16	Sales revenue	7,300	26	Insurance	200
22	Rental	700	31	Balance c/d	9,500
		15,440			15,440
Apr 1	Balance b/d	9,500			

(B) In columnar format

Cash at bank account				
		Dr \$	Cr \$	\$
Mar 1	Balance b/d			5,100 Dr
5	Tung	2,340		7,440 Dr
8	Gordon		1,630	5,840 Dr
16	Sales revenue	7,300		13,110 Dr
19	Inventory		4,110	9,000 Dr
22	Rental	700		9,700 Dr
26	Insurance		200	9,500 Dr
Apr 1	Balance b/d			9,500 Dr

3 Income Statement**(A) Trading business in narrative format**

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
Other income		
Commission income	XXXX	
Discount received	XXXX	
^a Gain on sale of non-current assets	XXXX	
Rent income	<u>XXXX</u>	
		XXXX
less: Expenses ^c		
Impairment loss on trade receivables	XXXX	
^b Depreciation of fixtures and fittings	XXXX	
^b Depreciation of office equipment	XXXX	
^b Depreciation of motor vehicles	XXXX	
Interest	XXXX	
Insurance	XXXX	
^a Loss on sale of non-current assets	XXXX	
Motor vehicle expenses	XXXX	
Office expenses	XXXX	
Rent and rates	XXXX	
Wages and salaries	<u>XXXX</u>	
		<u>XXXX</u>
Profit for the year		<u>XXXX</u>

^a Either one of these items will appear if only one asset was sold during the year.

^b The depreciation amounts may be aggregated and presented as one figure.

^c It is not required to classify expenses by function.

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

(B) Service business in narrative format

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

- ^a Either one of these items will appear if only one asset was sold during the year.
- ^b The depreciation amounts may be aggregated and presented as one figure.
- ^c It is not required to classify expenses by function.
- * The above statement does not show all income and expense items in this syllabus.

4 Balance Sheet**(A) Sole Proprietor in narrative format**

Name of Business				
Balance Sheet as at ...				
	\$	\$	\$	\$
Assets				
<u>Non-current assets</u>	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>	
Property	xxxx	xxxx	xxxx	
Fixtures and fittings	xxxx	xxxx	xxxx	
Equipment	xxxx	xxxx	xxxx	
Motor vehicles	<u>xxxx</u>	<u>xxxx</u>	<u>xxxx</u>	
Total non-current assets	<u>xxxx</u>	<u>xxxx</u>		xxxx
 <u>Current assets</u>				
Inventory			xxxx	
Trade receivables		xxxx		
less: Allowance for impairment of trade receivables		<u>xxxx</u>		
			xxxx	
Other receivables/ prepaid expenses/ income receivables			xxxx	
Cash at bank			xxxx	
Cash in hand			<u>xxxx</u>	
Total current assets				<u>xxxx</u>
Total assets				<u>xxxx</u>
 Equity and Liabilities				
<u>Owner's equity</u>				
Beginning balance			xxxx	
add: Profit for the year			xxxx	
less: Drawings			<u>xxxx</u>	
Total equity				xxxx
 <u>Non-current liabilities</u>				
Long-term borrowings			<u>xxxx</u>	
Total non-current liabilities				xxxx
 <u>Current liabilities</u>				
Trade payables			xxxx	
Other payables/ accrued expense/ expenses payable/ income received in advance			xxxx	
Short-term borrowings			xxxx	
Current portion of long-term borrowings			<u>xxxx</u>	
Total current liabilities				<u>xxxx</u>
Total equity and liabilities				<u>xxxx</u>

* It is not required to classify assets and liabilities by order of liquidity.

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

(B) Limited Company in narrative format

	Name of Business			
	Balance Sheet as at ...			
	\$	\$	\$	\$
Assets				
<u>Non-current assets</u>	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>	
Property	xxxx	xxxx	xxxx	
Fixtures and fittings	xxxx	xxxx	xxxx	
Equipment	xxxx	xxxx	xxxx	
Motor vehicles	<u>xxxx</u>	<u>xxxx</u>	<u>xxxx</u>	
Total non-current assets	<u>xxxx</u>	<u>xxxx</u>		xxxx
<u>Current assets</u>				
Inventory			xxxx	
Trade receivables		xxxx		
less: Allowance for impairment of trade receivables		<u>xxxx</u>		
Other receivables/ prepaid expenses/ income receivable			xxxx	
Cash at bank			xxxx	
Cash in hand			<u>xxxx</u>	
Total current assets				<u>xxxx</u>
Total assets				<u>xxxx</u>
Equity and Liabilities				
<u>Shareholders' equity</u>				
Issued share capital, xxx ordinary shares			xxxx	
Retained earnings			<u>xxxx</u>	
Total equity				xxxx
<u>Non-current liabilities</u>				
Long-term borrowings			<u>xxxx</u>	
Total non-current liabilities				xxxx
<u>Current liabilities</u>				
Trade payables			xxxx	
Other payables/ accrued expense/ expenses payable/ income received in advance			xxxx	
Dividends payable			xxxx	
Short-term borrowings			xxxx	
Current portion of long-term borrowings			<u>xxxx</u>	
Total current liabilities				<u>xxxx</u>
Total equity and liabilities				<u>xxxx</u>

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

* It is not required to classify assets and liabilities by order of liquidity.

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