

PACIFIC SENIOR SECONDARY CERTIFICATE

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Accounting

Effective as from January 2003

ACCOUNTING

Rationale

Accounting is the study of the language of business and allows information to be gathered, processed and reported on for users to make informed financial decisions.

This prescription defines the requirements for assessment for the PSSC Accounting and is designed to assess a one year course of study at this level.

It is assumed that students have studied accounting at School Certificate level.

General Aims

The aims of accounting are to:

- allow students to understand the role of accounting in society
- promote knowledge and understanding of accounting as a financial language for trading and service businesses, and community organisations
- apply financial knowledge and skills to practical situations
- provide a basis for further study in accounting and a background to assist students should they decide to work in an accounting environment.

General Objectives

To achieve these aims, students will, within the specified contexts:

- recall and use relevant accounting knowledge
- examine, understand and apply the assumptions, principles and concepts on which accounting is based
- process financial data into meaningful information
- develop a knowledge and understanding of the systems and controls required to ensure financial data is processed accurately and efficiently
- prepare financial reports which meet user needs
- analyse and interpret financial reports
- make informed decisions based on financial and non-financial information
- develop skills in communication, numeracy, information and problem solving.

Specific Objectives

Each part of the prescription is written in the form of specific objectives, i.e. the skills students are expected to acquire and the ways they can be expected to use those skills.

Course Context

The context of study are:

1. sole proprietors who:
 - are trading or service businesses
 - record transactions on the accrual basis
 - buy and sell inventory or services for cash or on credit
 - maintain either a physical or perpetual inventory

2. community organisations who:
 - provide a service to the community e.g. sports/social/recreation club, church, Red Cross and other volunteer organisations
 - motive is non-profit.

Course Structure

The prescription is divided into five sections:

- I The Conceptual Basis of Accounting
- II Processing
- III Accounting Reports
- IV Analysis, Interpretation and Making Decisions
- V Accounting Systems.

Section I The Conceptual Basis of Accounting

Students should develop an understanding of the principles/concepts on which accounting is based.

Students should be able to:

1. define accounting
2. explain the functions of accounting
3. explain how interested parties make use of accounting
4. identify, describe and apply the qualitative characteristics of accounting information

Coverage:

relevance, reliability, understandability, comparability, timeliness, neutrality, verifiability, objectivity

5. define, recognise and apply accounting concepts

Coverage:

accounting entity, monetary measurement, going concern, accounting period, matching, accrual basis, historical cost, materiality, prudence (conservatism), consistency, disclosure

6. describe the relationship between any of the accounting concepts
7. define, recognize and apply the financial elements

Coverage: assets, liabilities, owner's equity, revenues, expenses

8. use the accounting equation $OE = A - L$, to show the relationship between owner's equity, liabilities (sources of funds), and assets (uses of funds)
9. describe how OE is affected by contributions/withdrawals by the owner and profit/loss as measured by $R - E$
10. distinguish between capital and revenue transactions

Section II Processing

Students should be able to record and process financial transactions.

Students should be able to:

1. describe the input, process and output components of an accounting cycle for the entity
2. compare manual and computer processing methods that can be used for recording, processing, storing and reporting accounting data
3. prepare and use a chart of accounts for an entity
4. describe and analyse transactions in terms of their effects on the accounting equation

Coverage:

- the accounting equation may show expenses and revenue separate for owners equity
- the purchase/sales of inventory can be treated as for a perpetual system i.e. directly affecting the balance of inventory or as an expense/revenue respectively

5. explain and apply the debit and credit rules for processing accounting transactions
6. identify source documents used for recording transactions

Coverage:

source documents include: invoices, credit notes, statements, petty cash vouchers, receipts, cheques

7. record transactions on source documents
8. prepare accounting records

Coverage:

- general journal
- lists of credit sales, credit purchases and returns (which may be in the form of journals)
- cash receipts journal
- cash payments journal
- general ledger accounts including control accounts
- subsidiary ledgers for accounts receivable and accounts payable
- trial balance

NOTE: ledger accounts will be examined in 3 column form only

9. prepare accounting records for balance day adjustments

Coverage:

- accrued expenses
- accrued revenue
- prepayments
- revenue in advance
- depreciation
- bad and doubtful debts

10. explain the need for and prepare accounting entries for closing and reversing entries

Section III Accounting Reports

Students should be able to report financial information for:

- business organisations
- community organisations.

Business Organisations

Students should be able to:

1. describe functions, features and limitations of financial statements listed in 3 below
2. prepare a ten column worksheet incorporating the balance day adjustments
3. prepare financial statements in vertical form incorporating balance day adjustments for a sole proprietor business

Coverage:

Financial statements to include:

- Statement of Accounting Policies, limited to:
 - identification of the entity reporting by name and nature of its business
 - the measurement system adopted (to be Historical Cost)
 - reliance on going concern and use of accrual basis
 - policies for the measurement of depreciation, accounts receivable and inventory
- Statement of Financial Performance (Revenue Statement) with classification of expenses appropriate to the business activities
- Statement of Financial Position (Balance Sheet) with:
 - classification of assets into current and non-current (investments, fixed assets, intangible assets)
 - classification of liabilities into current and non-current
 - owner's equity to show opening capital, net profit/loss, drawings, closing capital
- Statement of Changes in Cash Position
 - cash movements to be shown as cash receipts and cash payments
 - the difference to be shown as net increase/decrease for the period, which is added to the opening bank balance to give closing bank balance
 - the statement to be prepared from a summary list of transactions

NOTE: Financial statements will be examined in vertical form only

Community Organisations

Students should be able to:

1. identify and describe the nature and features of community organizations

Coverage:

- community organizations to be limited to sports/social/recreation clubs, churches or other volunteer organizations

2. prepare financial statements in vertical form incorporating balance day adjustments for a community organisation

Coverage:

- (i) Balance day adjustments limited to:

- subscriptions in arrears
- subscriptions in advance
- accrued expenses including purchases
- straight line depreciation

- (ii) Financial statements to include:

- Statement of Accounting Policies, limited to:
 - identification of the entity reporting by name and nature of its activity
 - the measurement system adopted (to be Historical Cost)
 - reliance on going concern and use of accrual basis
 - policies for the measurement of depreciation, accounts receivable and inventory
- Statement of Changes in Cash Position (Statement of Receipts and Payments)
 - cash movements to be shown as cash receipts and cash payments
 - the difference to be shown as net increase/decrease for the period, which is added to the opening bank balance to give closing bank balance
 - the statement to be prepared from a summary list of transactions
- Supplementary trading and activity statements (Canteen, Refreshments, Raffle)
- Statement of Financial Performance (Statement of Income and Expenditure) - classification of expenses is not needed
- Statement of Financial Position (Balance Sheet) with:
 - classification of assets and liabilities into current and non-current
 - members' funds to show opening balance, net surplus/deficit, closing balance.

NOTE: Financial statements will be examined in vertical form only

Section IV Analysis, Interpretation and Making Decisions

Students should be able to analyse, interpret and evaluate financial and non-financial information of sole proprietors to make informed decisions.

Students should be able to:

A Explain and calculate ratios and percentages for a business entity from given data

1. explain the purpose of analyzing financial information
2. identify, explain and calculate ratios and percentages appropriate for the entity which measures profitability, financial stability, liquidity and management effectiveness

Coverage:

ratios and percentages to include:

- percentage changes
- measures of profitability:
 - mark-up percentage
 - gross profit percentage
 - expense percentage
 - net profit percentage
 - return on average owner's equity percentage
 - return on average total assets percentage
- measurement of liquidity:
 - working capital amount
 - current ratio
 - liquid ratio
- measurement of financial stability
 - equity ratio
 - debt ratio
- measures of management effectiveness
 - accounts receivable collection period
 - inventory turnover

B Analyse, interpret and make recommendations about a businesses financial performance, position and managerial effectiveness and present the information in a written report.

1. calculate ratios and percentages covering at least a 3 year period for a business from given data
2. explain and interpret the ratios and percentages calculated
3. identify and explain the relationships between the ratios and percentages calculated
4. identify trends and explain the possible reasons for the trends

5. use comparative figures, industry averages, and the results of analysis to comment on a entity's performance, financial position and management effectiveness
6. interpret the Statement of Changes in Cash Position for the entity and comment on the entity's management of its cash resources
7. make recommendations of the measures needed to improve the financial performance, financial position, managerial effectiveness and comment on the possible consequences of measures to be taken
8. prepare a written report, including graphs, tables and other non-written material, to cover the analysis, interpretation and recommendations required.

Section V Accounting Systems

Students should be able to identify and understand an accounting system, including documents, accounting records and appropriate control measures.

Accounting subsystems to be assessed are:

- Cash receipts/payments
- Inventory
- Accounts Receivable/Sales
- Accounts Payable/Purchases
- Fixed Assets
- Payroll

Internal Control

Students should be able to:

1. explain the principles and objectives of internal control

For each subsystem:

2. explain the objectives and procedures for internal controls
3. identify the input, process and output elements
4. identify and describe the essential information and control features recorded on the appropriate source documents
5. prepare the accounting entries
6. identify internal control weaknesses from given situations (case studies) which could be in written or document flowchart form
7. make recommendations for improvements
8. identify the links between related subsystems

Cash Subsystem

Students should be able to:

1. explain the need for internal control over cash
2. identify and explain the internal control procedures for cash receipts and cash payments
3. describe the purpose of a petty cash imprest system
4. prepare a petty cash book
5. describe the purpose of a bank reconciliation

6. complete the bank reconciliation procedures including preparing a Bank Reconciliation Statement

Coverage:

the reconciliation can include: direct credit/debit, automatic payments, dishonoured cheques, correction of errors.

Inventory Subsystem

Students should be able to:

1. explain the need for internal control over inventory
2. identify and explain internal control procedures for purchase, receipt, storage stock-take and sale of inventory
3. describe the importance of maintaining appropriate inventory levels and of stock turn policies
4. explain the significance of the conservatism concept in relation to inventory valuation
5. distinguish between periodic and perpetual inventory systems in calculating cost of goods sold and closing inventory
6. record transactions in the ledger using the perpetual inventory system
7. understand the purpose of a stock ledger card in calculating cost of goods sold and closing inventory
8. record transactions on a stock ledger card using FIFO, weighted average and actual cost methods of valuation and describe the effects of each method on cost of goods sold and gross profit
9. identify and record inventory gains/losses (Inventory Adjustments).

Accounts Receivable/Sales Subsystem

Students should be able to:

1. explain the need for control over credit sales
2. identify and explain the internal control procedures for accounts receivable
3. describe the purpose for keeping an accounts receivable subsidiary ledger and control account
4. prepare the accounts receivable subsidiary ledger, control account and list of accounts receivable
5. prepare general journal entries relating to accounts receivable

Coverage:

- bad debts
- creating/adjusting provision for doubtful debts
- discount allowed
- off setting contra accounts
- interest charged
- bad debts recovered

(Note: it is assumed that provision for doubtful debts is not closed off)

6. explain the relationship between the conservatism concept and providing for doubtful debts
7. describe the need to prepare a schedule of age of accounts receivable.

Accounts Payable/Purchases Subsystem

Students should be able to:

1. explain the need for internal control over credit purchases
2. identify and explain internal control procedures for accounts payable
3. describe the need for the accounts payable subsidiary ledger
4. prepare the accounts payable subsidiary ledger, control account and list of accounts receivable
5. prepare general journal entries relating to accounts payable

Coverage:

- discount received
- off setting contra accounts
- interest charged

Fixed Assets Subsystem

Students should be able to:

1. explain the need for internal control over fixed assets
2. identify and explain the internal control procedures for purchase, storage and sale of fixed assets
3. define depreciation and explain the purpose of depreciating assets
4. calculate depreciation expense

Coverage:

- straight line
- diminishing returns
- units of use

5. prepare accounting entries for depreciation expense and accumulated depreciation
6. distinguish between capital and revenue expenditure
7. prepare accounting records for the purchase and disposal (including trade ins) of fixed assets
8. prepare a fixed assets register with the details of each asset, annual depreciation, accumulated depreciation and book value
9. describe the limitations of the historic cost concept and the need to revalue assets.

Payroll Subsystem

Students should be able to:

1. explain the need for internal control over payroll
2. identify and explain internal control procedures for payroll
3. calculate net pay
4. interpret source documents used for a payroll
5. prepare wage sheets to calculate gross pay
6. distinguish between different ways of paying payroll

Coverage:

cash, cheque, direct credit

7. prepare accounting entries for the payroll.

Assessment

The assessment of this prescription is in two parts (internal and external assessment), and is made up of the following assessment components:

External Assessment (60%)

External Examination

Internal Assessment (40%)

Major Task – Analysis, interpretation and report (20%)

Minor Task 1 – Full set of books (10%)

Minor Task 2 – Case study of an accounting system (5%)

Minor Task 3 – Inventory/fixed assets (5%)

External Assessment

The Examination

The end-of-year examination will be in written form and will test a range of and skill objectives specified in this prescription. All sections will be represented in the examination.

The examination will be one three hour paper and be marked out of 200 marks.

The examination will contain no essays or reports, but may require paragraphs of 3 – 5 lines.

The weightings in the examination on the externally assessed parts of the prescription shall be as follows:

Section I	10 – 15%
Section II	15 – 20%
Section III	25 – 30%
Section IV	10 – 12%
Section V	25 – 30%

The examination will be made up of two parts:

Part A (10 questions of 2 marks each = 20 marks)

Questions in this part will be 10 multiple choice questions testing the range of skills specified in any section of the prescription.

Part B (180 marks)

Questions in this part will be in the form of paragraphs (3-5 lines), short answer and accounting exercise type testing analytical skills.

The examination will not include any objectives which have been assessed as in ternal assessment with some exceptions. The exceptions are as follows and could be included in the examination:

The Internal Assessment tasks will be taken from the following sections of the prescription;

- Section II The full set of books including preparation and use of a chart of accounts.
 The preparation of journal and ledger entries.
- Section III The preparation of a ten-column worksheet incorporating the balance day adjustments.
- Section IV Part B Analyse, interpret and make recommendations about a businesses financial performance, financial position and managerial effectiveness and present the financial information in a written report.
- Section V Preparation of Stock ledger cards and Fixed Asset Register and the studies of accounting subsystems which require identifying of weaknesses and making recommendations for improvement.

 Describing internal control.

Internal Assessment

Students will be required to complete one major and three minor internal assessment tasks. These tasks allow for some flexibility of approach but must follow the specified rules of structure and content. Teachers will assess student material resulting from these tasks using detailed marking schedules as provided in this prescription. The tasks, mark allocations and suggested class-time are as follows:

Task	Final Mark Value (%)	Suggested Class-time
Major Task – Analysis, interpretation and reporting	20	10-12 hours
Minor Tasks		
1. Full set of books	10	8-10 hours
2. Case study of accounting systems	5	3-4 hours
3. Inventory/fixed assets	5	3-4 hours

Schools that intend enrolling students in PSSC Accounting must submit for approval a completed “*PSSC Internal Assessment Summary Form*” by March 1st in the year of enrolment. These forms will be provided by the SPBEA.

A PSSC Accounting Internal Assessment Programme must include details of the assessment tasks and procedures, the marking schedules for the tasks and descriptions of within school moderation of internal assessments if there are more than one class and more than one school involved.

Clear records and documentation regarding the school’s approved PSSC Internal Assessment programme must be kept. All students’ work that has been assessed under this programme must be available for verification by moderators and SPBEA officers during any one school year.

Students who will be enrolled in PSSC Accounting must be given a copy of the school’s Internal Assessment programme for the subject. A copy of the marking scheme for each task should also be available so students know the standard of work required and how their work will be assessed. Each student must be informed of when assessment tasks are to be given, and be notified of the assessment result as soon as it is marked. Students should also be advised that such results are subject to further changes as a result of moderation.

Schools must submit a mark for each of the four assessment components:

Major Task – Analysis, interpretation and report	out of 60
Minor Task 1 – Full set of books	out of 60
Minor Task 2 – Case study of an accounting system	out of 15
Minor Task 3 – Stock Cards/Fixed Asset Register	out of 15

Moderation

Moderation is a process to ensure fair, valid and consistent assessment. It is to ensure assessment of students' performance in the same subject is comparable between classes (if there are more than one class in a school) and between schools.

The moderation process is subject to the requirements and procedures of the Board.

The three minor tasks will be statistically moderated against a combination of the external examination and the major task.

The Major Task – *Analysis, interpretation and report* will be sample moderated by country moderators. This will be entirely moderated by an external moderator. The sample for moderation will be taken from a list of students covering a range of marks. SPBEA will provide the procedure for selecting the sample.

Internal Assessment Components

Major Task – Analysis, Interpretation and Report

Students are required to carrying out a financial investigation of a trading business which is owned by a sole proprietor.

The investigation is to include the following stages:

- planning
- sorting and processing of data
- analysis, interpretation and evaluation of data
- recommendations and consequences in the form of a written report.

The purpose of this task is to assess the student’s understanding of the analysis, interpretation and evaluation of financial information and being able to draw conclusions and make reasoned recommendations. Teachers must ensure that this major task is completed by end of July and samples sent to country moderator by August 16.

Students will be provided with the following information:

1. A set of financial statements for a trading entity including:
 - Statement of Accounting Policies
 - Statement of Changes in Cash Flow
 - Statement of Financial Performance
 - Statement of Financial Position
2. The financial statements are for three consecutive years with the calculations of the ratios and percentages made for the first year of the three
3. Industry averages for appropriate ratios and percentages
4. Other information (at least four items) about the business that will assist in the investigation

Examples: to be an increase in staff, a major advertising campaign, expansion of the business, increase in interest rates, etc.

Students are required to present the investigation in the form of a report

PART A

1. Describe the entity and the nature of the business as an opening page
2. Calculate **all** the ratios and percentages (as listed in the prescription) for the second and third years including percentage changes where appropriate. The ratios and percentages cover financial performance (profitability), financial position (liquidity and financial stability) and management effectiveness.

This is to be in the form of a table showing the 3 years of business activities.

PART B

Analyse, interpret and evaluate the results covering financial performance (profitability), financial position (liquidity and financial stability), management effectiveness and the cash flow position of the entity by commenting on the three years of business activity including the other information.

The analysis, interpretation and evaluation is to include:

- commenting on the money values of items in the financial statements
- explaining the purpose of the ratios and percentages
- explaining the results of the ratios and percentages
- comparing the three years business activities and with industry averages
- commenting on the cash flow position
- identifying the trends and changes with possible reasons over the three years.

This is to be in the form of a written report with data appropriately provided such as pie charts, graphs and other forms of non-written material.

PART C

Make possible alternative recommendations to improve the financial performance, financial position, managerial effectiveness and cash position of the business and comment on the consequences of these recommendations on the future of the business.

This is to be in the form of a written report with any other form of non-written material which may be appropriate.

Teachers need to:

- Prepare a set of financial statements as specified for three consecutive years of trading including other information
- Mark PART A before the students write the report for PARTS B and C
- PART A in to be completed as an in-class task. PARTS B and C to be completed as an unsupervised assignment
- Sight and sign off the student work at the end of each part
- Prepare a time-line for the completion of the task

Mark Allocation

(a)	Describing the entity and nature of the business	3 marks
(b)	Calculating the ratios and percentages	15 marks
(c)	Analysing, interpreting and evaluating the results	21 marks
(e)	Making possible recommendations and commenting on the consequences	16 marks
(f)	Overall presentation	<u>5 marks</u>
	Total :	<u>60 marks</u>

Danger of task being in 3 parts but not so on mark allocation specially parts B and C.

PART A: (18 marks) Mark Scheme – Analysis, Interpretation and Report

a. Describing the entity and the nature of the business (3 marks)

3 marks	Excellent	- entity and nature clearly described
0	None	- entity and nature not described appropriately

b. Calculating the ratios and percentages (15 marks)

15 marks	Excellent	- all ratios and percentages calculated with only minor errors, and with formulas clearly stated
12 marks	Very Good	- all ratios and percentages calculated with less than five errors, and with formulas clearly stated
8 marks	Good	- most ratios and percentages calculated with less than eight errors, some formulas not given
6 marks	Adequate	- ratios and percentages calculated with less than twelve errors, some formulas not given
3 marks	Limited	- some ratios and percentages calculated
0	None	- little effort made

PART B: (21 marks)

c. Analysing, interpreting and evaluating the results (21 marks)

Analysing Financial Performance (6 marks)

6 marks	Excellent	- analysis clearly explains the financial performance over the three years, with comparisons clearly made. Trends and changes clearly stated.
3 marks	Good	- analysis explains the financial performance over the three years with some comparisons made. Trends and changes not stated.
2 marks	Adequate	- analysis explains the financial performance over the three years with few comparisons made
1 mark	Limited	- some analysis made
0	Poor	- no effort made

Analysing Financial Position (6 marks)

6 marks	Excellent	- analysis clearly explains the financial position over the three years, with comparisons clearly made. Trends and changes clearly stated.
3 marks	Good	- analysis explains the financial position over the three years with some comparisons made. Trends and changes not stated.
2 marks	Adequate	- analysis explains the financial position over the three years with few comparisons made
1 mark	Limited	- some analysis made
0	Poor	- no effort made

Analysing Managerial effectiveness (3 marks)

3 marks	Excellent	- analysis clearly explains managerial effectiveness over the three years, with comparisons clearly made. Trends and changes clearly stated.
1 mark	Good	- analysis explains managerial effectiveness over the three years with some comparisons made. Trends and changes not stated.
0	None	- little effort made

Analysing Cash Flow Position (3 marks)

3 marks	Excellent	- analysis clearly explains the cash flow position over the three years, with comparisons clearly made. Trends and changes clearly stated.
1 mark	Good	- analysis explains the cash flow position over the three years with some comparisons made. Trends and changes not stated.
0	None	- little effort made

Presentation of the analysis (3 marks)

3 marks	Excellent	- the presentation is well organized with good use of graphs and other non-written material
2 marks	Good	- the presentation is organized with some use of graphs and other non-written material
1 mark	Limited	- the presentation is organized with no use of graphs and other non-written material
0	None	- little effort made

PART C: (21 marks)

d. Making recommendations and commenting on their consequences (16 marks)

Making recommendations (7 marks)

7 marks	Excellent	- appropriate alternative recommendations made, related to the results of the analysis
4 marks	Good	- appropriate recommendations made with no alternatives given, related to the results of the analysis
2 marks	Limited	- some recommendations made
0	Poor	- little effort made

Commenting on consequences (6 marks)

6 marks	Excellent	- consequences of recommendations are clearly explained.
3 marks	Good	- consequences of some recommendations are clearly explained
1 mark	Limited	- few consequences given
0	None	- little effort made

Presentation of the recommendations and consequences (3 marks)

3 marks	Excellent	- well presented
1 mark	Adequate	- adequately presented.
0	None	- little effort made

e. Overall Presentation of Investigation (5 marks)

5 marks	Excellent	- the overall presentation is very well organized and presented showing clear and logical structure, very good use of non-written material and a proper list of contents
3 marks	Good	- the overall presentation is adequately organized and presented with good use of non-written material and a proper list of contents
1-2 mark	Limited	- adequate to limited overall presentation
0	Poor	- disorganized and poorly presented

Minor Tasks

Minor Task 1 – Full Set of Books

Students are required to prepare a full set of books for a sole proprietor which is a trading business.

The purpose of this task is to assess the student's understanding of the accounting process as being made up of a series of stages and their ability to prepare the necessary accounting entries for each stage.

The full set of books is to include:

Part A

Collecting, analysing and preparation of source documents

Part B

Preparing the accounting entries for the business entity

1. Description of the entity and nature of the business
2. Preparation of the Chart of Accounts
3. Preparation of the Journals
4. Posting to the Ledger
5. Prepare a Trial Balance
6. Prepare a Worksheet including Balance Day Adjustments

Teachers will be required to prepare a task for a chosen entity which must follow the specific criteria as set out below.

Part A of the task can be completed as a homework assignment. Part B is to be completed in a supervised class environment over a number of periods for each of the sections 1-6 with the student work being collected by the teacher at the end of each period.

Students will be required to:

PART A

Collect, analyse and prepare source documents

- (a) Students are to collect four different examples of prepared source documents from their own environment (from a business or their own household) which could include: invoices, receipts, statements, credit notes, etc.
- (b) Answer four questions related to source documents similar to the following:
 - (i) What details are common to all the source documents collected?
 - (ii) What transactions does each of the documents represent?
 - (iii) Which Journal would each of the documents be recorded?
 - (iv) Explain the importance of the documents' serial number.
- (c) Design two source documents from given data (teacher supplied) for an imaginary business showing the details of a transaction. The source documents must include all the necessary details that are required for internal control purposes.

PART B

Prepare accounting entries for the business entity

1. Describe the entity and the nature of business from given data
2. Prepare a Chart of Account for the entity

The Chart of Accounts must include the following coded ledger accounts:

Assets:	Bank, Inventory, Accounts Receivable (Individuals), Fixed Assets appropriate to the business
Liabilities:	Accounts Payable (Individual), Loan
Owner's Equity:	Capital, Drawings
Revenue:	Sales, Sales Returns, Discount Received, Other revenue appropriate to the business
Expenses:	Purchases, Purchase Returns, Discount Allowed, five expenses appropriate to the business

NOTE: Students will be given a jumble of ledger account names without labelling them assets, liabilities, etc to prepare the Chart of Accounts.

3. Prepare Journals, Ledgers and Trial Balance from a list of transactions

The list of transactions must include:

- setting up the business with the introduction of capital in the form of cash and other assets and the purchase of fixed assets and taking out a loan
- one month's transactions (minimum 25) covering a range of business activities including:
 - sales of goods for cash and on credit
 - purchase of goods for cash and on credit
 - sales and purchase returns
 - other receipts
 - cash expenses including interest
 - purchase of further Fixed Assets
 - further capital introduced by the owner
 - drawings of cash and goods for the owner's own use
 - writing off Bad Debts

- (a) Prepare the following Journals: Sales, Sales Returns, Purchases, Purchase Returns, Cash Receipts, Cash Payments, General
- (b) Post to the Ledger accounts as set out in the Chart of Accounts

The teacher should mark the Journals before the students attempt the postings to the ledger. The students should use a correct version of the Journals to avoid continuing errors.

- (c) Prepare a Trial Balance

4. Prepare a worksheet from the prepared Trial Balance

The student should use a correct version of the Trial Balance to avoid continuing errors.

The worksheet must include:

- columns for Trial Balance, Balance Day Adjustments, Adjusted Trial Balance, Profit and Loss, Balance Sheet
- Balance Day Adjustments for: Accrued Expenses, Prepayments, Accrued Income, Income in Advance, Closing Inventory.

Teachers need to:

- Prepare details for PART A for students to prepare source documents
- Prepare a jumbled list of ledger accounts for the Chart of Accounts
- Prepare a list of transactions for the full set of books
- Prepare a correct Trial Balance for the preparation of the Worksheet
- Prepare a template for the preparation of the Worksheet
- Set PART B as a supervised class room task over a number of class periods
- Mark the student work at the end of each part
- Prepare a time-line for the completion of the task.

Mark Allocation

PART A

Collecting, analyzing and preparing source documents 10 marks

PART B

Describing the entity and nature of the business 2 marks

Preparing a Chart of Accounts 8 marks

Preparing Journals 10 marks

Posting to the ledger 10 marks

Preparing a Trial Balance 5 marks

Preparing a Worksheet 10 marks

Overall presentation 5 marks

Total 60 marks

Mark Scheme for the Full Set of Books

a. Collecting, analysing and preparing source documents (10 marks)

Collecting source documents (2 marks)

2 marks	Excellent	- 3-4 appropriate source documents are collected
1 mark	Adequate	- at least 2 source documents are collected
0	None	- less than 2 source documents are collected

Analysing source documents (4 marks)

4 marks	Excellent	- all questions for four source documents are answered correctly with minor errors accepted
2 marks	Good	- most questions for at least two source documents answered correctly with minor errors
1 mark	Limited	- some questions have been answered correctly
0	None	- little effort made

Preparing source documents (4 marks)

4 marks	Excellent	- two source documents have been prepared with most required details correctly shown
2 marks	Good	- two source documents have been prepared with some required details correctly shown
1 mark	Limited	- only one source document prepared
0	Poor	- little effort made

b. Describing the entity and nature of the business (2 marks)

2 marks	Excellent	- the entity and nature of the business are described
0	None	- the entity and nature of the business are not described

c. Preparing a chart of accounts (8 marks)

Classification of accounts (4 marks)

4 marks	Excellent	- all required classification is done correctly (no more than two errors)
2 marks	Good	- some required classification is done correctly (no more than five errors)
1 mark	Adequate	- few classifications done correctly
0	None	- no classification

Coding of ledger accounts (4 marks)

4 marks	Excellent	- an ordered numbering system used with allowance for new accounts
2 marks	Good	- an ordered numbering system used with no allowance for new accounts
1 mark	Adequate	- any indication of an ordered numbering system used
0	None	- no indication of an ordered numbering system used

d. Preparing Journals (10 marks)

Designing Journals (2 marks)

2 marks	Excellent	- appropriate journals designed, including all required details
0	None	- journals are not properly designed

Use of folio numbers (2 marks)

2 marks	Excellent	- correct use of most folio numbers linked to the chart of accounts
0 marks	None	- no use of folio numbers

Entries into the Journals (6 marks)

6 marks	Excellent	- most transactions were entered correctly in the journals and totalled
4 marks	Good	- many transactions were entered correctly in the journals and totalled
2 marks	Average	- few transactions were entered correctly in the journals and totalled
1 mark	Adequate	- at least three correct transactions entered in the journals and totalled
0	None	- no correct entries

e. Posting to the Ledgers (10 marks)

Folio Numbers and Codes (2 marks)

2 marks	Excellent	- most entries have folio numbers with correct codes
1 mark	Good	- few entries have folio numbers with codes
0	None	- no indication of using folio numbers/codes

Entries (5 marks)

5 marks	Excellent	- most entries are entered correctly (no more than 2 errors)
4 marks	Good	- some entries are entered correctly (no more than 4 errors)
2 marks	Adequate	- few entries are entered correctly (no more than 6 errors)
0	None	- no entries are entered correctly

Format (1 mark)

1 mark	Excellent	- all ledgers in 3 column format
0	None	- 3 column format not used

Balancing (2 marks)

2 marks	Excellent	- most accounts are correctly balanced
1 mark	Good	- few accounts are correctly balanced

f. Preparing a Trial Balance (5 marks)

5 marks	Excellent	- Trial Balance prepared correctly with correct figures
2 marks	Good	- Trial Balance prepared correctly with minor errors
1 mark	Adequate	- Trial Balance prepared with significant errors
0	None	- little effort made

g. Preparing a Worksheet (10 marks)**Balance Day Adjustments (4 marks)**

4 marks	Excellent	- all Balance Day Adjustments entered correctly with no more than one error
2 marks	Good	- Balance Day Adjustments entered correctly with no more than four errors
1 mark	Adequate	- some Balance Day Adjustments entered
0	None	- no adjustments entered

Complete Profit and Loss and Balance Sheet Columns (4 marks)

4 marks	Excellent	- all entries correctly made with no more than one error
2 marks	Good	- entries correctly made with no more than six errors
1 mark	Adequate	- few entries correctly made
0	None	- little effort made

Balancing Worksheet (2 marks)

2 marks	Excellent	- balancing of worksheet correct
1 mark	Adequate	- balancing of worksheet with errors
0	None	- no balancing attempted

h. Overall Presentation (5 marks)

5 marks	Excellent	- excellent presentation of work with clear headings and understanding, dates and folio numbers correct
3 marks	Good	- good presentation of work with most dates and folio numbers correct
1 mark	Adequate	- some effort has been made to present work neatly
0	None	- little effort made.

Minor Task 2 – Case Study of Accounting Systems

The purpose of this task is to assess the student's understanding of accounting systems.

Students are required to prepare an analysis of existing accounting systems, identify weaknesses and recommend any improvements.

The task will be based on a case study supplied by the teacher that covers at least two accounting subsystems. The case study can be in a written form or a document flow chart or a combination of both.

Students are required to:

1. Describe the existing internal control procedures
2. Identify any weakness in the existing internal control procedures of the business
3. Make recommendations to improve the identified weaknesses.

Teachers need to:

- Prepare an appropriate case study
- Set this task as a supervised classroom activity over two 1 hour periods

Mark Allocation

Describe the existing procedures	3 marks
Identification of weaknesses	5 marks
Suggestion of valid recommendation for improvement	5 marks
Appropriate format of report submitted	<u>2 marks</u>
Total	<u>15 marks</u>

Mark Scheme for the Case Study

Describe existing control procedures (3 marks)

3 marks	Excellent	- the existing procedures are described correctly with no more than one error
1 marks	Limited	- the existing procedures are described with no more than three errors
0	None	- no effort made

Identification of weaknesses (5 marks)

5 marks	Excellent	- all weaknesses clearly identified with no more than one error
3 marks	Good	- a few weaknesses identified with no more than two errors
1 mark	Limited	- one weakness described
0	None	- no effort made

Suggestions of valid recommendations (5 marks)

5 marks	Excellent	- valid practical recommendations made with no more than one error
3 marks	Good	- some valid practical recommendations made
2 marks	Limited	- one valid practical recommendation made
0	None	- no effort made

Format of report (2 marks)

2 marks	Excellent	- report clearly presented
0	None	- no effort made to present the report

Minor Task 3 – Inventory/Fixed Assets

Students are expected to:

- select and visit a local trading entity
- describe the nature of business activities conducted by the selected business entity
- identify and describe the inventory of the business
- identify and describe at least two fixed assets of the business
- complete the stock cards (using FIFO, Weighted Average valuation methods) to record the inventory transactions from given data
- complete a fixed asset register for one asset from given data to include:
 - date of purchase
 - cost price/historic cost
 - depreciation rate
 - depreciation, accumulated depreciation and book value for a three year period using two depreciation methods.

Teachers need to:

- Set up a visit to a local business
- Prepare an appropriate activity for the preparation of the inventory cards and fixed asset register the students
- Prepare templates for inventory cards and fixed asset register for students to use
- Set this task as a supervised classroom activity

Mark Allocation

Selecting and describing the entity and the nature of the business	2 marks
Identifying and describing the inventory and fixed assets	3 marks
Recording of data - stock card	5 marks
Recording of data - fixed asset register	<u>5 marks</u>
Total	<u>15 marks</u>

Mark Scheme for Inventory and Fixed Asset (15 marks)

Explanation of the nature of a business (2 marks)

2 marks	Excellent	- appropriate explanation of the nature of the selected business
1 mark	Adequate	- adequate explanation of the nature of the selected business
0	None	- unclear and/or no effort made

Collection of the required data (3 marks)

3 marks	Excellent	- inventory and fixed assets identified and clearly described
2 marks	Good	- inventory and fixed assets identified and some features described
1 mark	Limited	- inventory and fixed assets identified
0	None	- no effort made

Recording of inventory data (5 marks)

5 marks	Excellent	- all required data recorded appropriately with only minor errors
2 marks	Good	- some required data recorded appropriately with no more than four errors
1 mark	Limited	- little of required data recorded
0	None	- no effort made

Recording of fixed asset (5 marks)

5 marks	Excellent	- all required data recorded appropriately with only minor errors
2 marks	Good	- some required data recorded appropriately
1 mark	Limited	- little of required data recorded appropriately
0	None	- no effort made

APPENDIX A

Accounting terms

- **Users of accounting information can include:**

- The entities
- Other entities
- Owners
- Managers
- Investors
- Creditors
- Government
- Customers
- Unions

- **Functions of accounting can include:**

- Communication
- Aids decision-making
- Accountability
- Control devices
- Aid to interested parties

- **Accounting Elements**

- **Assets** are service potential or future economic benefits controlled by the entity as a result of a past transaction e.g. Delivery Van
- **Liabilities** are the future sacrifices of assets that the entity is presently obliged to make as a result of a past transaction e.g. Mortgage
- **Owner's Equity** is assets minus liabilities
- **Revenues** are increases in assets or reductions in liabilities, other than contributions by the owner, which increase owner's equity
- **Expenses** are reductions in assets or increase in liabilities, other than drawings, which decrease owner's equity.

- **Accounting Cycles include:**

- Cash based business: receipt of cash, payment of cash
- Credit based business: purchase of goods, sale of goods, receipt of cash, payment of cash

- **Debit/Credit analysis is applied by:**

- A + E (Increase Debit, Decrease Credit)
- L + OE + R (Increase Credit, Decrease Debit)

- **Features of a good accounting system:**

- Provides useful information
- Allows planned objectives to be achieved
- Adheres to established procedures
- Institutes adequate controls
- Allows accurate and complete records to be kept
- Allows delegation of duties
- Allows for sharing of workload

- **The major objectives of each sub-system to be in terms of:**

- The importance of sub-systems within the entity
- The consequences of not having an adequate sub-system in place

- **Financial documents used for sub-systems:**

- Cash receipts: bank deposit slips, register tape, cash sales docket, receipt, bank statement, credit cards
- Cash payments: cheque butt, bank statement, petty cash voucher, direct credits, payment vouchers
- Payroll: employment contracts, tax tables, details of deductions, time records
- Sales/accounts receivable: sales order, packing slip, invoice, credit note, receipt, customer statement
- Purchase/accounts payable: purchase requisition, purchase order, packing slip, invoice, credit note, cheque, receiving report, suppliers statement
- Fixed Assets: invoice, ownership papers

- **Document essential information:**

- pre-numbered, date, business name/address, customer name/address, details of transactions, amount, sales tax, copies

- **System document flowcharts to include:**

- documents
- departments
- personnel involved
- appropriate flows
- appropriate flowchart symbols

- **The objectives of internal control are to:**

- Provide accurate and reliable accounting data
- Encourage efficiency
- Safeguard assets
- Ensure management policies are followed

- **The principles of internal control include:**

- Reliable personnel
- Verification
- Authorisation
- Responsibility
- Separation of duties
- Serialisation of documents

- **Features of financial statements include:**

- Clear headings, accuracy, simplicity, consistency, clear presentation, compliance with law and financial reporting standards and concepts

- **Limitations of financial statements:**

- Use of historical cost, estimations in the calculation of depreciation and doubtful debts, valuation of inventory, not accounting for price-level changes

- **Purpose of analysing financial statements includes:**

- Communication
- Comparison
- Decision making
- Control

APPENDIX B

Financial Statements Templates

For a Sole Proprietor

- 1 Statement of Accounting Policies
- 2 Statement of Financial Performance for a Service Business
- 3 Statement of Financial Performance for a Trading Business
- 4 Statement of Financial Position
- 5 Statement of Changes in Cash Position

For Community Organisation

- 6 Statement of Accounting Policies
- 7 Statement of Changes in Cash Position
- 8 Statement of Activity
- 9 Statement of Trading Activities
- 10 Statement of Financial Performance
- 11 Statement of Financial Position

Financial Statements for a Sole Proprietor

1 Statement of Accounting Policies

A Statement of Accounting Policies to include:

- identification of the entity reporting by name and nature
- the measurement system adopted (to be historical cost)
- reliance on going concern and use of accrual basis
- policies for the measurement of depreciation, accounts receivable and inventory
- a statement of changes (or no changes) in accounting policy

2 **Statement of Financial Performance for a Service Business**

BUSINESS NAME STATEMENT OF FINANCIAL PERFORMANCE for year ended		
<i>Income</i>		
Service Income		xx
Less Expenses		
' <i>Group One</i> ' Expenses		
List these	xx	
	xx	
	xx	0

<i>Administration Expenses</i>		
List	xx	
	xx	
	xx	0

<i>Financial Expenses</i>		
List	xx	
	xx	
	xx	0

Total Expenses		0

NET PROFIT		\$0

Note:

- 1 The 'Group One' expenses will be appropriate to the service firm, for example a courier might have Vehicle Expenses, a plumber might have Plumbing and Vehicle Expenses, a hairdresser might have Cutting and Styling Expenses.

3 Statement of Financial Performance for a Trading Business

BUSINESS NAME STATEMENT OF FINANCIAL PERFORMANCE for year ended			
Sales			xx
Less Sales Returns			xx

Net Sales			0
Less Cost of Goods Sold			
Inventory at		xx	
Plus Purchases	xx		
Less Purchases Returns	xx		
Net Purchases		0	
Freight In and Customs Duty		xx	

Good Available for Sale		0	
Less Inventory at		xx	

Cost of Goods Sold			0

Gross Profit			0
Add Other Revenue			
List		xx	
		xx	0

Less Expenses			
<i>Selling and Distribution Expenses</i>			
List	xx		
	xx		
	xx	0	

<i>Administration Expenses</i>			
List	xx		
	xx		
	xx	0	

<i>Financial Expenses</i>			
List	xx		
	xx	0	

<i>Other Expenses</i>			
List	xx	0	

Total Expenses			0

Net Profit			\$0

BUSINESS NAME STATEMENT OF FINANCIAL POSITION as at			
<i>Owner's Equity</i>			
Capital			xx
Add Net Profit			xx
Less Drawings			xx
			----- \$0 -----
This is represented by			
<i>Current Assets</i>			
List	xx		
	xx		
	xx		
	xx	0	

<i>Less Current Liabilities</i>			
List	xx		
	xx	0	

Working Capital			
<i>Add Non-Current Assets</i>			
<i>Investments</i>			
List			xx
			----- 0
<i>Fixed Assets</i>			
Asset Name	xx		
Less Accumulated Depreciation	xx	0	
Asset Name	xx		
Less Accumulated Depreciation	xx	0	0
	-----		0
<i>Intangible Assets</i>			
List			xx
			----- 0
<i>Less Non Current Liability</i>			
List			xx
			----- \$0 -----

5

BUSINESS NAME		
STATEMENT OF CHANGES IN CASH POSITION		
for the year ended		
<i>Cash was received from:</i>		
List Receipts	x	
	x	
	x	0

<i>Cash was applied to:</i>		
List Payments	x	
	x	
	x	
	x	0

Net Increase/decrease in cash		0
Add Bank balance at		x

Bank balance at		\$0

6 Financial Statements for Community Organisation

STATEMENT OF ACCOUNTING POLICIES

Statement of Accounting Policies to include:

- identification of the entity reporting by name and nature
- the measurement system adopted (to be historical cost)
- reliance on going concern and use of accrual basis
- a policy for depreciation (to be straight-line)

7

COMMUNITY ORGANISATION NAME		
STATEMENT OF CHANGES IN CASH POSITION (Receipts and Payments)		
for the year ended		
<i>Cash was received from:</i>		
List Receipts	x	
	x	
	x	0

<i>Cash was applied to:</i>		
List Payments	x	
	x	
	x	
	x	0

Net Increase/decrease in cash		0
Add Bank balance at		x

Bank balance at		\$0

8 Statement of Activities such as socials, raffles

COMMUNITY ORGANISATION NAME RAFFLE ACTIVITY STATEMENT for the year ended		
Ticket Sales		xx
<i>Less Expenses</i>		
Printing Tickets	xx	
Prizes	xx	0
Surplus/Deficit on raffles		\$0

9 Statement of Trading Activities such as refreshments, restaurant

COMMUNITY ORGANISATION NAME REFRESHMENT TRADING STATEMENT for the year ended		
Refreshment Sales		xx
<i>Less Cost of Goods Sold</i>		
Opening Inventory	xx	
Plus Refreshment Purchases	xx	

	0	
Less Closing Inventory	xx	

Cost of Refreshments Sold		0

Gross Surplus		0
Less Other Expenses		
Refreshment Wages	xx	
Refreshment Expenses	xx	0

Surplus/Deficit		\$0

10

COMMUNITY ORGANISATION NAME STATEMENT OF FINANCIAL PERFORMANCE (Income and Expenditure) for the year ended		
<i>Income</i>		
Subscriptions	xx	
Surplus on raffle	xx	
Surplus on refreshments	xx	
Donations	xx	0

	0	
<i>Less Expenditure</i>		
Affiliation Fees	xx	
Secretary's Honorarium	xx	
Deficit on social	xx	
etc	xx	0

Surplus/Deficit		\$0

COMMUNITY ORGANISATION NAME
STATEMENT OF FINANCIAL POSITION
as at

<i>Accumulated Fund</i>			
Balance		xx	
Add Surplus/Deficit		xx	0
			----- \$0 -----
Represented by			
<i>Current Assets</i>			
Bank		xx	
Subscriptions in Arrears		xx	0

<i>Less Current Liabilities</i>			
Subscriptions in Advance		xx	
Accrued Expenses		xx	0
			----- 0 -----
<i>Add Non-Current Assets</i>			
Fixed Assets			
Club Equipment	xx		
Less Accumulated Depreciation	xx	0	

Other Assets	xx		
Less Accumulated Depreciation	xx	0	0
			----- 0 -----
<i>Less Non Current Liabilities</i>			
Debentures/Loan			xx
			----- \$0 -----

APPENDIX C

FORMULAE FOR ANALYSIS OF FINANCIAL INFORMATION

FOR SOLE PROPRIETORS AND PARTNERSHIPS

• Mark Up Percentage	$\frac{\text{Gross Profit}}{\text{Cost of Sales}} \times \frac{100}{1}$
• Gross Profit Percentage	$\frac{\text{Gross Profit}}{\text{Net Sales}} \times \frac{100}{1}$
• Expenses Percentage	$\frac{\text{Expenses}}{\text{Net Sales}} \times \frac{100}{1}$
• Net Profit Percentage	$\frac{\text{Net Profit}}{\text{Net Sales}} \times \frac{100}{1}$
• Return on Owners Equity	$\frac{\text{Net Profit}}{\text{Average Owners Equity}} \times \frac{100}{1}$
• Return on Average Total Assets	$\frac{\text{Net Profit}}{\text{Average Total Assets}} \times \frac{100}{1}$
• Working Capital Amount	Current Assets – Current Liabilities
• Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
• Liquid Ratio	$\frac{\text{Current Assets} - (\text{Inventories} \& \text{Prepayments})}{\text{Current Liabilities} - (\text{Secured Bank Overdraft})}$
• Equity Ratio	$\frac{\text{Owners Equity}}{\text{Total Assets}}$
• Debt Ratio	$\frac{\text{Total Liabilities}}{\text{Total Assets}}$
• Inventory Turnover	$\frac{\text{Cost of Goods Sold}}{\text{Average Inventories}}$
• Accounts Receivable Collection Period	$\frac{\text{Average Accounts Receivable}}{\text{Net Credit Sales} + \text{GST}} \times \frac{365}{1}$