

Senior External Syllabus

Accounting

Syllabus for the Senior External Examination

2007



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Accounting Syllabus for the Senior External Examination.

To be used for the first time in the 2008 Senior External Examination in Accounting.

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1. Rationale

Accounting is an information system that provides financial and other information for making and evaluating decisions about the allocation of resources. It is a system of recording, reporting, analysing, and interpreting the financial information of an accounting entity and involves the conveyance of relevant business information to interested users. This information is used to help evaluate performance, to facilitate decision making and control, and to report on the operation of an organisation from internal and external perspectives.

A comprehensive accounting system is central, therefore, to assisting in the discharge of accountability and to the development and maintenance of the financial control of business organisations.

The study of accounting enables candidates to understand the processes involved in generating, recording, classifying, analysing, interpreting and reporting accounting information as a basis for planning, control and effective decision making. This syllabus is designed not only to provide a foundation in the discipline of accounting, but also to prepare candidates for further education, training and employment. The subject offers scope and flexibility through the exploration of financial decisions and provides relevance for general education.

The skills and attitudes gained in this subject will prepare candidates for a variety of entry points to employment in both employee and employer roles, as well as preparing them for continuing study at tertiary level. Candidates should develop skills in managing financial resources that they can apply at a personal level and in the business environment. They are encouraged to think logically, to apply accounting principles in a consistent and effective manner, and to become independent learners.

The changing processes of accounting practice are recognised, especially in the development and use of new information and communication technology (ICT). Candidates should use ICT to enable them to apply the accounting process in business, their daily lives, and as members of society.

The subject will help candidates collect, analyse and organise accounting information and financial data from a variety of sources; communicate accounting information, decisions, judgments and recommendations; use mathematical ideas and techniques in preparing and interpreting accounting and financial data; develop skills of critical thinking, problem solving and decision making in the context of theoretical and practical accounting situations; and use and apply a range of ICT, accounting software packages and spreadsheets.

2. Global aims

Candidates should develop:

- knowledge of the nature and purposes of accounting, its role in business, and its relevance to business financial decision making
- knowledge and understanding of the procedures used by small business organisations to process accounting data, produce reports and make decisions
- ability to apply accounting knowledge and skills in problem solving, decision making and financial management which will be of value in their business, social and personal lives
- understanding of accounting as a means of presenting and communicating information to interested parties
- effective use of the communication skills required in the discipline of accounting
- awareness of the role of technology in accounting and an ability to apply appropriate technologies in carrying out accounting and financial procedures
- knowledge and understanding of the applications of ICT and accounting packages to record information and assist in decision making
- business acumen and a continuing interest in accounting and business related issues
- awareness of social, ethical, legal and professional responsibilities in accounting
- an ability to participate effectively and responsibly in a changing business environment.

3. General objectives

3.1 Introduction

The general objectives of this syllabus are expressed in terms of:

- *Knowledge, interpretation and evaluation*
- *Routine practical procedures*
- *Challenging practical application*
- *Attitudes and values.*

These objectives are linked with the criteria described in section 7.2, with the exception of *Attitudes and values.*

3.2 Knowledge, interpretation and evaluation

Candidates should be able to:

- recall and explain the facts, concepts and principles of accounting
- use accounting terminology and assumptions relating to the areas of study
- demonstrate an understanding of the concepts and principles underlying the recording and presenting of accounting information
- relate known concepts to new accounting situations
- apply theoretical concepts and principles to accounting situations
- use and interpret accounting information in exercising controls
- analyse and interpret accounting data to solve problems and make accounting decisions, judgments and recommendations
- communicate accounting knowledge and understandings, in written forms, using language conventions and terminology.

3.3 Routine practical procedures

Candidates should be able to:

- select and organise relevant data
- apply the double entry system in preparing and maintaining fundamental accounting records
- demonstrate and apply fundamental accounting concepts
- record and report accounting information
- process accounting information in usual situations
- prepare and present accounting records and reports from figures which may require simple calculations
- use accounting terminology, assumptions, procedures, and basic mathematical techniques to solve fundamental accounting problems.

3.4 Challenging practical application

Candidates should be able to:

- apply accounting knowledge and concepts to analyse, select and organise data in practical accounting situations which involve complex reasoning
- apply accounting knowledge and concepts to record, process and report accounting information in a variety of situations involving practical elements that are either usual but complicated, or unusual
- use complex practical processes to solve problems and make decisions
- prepare and present accounting records and reports from figures, some of which require calculations derived from complex accounting situations.

3.5 Attitudes and values

Candidates should develop:

- awareness that, in practice, the general concepts of accounting have to be applied to the particular business situation
- awareness of the role accounting plays in the decision-making processes in a business situation
- a fundamental knowledge of the external influences on accounting, for example, professional bodies and the law
- awareness that the effective use of accounting packages and spreadsheets relies on an understanding of the principles and processes of accounting
- appreciation of the role of accounting personnel in the management and control of an organisation
- appreciation of the importance of good communication in accounting
- interest in accounting and a keenness to pursue accounting knowledge
- appreciation of the need for ethical conduct, social responsibility and the use of the Accounting Standards in accounting practice.

4. Learning experiences

The learning experiences involved in Accounting need to reflect the active and practical nature of the subject. Learning experiences should suit the particular interests and abilities of candidates and be selected to develop a balanced and flexible program through realistic accounting situations. Candidates should develop their knowledge and skills, and express opinions about accounting situations.

4.1 Suggested learning experiences

The following list gives suggestions for learning experiences. Learning experiences that have not been included in this list should contribute to the candidate's mastery of the areas of study in this syllabus. The following are suggested learning experiences in Accounting:

- practising the processes involved in the general objectives *Routine practical procedures* and *Challenging practical application*
- using the general objective *Knowledge, interpretation and evaluation*, practise recalling information, reasoning processes and language development
- completing practice sets (workplace simulations)
- engaging in group work where applicable
- conducting debates and discussions
- undertaking research activities
- analysing and evaluating case studies
- using computers and the internet
- completing assignments and projects
- collecting and interpreting newspaper and magazine articles
- using audiovisual material
- analysing statistics and data.

4.2 Using ICT in Accounting

Learning experiences for Accounting should make use of ICTs such as computer-based and web-based learning. This involves using multimedia texts, interactive and applications software, and a range of online communication tools and services. The use of ICT for learning serves as an aid to the more efficient implementation of tasks such as:

- analysing and interpreting reports
- preparing graphs
- researching accounting topics
- evaluating and assessing accounting decisions made
- communicating accounting information to interested parties
- problem solving in the context of theoretical and practical accounting situations.

4.2.1 Computers in Accounting

Computers have a variety of uses in Accounting, such as:

- entering data into commercial accounting packages
- using spreadsheets and other programs to construct models, consider “what if” scenarios, calculate amounts, such as interest, and prepare reports and graphs
- using the internet in a variety of situations including coursework, sharemarket games, and problem-solving activities
- preparing word-processed responses in a variety of genres.

4.3 Language in Accounting

Language is a means by which meaning is constructed, shared and communicated.

It is recognised that while accounting is in itself a language used to communicate financial and other information to people, organisations, and government, there are also inherent language demands in the learning and assessment of the subject.

Assessment will take into consideration candidates’ use of language conventions and terminology.

Meeting the language needs of the course must be an integral part of this subject. To do this, the following strategies are recommended for inclusion in each area of study.

4.3.1 Development of a range of communication forms

Candidates should develop a range of communication styles by using models of good practice with appropriate structure, layout and presentation. Appropriate forms of language should be continuously developed throughout the subject.

Candidates are required to communicate accounting information through activities such as:

- preparing
 - explanatory and descriptive paragraphs
 - business letters and memoranda
 - letters of advice
 - emails
 - short reports
 - extended reports
 - a manual of accounts (or part of one)
 - accounts, financial reports and statements
- preparing and presenting information using graphs and charts
- discussing and debating issues.

Candidates are expected to choose the correct layout for the selected communication and the most appropriate language for the intended audience.

4.3.2 Clarity of expression and logical exposition

Candidates should know how to select and sequence information into a coherent, logical response.

4.3.3 Understanding the use of technical terms

Technical terms should be practised in context, and concepts couched in candidates' own language to facilitate understanding. Candidates should be expected to use appropriate technical terms in their writing.

4.3.4 Use of correct spelling, punctuation and grammar

Candidates' language should be free of spelling mistakes and wrong or missing punctuation. Clear language style should be used to convey the message.

4.4 Quantitative skills in Accounting

Success in dealing with issues and situations in life and work depends on the development and integration of a range of abilities, such as being able to:

- comprehend basic concepts and terms underpinning the areas of number and statistics
- extract, convert or translate information given in numerical forms, diagrams, graphs or tables
- calculate and apply numerical procedures
- use IT, including calculators and computers
- use skills or apply concepts from one problem or one subject area to another.

Candidates are encouraged to develop their understanding and to learn through the incorporation, to varying degrees, of mathematical strategies and approaches to tasks. Similarly, candidates should use experiences that stimulate their mathematical interest and hone those quantitative skills that contribute to operating successfully.

5. Organisation

5.1 Time allocation

For teaching centres preparing candidates for the external examination the recommended number of hours for tuition in the subject developed from this syllabus is 130 to 150 hours.

Time allocation depends on the method of study. Candidates who elect to study without systematic tuition must organise their time according to syllabus requirements and individual circumstances.

5.2 Structure of the subject

Study of this subject is organised around four areas of study:

- Foundation studies
- Recording and controls
- Reporting and decision making
- Accounting package.

The area, Foundation studies, provides candidates with a common starting point and is important in establishing the fundamental accounting concepts and skills necessary for the areas of study that follow. The concepts and skills to be acquired in this area are integral to the development of the candidate's understanding and should be built upon throughout study.

5.2.1 Spreadsheets

Knowledge and application of spreadsheets is essential to this subject and *must* be integrated throughout the subject. It is a requirement that spreadsheet design and construction be used in **Budgeting — Cash Budgets, and Analysis and interpretation of financial reports**, as detailed in 6.4 Reporting and decision making.

5.2.2 Required subject matter and understandings

Emphasis should be placed on coverage of the required subject matter stated in each area of study, so that candidates achieve an overall grasp of the understandings. The understandings are the concepts that candidates should acquire. A set of understandings is included in each area of study.

5.3 The integration of ICT in Senior Accounting

The processes of accounting are facilitated by the developments taking place in ICT. The storing of and access to electronic data and information is now an essential part of current accounting practice.

Familiarisation with technology, and its consequent implications for accounting, is a major thrust of this syllabus. As the use of technology is essential in accounting practice, candidates should develop skills to become efficient users of business computer applications. Candidates should use:

- accounting packages to understand the accounting process and how it operates in the real world
- spreadsheets to perform calculations and present numeric information (spreadsheets are basic tools of accounting and could be used in a wide variety of situations — depreciation calculations, ratio analysis, Cash Budgets, cost-volume-profit analysis, cash journals, preparation of financial statements and graphical representations)
- the internet, particularly in relation to understanding e-business and accessing websites and online databases for research purposes
- other packages, such as word processing for the preparation of letters, reports, and memoranda.

5.3.1 Candidates' access to computers

As the use and application of computer technology is a significant component of the Accounting subject, it is essential that a substantial amount of time be dedicated to using computers for practical accounting applications.

6. Areas of study

6.1 Introduction

Terminology used for this draft was current at the time of publishing. Terminology, such as “Income Statement”, and processes need to be compliant with current Australian Accounting Standards Board requirements.

Abbreviations used in these tables

AASB: Australian Accounting Standards Board

ATO: Australian Taxation Office

ABN: Australian Business Number

ASIC: Australian Securities and Investment Commission

ASX: Australian Stock Exchange

GST: goods and services tax

6.2 Foundation studies

The objectives of accounting practice to be emphasised in this area of study are to:

- provide information for decision making
- help evaluate performance.

Foundation studies

Required subject matter	Understandings
<p>Introduction to accounting</p> <ul style="list-style-type: none"> • definition • factors impacting on accounting. 	<ul style="list-style-type: none"> • Accounting plays a vital role in the business world. It is a discipline that measures, reports and interprets financial and other information about an organisation to interested parties. Subsequent decisions will be made on the basis of this information. • Accounting Standards, which are the basic rules and practices that accountants follow, are developed by the Australian Accounting Standards Board (AASB). • The accounting profession is organised into major accounting bodies, namely CPA Australia and the Institute of Chartered Accountants in Australia. • Members of these bodies are bound to uphold the ethics and standards as set down in the various regulations. • Members of these bodies can work as public accountants, or be employed in private business or government. • The accounting profession can encompass various fields of accounting including auditing, company accounting, taxation, finance, cost accounting, budgeting, management advisory services, accounting information systems and government accounting, insolvency, e-business, financial planning and international accounting. • Accounting practices are influenced by legal and technological change and changing social expectations relating to business conduct. • Inadequate accounting records cause the failure of many small businesses. • Accounting records represent valuable information.
<p>The concept of separate accounting entity</p>	<ul style="list-style-type: none"> • The accounting entity assumption separates the owner from the business for accounting purposes.

Foundation studies (continued)

Required subject matter	Understandings
<p>The nature of assets, liabilities, owner's equity, revenues and expenses</p>	<ul style="list-style-type: none"> • Accounting records are grouped into five major categories: <ul style="list-style-type: none"> – assets – liabilities – owner's equity – revenue – expenses. • It is a basic assumption that asset accounts have a debit nature.
<p>The accounting equation</p> <p>The twofold nature of business transactions and the interpretation of the effects of transactions on the elements of the accounting equation.</p>	<ul style="list-style-type: none"> • Accounting records are based on the accounting equation: Assets equals Liabilities plus Owner's Equity $A = L + OE$ <ul style="list-style-type: none"> • Double entry means that for every transaction recorded in the accounts, total debits must equal total credits. • A transaction is a financial event that affects the elements of the accounting equation.
<p>The rules for debit and credit</p>	<p>The rules for debit and credit are derived from the accounting equation.</p>
<p>Function of source documents in the accounting process</p>	<ul style="list-style-type: none"> • Every time a transaction occurs, some record must be made of the transaction. This record is called a source document. • Source documents vary in appearance and in the way they are generated and transmitted — manually or by computer. • A source document must collect essential data for entry into the accounting system. It provides evidence of the validity of transactions. Typical documents used in a business include receipts, cheques, tax invoices, and adjustment notes. • Trade or volume discounts are recorded on tax invoices.
<p>Nature of GST</p> <ul style="list-style-type: none"> • concepts • effect of GST on the supply chain • ABN • consideration of relevant documents 	<ul style="list-style-type: none"> • GST is a broad-based tax of 10% on the supply of most goods and services consumed in Australia. It is designed to be collected by enterprises and paid by consumers. • <i>Supplies</i> are goods and services sold by an enterprise. Supplies may also include other transactions such as supplying information or advice, providing hire equipment, and leasing business premises. • <i>Acquisitions</i> include the goods and services bought by an enterprise. They also include other transactions carried out by enterprises, such as importing goods, obtaining advice or information, taking out a lease of business premises or hiring business equipment. • <i>Input tax credits</i> are amounts claimed back for the GST paid on acquisitions. An input tax credit is claimed by a GST-registered business. Tax invoices are needed to claim an input tax credit (except for purchases of a GST-exclusive value of \$50 or less). • <i>Adjustments</i> are changes a business may need to make which will either increase or decrease the net GST payable (or refundable) for a tax period. • The total of the tax paid to the government is always 10%, no matter how many times the goods are bought and sold before they are in the hands of the consumer. As the goods flow from manufacturer to wholesaler to retailer, GST is charged and input tax credits claimed. The consumer is at the end of the supply chain and is not able to claim back any GST paid. • An ABN is an identifier to be used by all business enterprises in Australia and in all dealings with the ATO.

Foundation studies (continued)

Required subject matter	Understandings
<p>General journal approach to recording, including GST, and using perpetual inventories with amounts given for cost of goods sold:</p> <ul style="list-style-type: none"> • opening entry • sale of inventories/services • sale of non-current assets at book value • sales returns • purchase of inventories/services • purchase of non-current assets • purchases returns • cash receipts • cash payments • drawings of cash and inventories • correction of errors • other entries, if appropriate. 	<ul style="list-style-type: none"> • The <i>general journal</i> approach focuses on the analysis of transactions to determine the double entry effect. • The <i>perpetual inventory</i> system is the preferred method in trading organisations. • An alternative treatment exists for prepaid expenses such as insurance, supplies, rent. They may be originally recorded as an asset (prepaid expense) instead of as an expense. The asset is then expensed monthly.
<p>Accounts:</p> <ul style="list-style-type: none"> • the need for accounts • different account formats: “T” form and columnar form • the preparation of asset, liability, owner’s equity, expense and revenue accounts in both “T” form and columnar form • the preparation of a chart of accounts • the ledger <ul style="list-style-type: none"> – definition – function – preparation • the determination of the balance of a ledger account. <p>The trial balance</p> <ul style="list-style-type: none"> • definition • function • preparation • errors not disclosed. <p>Posting of journal to ledger and preparation of trial balance.</p>	<ul style="list-style-type: none"> • A <i>ledger</i> is a book, set of loose cards or computer file of all the accounts. • Accounts are grouped together according to a desired classification and each account will have its own unique number according to this classification. This list of accounts, each with its own unique number, is known as a <i>chart of accounts</i>. • The format of an account can be one of two types — “T” format or columnar format. • A <i>trial balance</i> is a summary of ledger account balances at a particular date and is used to check the arithmetical accuracy of the ledger. If a trial balance balances, it does not necessarily mean that everything is correct within the ledger.

Foundation studies (continued)

Required subject matter	Understandings
<p>Accounting period assumption</p> <p>Accrual accounting</p> <p>Matching principle</p> <p>Balance day adjustments not requiring calculations</p>	<ul style="list-style-type: none"> • The life of the business is divided into arbitrary time periods. This is referred to as the accounting period assumption. • For an accounting period, the revenues for that period must be matched against the expenses incurred in earning that revenue to obtain profit. This is called the <i>matching principle</i>. • <i>Revenue</i> is generally recognised when it has been earned. For a service business, this occurs when the service has been performed. For a trading business, this is when the goods have been delivered. • <i>Accrual accounting</i> is a method of accounting that recognises transactions and events when revenue is earned and expenses are incurred. • <i>Balance day adjustments</i> are entries made at balance day in order to match the revenues and expenses accurately so that the profit (or loss) can be determined. They also bring into account assets and liabilities not previously recorded. Common balance day adjustments are made for accrued expenses, accrued revenues, prepaid expenses and unearned revenues.
<p>Preparation of closing entries for a small number of revenue and expense accounts to trading and profit and loss accounts, or profit and loss summary</p> <p>Formal balancing-off of asset, liability and owner's equity accounts</p>	<ul style="list-style-type: none"> • <i>Closing entries</i> close off in the ledger all revenue and expense accounts for the year to calculate the amount of profit or loss. • <i>Asset, liability</i> and <i>owner's equity</i> accounts are balanced-off in "T" form accounts to provide figures for the <i>Balance Sheet</i> and to begin a new accounting period.
<p>Preparation of the Income Statement and the <i>Balance Sheet</i> with little classification</p>	<ul style="list-style-type: none"> • The <i>Income Statement</i> details the various revenues and expenses for a period and calculates the resultant profit or loss. • All profits and losses belong to the owner. The link between the Income Statement and the Balance Sheet is, therefore, owner's equity. • An Income Statement is a report prepared outside the ledger for distribution to interested parties. It shows details of the profit (or loss) for the period. • The Balance Sheet is a detailed expression of the accounting equation for a business at a certain point in time. It is a major report that lists the various asset, liability and owner's equity items. • The third major report that is generally prepared is the <i>Cash Flow statement</i>.
<p>Reversing entries for balance day adjustments, if applicable</p>	<ul style="list-style-type: none"> • At the beginning of the new accounting year, necessary reversing entries are recorded. This is to ensure that the amounts for revenues and expenses appropriate to the new year are taken into account and to close appropriate asset and liability accounts created by the balance day adjustments.

Foundation studies (continued)

Required subject matter	Understandings
<p>Introductory analysis and interpretation of ratios (including calculations)</p> <ul style="list-style-type: none"> • gross profit ratio • net profit ratio • return on owner's equity <p>Make decisions and/or recommendations based on ratios</p>	<ul style="list-style-type: none"> • Reports are analysed and interpreted so that decision makers are better informed. Analysis can usually be done in an objective way with the calculation of ratios. Interpretation is more subjective as it involves judgment, recommendation and decision making based on these ratios. • Financial analysis requires criteria or benchmarks against which ratios can be compared and interpretations made. These criteria may be based on past performance, past performance adjusted for changed circumstances, industry standards, predetermined or budgeted standards, or external factors such as current interest rates. • Most analysis is based on historical data. It is therefore important when interpreting data and making judgments and recommendations to be aware of any relevant changes in circumstances (for example, technological changes, competition, changes in management) which may have affected performance or which may affect future performance. • Business owners take risks. To evaluate profitability, return on owner's equity should be considered relative to current interest rates and the degree of risk. • Gross and net profit ratios may vary significantly from industry to industry. • It is an important role of accountants to analyse and interpret reports and to inform interested parties. This is usually done through written letters or reports.

Foundation studies — suggested specific learning experiences

Specific learning experiences may include activities such as:

- investigating the personal uses of accounting
- researching topics such as:
 - accountancy as a profession
 - the role of ASIC and the ASX
 - current and future trends in the accounting profession
 - Accounting Standards
- preparing transaction tables, Balance Sheets and the like, using personal and service situations
- perusing and interpreting Balance Sheets from as wide a variety of organisations as possible to relate knowledge to different situations, for example, personal, sporting clubs, retailers, service industries
- preparing source documents using computers
- using an accounting package — data entry of all types of transactions into the general journal menu option and printing of appropriate reports
- debating/discussing the need for accrual accounting
- analysing transaction reports from an accounting package
- manually completing exercises involving the complete accounting process.

6.3 Recording and controls

The objectives of accounting practice to be emphasised in this area of study are to:

- provide information for decision making
- assist in discharging accountability.

Recording and controls

Required subject matter	Understandings
<p>Accounts receivable and accounts payable</p> <ul style="list-style-type: none"> • preparation of accounts receivable and accounts payable control accounts and subsidiary ledgers from transactions to ledger (no journal entries required) • accounting for: <ul style="list-style-type: none"> – interest on overdue accounts – bad debts including GST, and doubtful debts – bad debts recovered, including GST. 	<ul style="list-style-type: none"> • When recording using the control account/subsidiary ledger technique, two important principles must be followed: <ul style="list-style-type: none"> – debit must always equal credit in the general ledger – whatever is posted in total to either side of the general ledger must also be posted in detail to the same side in the subsidiary ledger. • Despite the best efforts of implementing an appropriate credit policy, bad debts can occur. • To ensure a proper matching of revenues with expenses, a provision must be made for debts that are doubtful. This is an estimate of the amount of accounts receivable that could become bad in the next accounting period. • Various methods can be used to estimate the amount of doubtful debts.
<p>Cash</p> <ul style="list-style-type: none"> • recording of transactions in columnar cash journals • posting of columnar cash journals to ledger. <ul style="list-style-type: none"> • completion of the bank reconciliation process incorporating: <ul style="list-style-type: none"> – dishonoured cheques – treatment of errors – outstanding items from previous reconciliation statements – both debit and credit bank balances. 	<ul style="list-style-type: none"> • In manual accounting, if every transaction resulted in an entry into an account, the size of the ledger would be unmanageable. Therefore, there is a need for a device to take some of the unnecessary detail out of the ledger. This device is called a journal. • Specialised journals classify like items together and act as an aid for posting to the ledger by analysing the transaction into its debit and credit components. • A bank reconciliation brings into agreement the bank account of the business with the bank's records of the business's account after all outstanding transactions have been accounted for.

Recording and controls (continued)

Required subject matter	Understandings
<p>Inventories</p> <ul style="list-style-type: none"> • preparation of stock cards using inventory costing methods (FIFO and weighted average) and incorporating returns and inventory adjustments • journal entry to record discrepancies • application of “lower of cost and net realisable value” rule • consideration of perpetual and periodic inventory systems. 	<ul style="list-style-type: none"> • The perpetual inventory system keeps a continuous record of the cost price of goods sold. This information is recorded on a stock card. • The perpetual inventory system enables stock discrepancies to be revealed. This is because the system keeps track of how much inventory should be on hand and can be compared with how much is actually on hand. • When valuing inventories, the “lower of cost and net realisable value” rule is applied. • Cost in relation to inventories is the total of purchase price, transportation to location of sale, customs duties and taxes prior to sale and other costs incurred in getting the goods to their present location and condition. • Net realisable value (NRV) is the amount that the business could sell the product for, less any marketing, distribution or selling expenses. • Computer technology has allowed even small businesses to enjoy the benefits of the perpetual inventory system. • A business has a choice of two inventory systems – periodic or perpetual.
<p>Non-current assets</p> <ul style="list-style-type: none"> • distinction between capital and revenue expenditure • accounting for property, plant and equipment (including GST): <ul style="list-style-type: none"> – acquisition – depreciation (straight line and reducing balance methods) – disposal of such assets. 	<ul style="list-style-type: none"> • Capital expenditure is expenditure on an item, the life of which will extend over more than one accounting period and is therefore considered an asset to the business. • Revenue expenditure is expenditure on an item that will be consumed during the current accounting period and is therefore considered an expense of the business. • Depreciation is the allocation of the depreciable amount of an asset over its useful life. Depreciation is generally used in connection with physical assets. • Depreciable amount means the cost of a depreciable asset less the net amount expected to be recovered on disposal of the asset at the end of its useful life. • Amortisation is the allocation of the cost of certain assets over a period of time or depletion. Amortisation is generally used in relation to intangible non-current assets and natural resources. • The asset’s cost price, useful life, residual value and the method of calculating depreciation influence the amount of depreciation that will be charged to any one accounting period. • When disposing of an asset, one must compare the original cost with the amount of depreciation charged over its life: <ul style="list-style-type: none"> – if the original cost less accumulated depreciation is more than the amount received on disposal, a loss on disposal has occurred – if the original cost less accumulated depreciation is less than the amount received on disposal, a gain on disposal has occurred. • A <i>property, plant and equipment register</i> is used to record all entries that affect a non-current asset. It acts as a subsidiary ledger.

Recording and controls (continued)

Required subject matter	Understandings
<p>Internal controls</p> <ul style="list-style-type: none"> • aim to: <ul style="list-style-type: none"> – prevent errors from being made in the first instance – detect errors if they are made – prevent theft and fraud from occurring – increase efficiency. • nature, importance of, and specific internal controls: <ul style="list-style-type: none"> – cash. 	<ul style="list-style-type: none"> • Internal controls are an integral part of discharging accountability. • Cash is a very important asset, as eventually all transactions will result in the receipt or payment of cash, and it is the asset which is most easily stolen. • All receipts of cash should be banked intact. • Electronic transactions involving bank credit and debit cards (for example, Visa and MasterCard) result in a cash transaction. • Payments, except those that are small enough to be paid through petty cash, should be made by cheques, electronic funds transfer, corporate cards and so on. • An important internal control is that at regular intervals a bank reconciliation should be prepared to compare the business's records with the bank's records (bank statement). • A Cash Budget is an important control device.

Recording and controls (continued)

Required subject matter	Understandings
<ul style="list-style-type: none"> – accounts receivable and accounts payable. 	<ul style="list-style-type: none"> • Credit transactions are based on the concept of buying something and paying for it later. This gives rise to the terms <i>accounts receivable</i> (debtors) and <i>accounts payable</i> (creditors). • The main reason why firms sell on credit is to increase profitability. They try to ensure that the revenue from increased sales is greater than the cost of providing the credit. • The biggest costs of providing credit include cash discounts, staff, stationery, printing, telephone and bad debts as well as the opportunity cost in not receiving the cash immediately and hence not investing it to earn interest. • The documents principally used for credit transactions are <i>tax invoices</i>, <i>adjustment notes</i> and <i>statements of account</i>. • It is important that adequate controls be kept over accounts receivable. The business should have a credit policy to try to ensure that credit is only extended to people who will ultimately pay that debt. The business should also be trying to minimise the time taken for accounts receivable to pay their debts. • An important control over accounts receivable is the aged analysis of accounts receivable where the debts owed are aged as either current, 30 days, 60 days, 90 days and over 90 days. Recovery procedures should be implemented for each of these overdue levels. • The firm should aim to collect information about its potential accounts receivable. It must decide whether to allow the accounts receivable to use its credit facilities including the granting of a credit limit and the terms of trade. It must then ensure that each accounts receivable is monitored to ensure that debts are paid on time and action taken if payment is not received. • Controls must be implemented over the accounts payable. Payments must be made on time with discounts taken if possible. This will maintain the firm's reputation for prompt payment. Equally important is ensuring that payments are properly authorised. • For greater control over accounts payable in organisations with computer systems, two entries can be recorded. When the bill arrives (for example, a bill from a telephone company) the entry is made to create the liability "telephone <i>Dr</i>, telephone company <i>Cr</i>". When the cash is paid, the liability is reduced by the entry "telephone company <i>Dr</i>, cash at bank <i>Cr</i>". • Control accounts and subsidiary ledgers are commonly used with accounts receivable and accounts payable.

Recording and controls (continued)

Required subject matter	Understandings
<ul style="list-style-type: none"> – Inventories. 	<ul style="list-style-type: none"> • <i>Inventories</i> are items held for sale in the normal course of the business. • Inventories are an integral part of profit determination for a trading business. • Because businesses have a considerable investment in inventories, adequate controls must be implemented to prevent theft and loss. • Inventories should be turned over as fast as possible. The faster the turnover, the greater the opportunity to make profits. Turnover of inventories is calculated as: $\frac{\text{cost of goods sold}}{\text{average inventories}}$ • The quantity and quality of inventories is important; businesses try to have the right goods at the right place at the right time. • The level of inventories held by a business should not be too high. If goods are not selling, then money is being tied up and not being used to generate profit. This is why many businesses have a sale — to convert slow-moving inventories to cash so that new inventories can be purchased for resale. • The level of inventories held by a business should not be too low. Otherwise sales will be lost to competitors and goodwill will diminish. • To control the purchase of inventories, a reorder point is established. • A <i>reorder quantity</i> is the number of inventories that will be ordered when the inventory level falls to the reorder point. • <i>Lead time</i> is the amount of time it takes from when a business places an order for the goods to when the goods actually arrive. • <i>Economic order quantity</i> (EOQ) and <i>just in time</i> (JIT) are concepts relating to inventories. • Every trading business should stocktake at least once a year. • A business has a choice of two inventory systems — periodic and perpetual. • The control account and subsidiary ledger technique is commonly used. <i>Stock cards</i> are the subsidiary ledger.
<ul style="list-style-type: none"> – non current assets. 	<ul style="list-style-type: none"> • The term <i>property, plant and equipment</i> is used to describe those non-current assets acquired by the business when the intention is not one of resale. They are used within the operations of the business to earn revenue and are generally kept for longer than one accounting period. • When considering the acquisition of an asset, financing and leasing options are examined. • Because of the large expenditure involved in the purchase of non-current assets, adequate controls must be maintained. • A most important control is the <i>property, plant and equipment register</i>. This is an example of the concept of control accounts and subsidiary ledgers.

Recording and controls (continued)

Required subject matter	Understandings
<p>Electronic business</p> <ul style="list-style-type: none"> • nature and benefits • the impact of electronic business on accounting <ul style="list-style-type: none"> – B2C (business-to-consumer) <ul style="list-style-type: none"> • online stores • investigation of relevant websites – B2B (business-to-business) <ul style="list-style-type: none"> • supply chain management • risks, controls and security issues • assurance of integrity • any other current developments. 	<ul style="list-style-type: none"> • Electronic business has evolved with the development of computer and communication technologies, and will continue to do so. • Electronic business offers an extra sales channel in addition to counter, phone, salespeople and so on. The transaction data are collected in electronic form and entered into an accounting package. • Funds are electronically transferred from the customer's account to the business after authorisation. The transaction data are collected in electronic form and entered into the accounting package. • Sales forecasts; document handling for orders, tax invoices, adjustments, statements; inventory levels; product feedback; and payment methods may be improved through electronic business by: <ul style="list-style-type: none"> – accessing supplier inventory before ordering – providing sales forecasts that feed into suppliers' production system. • Business risks, service interruptions, authentication, firewalls, and encryption are essential considerations for control. • Integrity of websites may be established by meeting the criteria set by such organisations as Verisign and WebTrust. • Various legislation affects e-business. • E-business offers the opportunity to trade globally.

Recording and controls — suggested specific learning experiences

Specific learning experiences may include activities such as:

Cash

- preparing a spreadsheet for cash journals
- preparing a personal bank reconciliation
- preparing bank reconciliation statements over a number of months.

Accounts receivable and accounts payable

- writing letters explaining credit policy
- discussing debt collection strategies and letters to be sent
- discussing the personal use and misuse of credit facilities
- perusing/discussing a credit application form (for example from Coles Myer, David Jones) from the business's perspective in establishing creditworthiness.

Inventories

- researching topics such as how barcode systems operate in a retail organisation
- investigating the accounting standard that covers inventories.

Non-current assets

- designing and using a spreadsheet, for example, a depreciation schedule
- investigating the accounting standard that covers depreciation.

E-business

- investigating various websites to see how consumers can shop online
- conducting a case study on firms that use e-business.

6.4 Reporting and decision making

The objectives of accounting practice to be emphasised in this area of study are to:

- provide information for decision making
- assist in discharging accountability
- help evaluate performance.

Reporting and decision making

Required subject matter	Understandings
Accounting assumptions <ul style="list-style-type: none"> • accounting entity assumption • monetary assumption • historical cost assumption • accounting period assumption • continuity assumption. 	<ul style="list-style-type: none"> • Accounting assumptions underlie the complete accounting process.
Accrual accounting	<ul style="list-style-type: none"> • <i>Cash accounting</i> is a method of accounting in which the effects of transactions are recognised when cash is received or paid out. • <i>Accrual accounting</i> is a method of accounting which recognises transactions and events when the revenue is earned and expenses are incurred.
Balance day adjustments requiring calculations <ul style="list-style-type: none"> • balance day adjustments for inventory discrepancies, accrued expenses, prepaid expenses, accrued revenues and unearned revenue, depreciation, and doubtful debts. 	<ul style="list-style-type: none"> • <i>Balance day adjustments</i> are entries made at balance day in order to match the revenues and expenses accurately so that profit can be determined.
Classification and presentation of end-of-year financial reports <ul style="list-style-type: none"> • classified Income Statement • classified Balance Sheet. 	<ul style="list-style-type: none"> • In the Income Statement, expenses can be classified as cost of goods sold, selling and distribution expenses, general and administrative expenses, and finance expenses. • In the Balance Sheet, assets can be classified into current and non-current assets. Non-current assets can be further classified into property plant and equipment, investments and intangible assets. Liabilities can be classified into current and non-current liabilities.
Qualitative characteristics of financial information in general purpose financial reports <ul style="list-style-type: none"> • relevance • reliability • materiality • comparability • ease of understanding. 	<ul style="list-style-type: none"> • Financial reports are based on assumptions and certain qualitative characteristics. When reading an accounting report, one must be aware that the report is prepared in accordance with these assumptions and characteristics.

Reporting and decision making (continued)

Required subject matter	Understandings
<p>Cash Flow statement</p> <ul style="list-style-type: none"> • nature of cash and cash flows • preparation of the Cash Flow statement, incorporating the reconstruction of relevant ledger accounts. <p>Not required:</p> <ul style="list-style-type: none"> • sale of non-current assets • notes, including reconciliation to operating net profit. 	<ul style="list-style-type: none"> • Cash <i>flows</i> are cash and cash equivalents that pass between the business and some external entity. • The Cash Flow statement is of equal importance to the Income Statement and the Balance Sheet. • The Cash Flow statement shows the cash inflows and cash outflows for a business during a given period. The statement shows cash flows from operating activities, investing activities and financing activities. • This statement enhances the Balance Sheet as it shows what cash changes have occurred from one point in time to another.
<p>Analysis and interpretation of financial reports</p> <ul style="list-style-type: none"> • limitations of the Income Statement and Balance Sheet • calculation of appropriate ratios for Income Statement, Balance Sheet and Cash Flow statement • analysis and interpretation of classified reports (including comparative reports) to assess: <ul style="list-style-type: none"> – profitability or earning capacity – liquidity and financial stability – managerial effectiveness – cash flow • make decisions and/or recommendations based on financial reports • design and construction of a spreadsheet template with input and report areas. 	<ul style="list-style-type: none"> • Accounting is based on assumptions and qualitative characteristics. When reading and using an accounting report it is important to be aware of these. • The reported profit in an Income Statement is an estimate of the true profit because of the many items (such as inventories, depreciation, doubtful debts) in this statement that are subject to estimate and/or opinion. • The Balance Sheet does not reveal the real net worth of a business. This is because assets are usually recorded at their historical cost rather than at market or benefit value and are also subject to estimate and/or opinion when calculating items such as inventories, provision for doubtful debts and accumulated depreciation. • Comparisons of report items over a period of time are complicated because of price changes and the changing value of money. <i>Additivity</i> is another problem to consider when adding together dollars that have changed value. • Vertical analysis, horizontal analysis, trend analysis and ratio analysis are commonly used in analysing reports. • Measures of profitability or earning capacity include: <ul style="list-style-type: none"> – gross profit ratio – net profit ratio – return on owner's equity – return on total assets – ratios of expenses to sales. • Measures of liquidity and financial stability include: <ul style="list-style-type: none"> – short-term liquidity <ul style="list-style-type: none"> • current ratio • quick ratio or acid test ratio – long-term liquidity <ul style="list-style-type: none"> • equity ratio • debt or gearing ratio. • These ratios should be adequate for a business to always meet both its short-term and long-term financial commitments. • Measures of effectiveness of certain managerial policies: <ul style="list-style-type: none"> – turnover of inventories – turnover of accounts receivable. • Inventory turnover is a factor of both sales and inventory levels and may vary significantly from industry to industry. • Accounts receivable should be turned over in accordance with the credit policy of the firm.

Reporting and decision making (continued)

Required subject matter	Understandings
	<ul style="list-style-type: none"> • The interpretation of the Cash Flow statement allows the effect of operating, financing and investing decisions on the cash flows, and ultimately the cash position, to be seen. • Measures of cash flow include: <ul style="list-style-type: none"> – cash flow adequacy ratio – long-term debt repayment ratio – cash flow to revenue ratio. • The decision-making process in accounting involves: <ul style="list-style-type: none"> – collecting and organising relevant data – analysing and interpreting the data – making and justifying decisions – evaluating and assessing decisions made.
<p>Managerial decision making</p> <ul style="list-style-type: none"> • The distinction between fixed and variable costs • Contribution margin approach to decision making • Cost-volume-profit (CVP) analysis leading to decision making 	<ul style="list-style-type: none"> • Fixed costs remain the same as the level of activity changes. • Variable costs change as the level of activity changes. • The <i>contribution margin</i> is sales minus variable costs. A contribution margin Income Statement will be set out as Sales less Variable Costs = Contribution Margin. The fixed costs are then subtracted from the contribution margin to calculate operating profit. • The contribution margin is often used in decisions relating to closing down or continuing; make-or-buy decisions. • <i>Cost-volume-profit analysis</i> is sometimes called break-even analysis. It calculates the break-even point where sales equals costs. For each sale above the break-even point, profit will be earned.
<ul style="list-style-type: none"> • Costs involved in making a product or providing a service. 	<ul style="list-style-type: none"> • The product costs involved in making an item can be categorised as: <ul style="list-style-type: none"> – <i>direct materials</i>, which are materials that can be directly traced to the finished good – <i>direct labour</i>, which is labour that can be directly traced to the finished good – <i>overheads</i>, which includes all the other costs of making the product other than direct materials and direct labour. • The product costs involved in providing a service can be categorised as: <ul style="list-style-type: none"> – <i>direct materials</i>, which are materials that can be directly traced to the service provided; some services have minimal materials (such as accountants, lawyers) while others have a significant amount (such as dentists, plumbers) – <i>direct labour</i>, which is labour that can be directly traced to the service provided – <i>overheads</i>, which includes all the other costs attributable to providing the service other than direct materials and direct labour. • The period costs that occur in any business include the normal selling, administrative and finance expenses. • Total costs (product plus period) are used in decisions to set prices.

Reporting and decision making (continued)

<i>Required subject matter</i>	<i>Understandings</i>
<p>Budgeting — Cash Budgets</p> <ul style="list-style-type: none"> • preparation of Cash Budgets incorporating: <ul style="list-style-type: none"> – statement of estimated receipts from accounts receivable, excluding discounts and bad debts – statement of GST payable or receivable, excluding discounts and bad debts – both debit and credit bank balances • design and construction of a spreadsheet template, with input and report areas • interpretation of Cash Budget to make decisions and/or recommendations. 	<ul style="list-style-type: none"> • The preparation of budgets is an important management tool and can take many forms (such as sales budgets, capital expenditure). • In order to maintain adequate cash to meet commitments, it is vital that a Cash Budget be prepared. The Cash Budget forecasts the estimated receipts, payments and cash position for a period of time. • Businesses can be profitable but may still collapse because of lack of cash at certain points of time. Even though a business may be making a profit (as evidenced by the Income Statement) it does not mean that the business has ready cash to meet its debts. • The Cash Budget will reveal any periods of time when there is excess cash or not enough cash. Hence the business can take steps to either invest the excess cash wisely or make provision to meet any deficiencies of cash. • To maintain the viability of a business, the four important reports that must be completed are: <ul style="list-style-type: none"> – Income Statement – Balance Sheet – Cash Flow statement – Cash Budget. • The Income Statement, Balance Sheet and Cash Flow statement reveal details of past transactions. The Cash Budget forecasts the future cash position at certain points of time.

Reporting and decision making — suggested specific learning experiences

Specific learning experiences may include activities such as:

- finding published financial statements on the internet
- perusing published financial statements for evidence of accounting assumptions and qualitative characteristics
- perusing and interpreting Income Statements and Balance Sheets of organisations in different industries such as banking, mining and entertainment
- preparing Income Statements under the periodic inventory system
- investigating the accounting standard that covers the Cash Flow statement
- analysing and interpreting the Cash Flow statement from a published company report
- designing and using a spreadsheet, for example, statement of estimated receipts from accounts receivable and Cash Budgets
- undertaking case studies
- using games (such as flash cards, bingo) to reinforce classification of accounts, accounting assumptions and qualitative characteristics
- using spreadsheets to calculate cost-volume-profit (CVP), with appropriate graphs.

Note

Either **Analysis and interpretation of financial reports** or **Cash Budgets** will be assessed in **Paper 2** of the Senior External Examination. Candidates will complete a **Prepared task** during study, and examination questions may relate to either of these topics. Candidates will be informed which of the topics will be assessed early in the year. (See section 7.1.1 for further information.)

6.5 Accounting package

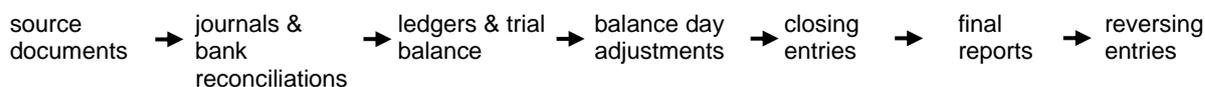
The objectives of accounting practice to be emphasised in this area of study are to:

- provide information for decision making
- assist in discharging accountability
- help evaluate performance.

Accounting package

Required subject matter	Understandings
Differences between manual and computer accounting processes	<ul style="list-style-type: none"> • A computer system consists of hardware, software and people. • In an organisation, an accounting package is just one part of a larger information system. • An accounting package allows the user to input, process, store and output data and information. • An accounting package allows for automatic postings. This means that the user of the package does not have to enter every debit and credit entry, as would be the case in a manual system. • An accounting package records business transactions and provides information for decision making. Additional modules/applications that can be purchased include payroll, non-current assets, job costing and report generators. • The use of an accounting package provides greater control over the operations of the business because timely reports can be produced. • The sequence of processing changes in a computerised accounting system.

The **manual** process uses:



The **computerised** process:



Recording a variety of business transactions using an accounting package	<ul style="list-style-type: none"> • Source documents may not necessarily be paper-based documents. They may be electronically generated or computer-generated. • An accounting package will generally have a flexible chart of accounts so that it can meet the needs of different businesses or it may have proforma charts of accounts set up for many types of businesses which the user can customise for their own particular business. • Transactions are entered into the package according to the type of transaction, for example, sales, purchases, cash received or paid. • Backing up data is an important task that must be performed regularly. • Because most of the processing is done by the computer, an audit trail is a common feature of computer accounting output. This is a printed record of all transactions that have been entered. This can be used to verify the validity of the entries entered into the system.
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Accounting package (continued)

Required subject matter	Understandings
<p>The complete accounting process for a sole trader, including GST, perpetual inventories and the subsidiary ledger concept for accounts receivable and accounts payable (excluding purchase settlement discounts and freight on purchases)</p> <p>Balance day adjustments</p> <p>Generation of appropriate information through various types of reports:</p> <ul style="list-style-type: none"> • Income Statement • Balance Sheet • trial balance • ratio analysis of financial statements • analysis of aged balances for accounts receivable • accounts receivable list • analysis of aged balances for accounts payable • accounts payable list • inventory quantity and valuation report • inventory price lists. <p>Interpretation of reports generated by an accounting package</p>	<ul style="list-style-type: none"> • The need to account for GST has encouraged many small business owners to use accounting packages to record their business transactions. It also helps in the regular completion of a business activity statement. • The main reason for using an accounting package is to be able to produce timely, accurate reports. Reports can easily be produced at any time. These reports can be used to help evaluate performance. • An accounting package can provide a variety of reports which can aid in interpretative analysis for decision making.
<p>Rollover to a new accounting period</p> <p>Reversing entries</p>	<ul style="list-style-type: none"> • The accounts are made ready for a new month or new financial year.

Accounting package — suggested specific learning experiences

<p>Specific learning experiences may include activities such as:</p> <ul style="list-style-type: none"> • surveying computer magazines, brochures and the like to obtain the names and features of various accounting packages available and make comparisons • researching the impact of computers on accounting practices or a specific industry • manually preparing a practical question from source documents to final reports and, using the same question, preparing the solution using a computerised package — compare and contrast the two methods • interpreting various newspaper articles and magazines relating to computers in accounting.

Note

<p>The Accounting package will be assessed in Paper 2 of the Senior External Examination. Candidates will complete a Prepared task during study, and examination questions will relate to this task. Candidates will be informed of the requirements of the task early in the year. (See section 7.1.1 for further information.)</p>

7. Assessment

7.1 Summative assessment

7.1.1 Format of the external examination

The external examination will consist of two papers.

Each paper will:

- have 10 minutes for perusal
- have a duration of up to 3 hours
- assess the three general objectives (Section 3) through the exit criteria (Section 7.2).

Subject matter may be assessed theoretically, practically or through a combination of both.

Each year, the chief examiner will confirm the length of each examination paper and provide advice to candidates about additional conditions or equipment, materials, required readings, or the like, if required for the examination.

Paper 1

This paper will:

- contain questions assessing two areas of study — Foundation studies, and Recording and controls
- assess all three exit criteria
- *be a closed-book examination.*

Paper 2

This paper:

- will be an *open-book* examination; candidates will be permitted to bring any relevant paper-based written or printed material to the examination room.
- contains questions relating to the **Prepared task** completed by candidates before the examination (see below)
- may contain questions assessing all areas of study
- may assess all three exit criteria.

Requirements of the **Prepared task** will be stated in the annual *Senior External Examination Handbook* (available on the QSA website: www.qsa.qld.edu.au) in February each year.

This Prepared task will cover the Accounting package area of study and either **Cash Budgets** or **Analysis and interpretation of accounting reports**. Candidates are required to complete the task before the examination. The task material *must* be brought to the examination as it will be necessary to answer the questions on **Paper 2**. This material must be submitted with the candidate's scripts but will not contribute to the level of achievement awarded. Relevant questions in Paper 2 will be based on this task.

7.2 Exit criteria

The following three exit criteria will be used to determine a candidate's level of achievement. The exit criteria reflect the three assessable categories of general objectives of the syllabus, as defined in Section 3:

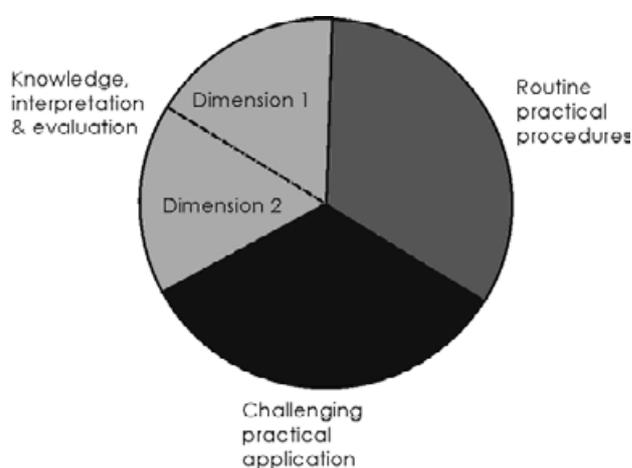
Criterion 1: *Knowledge, interpretation and evaluation*

Criterion 2: *Routine practical procedures*

Criterion 3: *Challenging practical application.*

Each criterion will make an equal contribution to the determination of a candidate's level of achievement as shown in Figure 1.

Figure 1: Contribution of each criterion



Knowledge, interpretation and evaluation

This criterion consists of two dimensions:

1. recalling, stating, defining, describing and explaining the underlying concepts and principles of accounting
2. applying accounting concepts and principles to analyse and interpret information, solve problems, and make valid decisions and recommendations.

There will be a balance between the two dimensions.

Assessment of both dimensions of *Knowledge, interpretation and evaluation* must incorporate a candidate's use of the language conventions and terminology. This includes:

- a range of communication forms
- clarity of expression and logical exposition
- understanding the use of technical terms
- correct spelling, punctuation and grammar.

(See Section 4.3, "Language in accounting".)

Routine practical procedures

This criterion involves demonstrating a fundamental knowledge of accounting concepts, including:

- selecting and organising relevant data
- demonstrating and applying fundamental accounting concepts
- recording a wide range of routine transactions
- processing accounting information in usual situations
- preparing and presenting accounting reports from figures which may require simple calculations
- using accounting terminology, procedures, and basic mathematical techniques to solve fundamental accounting problems.

Challenging practical application*

This criterion involves demonstrating an advanced application of accounting knowledge and concepts to solve problems, including:

- analysing, selecting and organising written, practical and/or graphical information
- recording a variety of transactions, some of which include elements that are usual but complicated, or unusual (see 7.4 “Challenging practical application”)
- processing accounting information in practical situations which include elements that are usual but complicated, or unusual
- preparing and presenting accounting reports from figures, some of which require calculations derived from complex accounting situations.

**Note: Responses to this criterion must be predominantly practical but may include a small written component involving an aspect of decision making.*

Special consideration

Under certain circumstances, special arrangements or consideration may be available to candidates for the Senior External Examination. The special consideration provisions are detailed in the annual *Senior External Examination Handbook* (www.qsa.qld.edu.au/testing/extern-exams).

Missing an examination for any reason cannot be the basis for an application for special consideration.

7.3 Possible assessment items

A variety of assessment items may be used in the external examination. They may include:

Objective/short response

These include “closed” questions, that is, those to which there is a limited response. They are mainly used as a quick, effective method of assessing a candidate’s achievement in the criterion *Knowledge, interpretation and evaluation* but may also be used to determine a candidate’s achievements in the other two criteria. Some examples include:

- multiple-choice
- definition of terms
- classification
- questions requiring short responses.

Extended response

These can be “structured” or “open” questions, that is, those having a range of possible answers.

These items can be used to determine a candidate’s achievement in the criterion *Knowledge, interpretation and evaluation*.

Practical application

These include questions involving not only basic numeracy but also complex problem solving using mathematical calculations in accounting situations.

These items can be used to determine a candidate’s achievement in the criteria *Routine practical procedures* and *Challenging practical application*.

Response to stimulus material

Questions may be based on stimulus materials such as:

- case studies
- newspaper articles/reports
- business reports
- cartoons
- advertisements
- official forms
- graphs, charts.

Questions using stimulus material may be used to determine a candidate’s achievement in any of the criteria.

7.4 Guidelines for Challenging *practical application*

Usual but complicated elements

This section lists the usual but complicated elements of *Challenging practical application*. For a question to appropriately assess achievement in the *Challenging practical application* criterion, *all* of the usual but complicated elements associated with the relevant section of the area of study must be evident in the question.

Areas of study

Foundation studies	Usual but complicated elements
Accounting process to trial balance	<ul style="list-style-type: none"> • A variety of transactions. • Sales returns of inventories. • Purchase of a non-current asset with part payment. • Correction entries.
End-of-period reports and introduction to analysis and interpretation	<ul style="list-style-type: none"> • Using a single random list of balances (debit/credit not indicated), preparation of an Income Statement and a Balance Sheet with balance day adjustments. • All three ratios calculated by selection of figures. • Candidate recall of formulas in ratios. • An element of decision making.

Recording and controls	Usual but complicated elements
Accounts receivable and accounts payable with subsidiary ledgers	<ul style="list-style-type: none"> • Journal entries for: <ul style="list-style-type: none"> – correction of errors – interest on overdue accounts – bad debts written off where the amount has to be calculated from a percentage/ratio (e.g. 25c in the dollar) and the transaction includes a part receipt of cash – adjustment entry for provision for doubtful debts where the opening balance of the provision is given and a desirable closing balance is required. • Completion of accounts receivable subsidiary ledger. • Completion of accounts receivable and accounts payable control accounts in the general ledger.
Columnar cash journals and bank reconciliation	<ul style="list-style-type: none"> • Bank reconciliation incorporating: <ul style="list-style-type: none"> – an error in the bank's records – an error in the business's records – previous bank reconciliation details given, with un-presented cheques carried into the next month – in the bank reconciliation statement, a final debit balance in the bank statement changes to a final debit balance in the business bank account — or a final credit balance in the bank statement changes to a final credit balance in the business's bank account.
Inventories	Cannot be assessed for Challenging Practical Application (CPA).
Non-current assets	<p>Over a minimum two-year period:</p> <ul style="list-style-type: none"> • at least two assets of the same type purchased in different months and held concurrently • one disposal part year • an additional new asset of the same type purchased part-year • both methods of depreciation in the one question • capital and revenue expenditure • extracts from selected Balance Sheets over a minimum of two years.
Internal controls	Cannot be assessed for CPA.
Electronic business	Cannot be assessed for CPA.

Reporting and decision making	Usual but complicated elements
Financial reports with classification	<ul style="list-style-type: none"> • Entries for all balance day adjustments — inventory discrepancies, accrued expenses, prepaid expenses, accrued revenues, unearned revenue, depreciation, and doubtful debts. These should include: <ul style="list-style-type: none"> – calculations for doubtful debts with a previous provision given – calculations for depreciation amount – calculation of at least three other types of adjustment that require candidates to determine the amount of the adjustment, for example, details are given concerning loans held (date loans purchased, rate of interest) and candidates are required to determine the value of unpaid interest to record as an accrual. • Full classification in either reports.
Cash Flow statement	<ul style="list-style-type: none"> • Reconstruction of accounts in order to obtain figures for the Cash Flow statement, including: <ul style="list-style-type: none"> – accounts receivable – accounts payable – revenue/expense account with adjustments at both beginning and end of the period – any other account(s).
Analysis and interpretation of financial reports	Cannot be assessed for CPA.
Managerial decision making	Cannot be assessed for CPA.
Cash Budgets with design and construction of a spreadsheet	<p>Cash Budgets:</p> <ul style="list-style-type: none"> • design of a spreadsheet template, including an input area • estimated receipts from accounts receivable • estimated amounts payable or receivable for GST • calculations based on a percentage (such as commission based on total sales, interest on loan) • non-cash item (such as depreciation) • staggered payments for an asset, (e.g. building program) • fluctuating bank balance from debit to credit (use of a bank overdraft).

Accounting package	Usual but complicated elements
Accounting package	<ul style="list-style-type: none"> • Accounting packages: <ul style="list-style-type: none"> – GST – perpetual inventories – a variety of transactions, some of which include returns and bad debts – bank reconciliation – correction of “forced” errors (that is, where the original entry cannot be directly edited) – at least three balance day adjustments, one of which must be an inventory adjustment – rollover to a new period and reversing entries.

Unusual elements

Below are some of the unusual elements of *Challenging practical application*:

- considerable change in the format of practised questions
- reversal of usual accounting procedures
- questions with deliberate errors
- case studies from which candidates have to determine the transactions to be made.

For an assessment item to be considered *Challenging practical application*, it must contain:

- all of the usual but complicated elements identified for that section

or

- meet one of the unusual elements identified above and include some of the usual but complicated elements for that section.

7.5 Awarding levels of achievement

The Chief Examiner will award each candidate who sits the examination, a level of achievement from one of the five categories:

Very High Achievement (VHA)

High Achievement (HA)

Sound Achievement (SA)

Limited Achievement (LA)

Very Limited Achievement (VLA).

The process of arriving at a judgment about a candidate's responses to examination questions is essentially a process of matching the candidate's responses against the syllabus standards associated with the exit criteria. A level of achievement that best describes the pattern of performance in each criterion across the examination as a whole is then awarded.

Information about how scripts are assessed is provided in the annual *Senior External Examination Handbook* (www.qsa.qld.edu.au/testing/extern-exams).

The level of achievement will be based on the exit standard for each of the three criteria *Knowledge, interpretation and evaluation*, *Routine practical procedures*, and *Challenging practical application*. The criteria are derived from the general objectives and are described in Section 3. The standards associated with the three exit criteria are described in Table 2.

When standards have been determined for each of the three criteria, Table 1 is used to determine the level of achievement, where *A* represents the highest standard and *E* the lowest.

Table 1:

VHA	The candidate must achieve a Standard <i>A</i> in any two of the exit criteria and no less than a Standard <i>B</i> in the remaining criterion.
HA	The candidate must achieve a Standard <i>B</i> in any two of the exit criteria and no less than a Standard <i>C</i> in the remaining criterion.
SA	The candidate must achieve a Standard <i>C</i> in any two of the exit criteria, and no less than a Standard <i>D</i> in the remaining criterion.
LA	The candidate must achieve a Standard <i>D</i> in any two of the exit criteria.
VLA	Standard <i>E</i> in at least two exit criteria.

Table 2 Standards associated with exit criteria

	Standard A	Standard B	Standard C	Standard D	Standard E
<i>Criterion: Knowledge, interpretation and evaluation</i>	<p>The candidate:</p> <ul style="list-style-type: none"> recalls, describes and explains a comprehensive range of relevant facts, concepts, and principles applies an extensive knowledge of accounting concepts and principles to analyse and interpret information to solve problems and make valid decisions and recommendations communicates a comprehensive range of accounting information and understandings clearly, accurately and cohesively in written form, using appropriate terminology. 	<p>The candidate:</p> <ul style="list-style-type: none"> recalls, describes and explains a substantial range of relevant facts, concepts and principles applies knowledge of accounting concepts and principles on most occasions to analyse and interpret information to solve problems and make valid decisions and recommendations communicates a substantial range of accounting information and understandings which are usually expressed clearly, accurately and cohesively in written form, using appropriate terminology. 	<p>The candidate:</p> <ul style="list-style-type: none"> recalls and describes relevant facts and generally explains concepts and principles analyses and generally interprets accounting information to make valid decisions communicates a range of accounting information and understandings in written form, in a manner which is generally clear and accurate, using some appropriate terminology. 	<p>The candidate:</p> <ul style="list-style-type: none"> states some relevant facts and concepts identifies relevant facts from accounting information communicates some accounting information in written form, although the communication sometimes lacks clarity and accuracy. 	<p>The candidate:</p> <ul style="list-style-type: none"> states some facts communicates little accounting information in written form, and this communication lacks clarity and accuracy.

	Standard A	Standard B	Standard C	Standard D	Standard E
<i>Criterion: Routine practical procedures</i>	<p>The candidate:</p> <ul style="list-style-type: none"> accurately applies fundamental accounting concepts to select and organise relevant data to record a wide range of routine transactions consistently demonstrates knowledge of fundamental accounting concepts to correctly process accounting information in usual situations accurately prepares and effectively presents accounting reports. 	<p>The candidate:</p> <ul style="list-style-type: none"> applies fundamental accounting concepts to select and organise relevant data to record a wide range of routine transactions in most situations usually demonstrates knowledge of fundamental accounting concepts to correctly process accounting information in usual situations accurately prepares and presents accounting reports on most occasions. 	<p>The candidate:</p> <ul style="list-style-type: none"> applies fundamental accounting concepts to select and organise relevant data to record a range of routine transactions generally processes accounting information correctly in usual situations prepares and presents accounting reports with some inaccuracies. 	<p>The candidate:</p> <ul style="list-style-type: none"> selects relevant data and records routine transactions on some occasions occasionally processes some accounting information correctly in usual situations prepares and presents accounting reports which frequently lack accuracy. 	<p>The candidate:</p> <ul style="list-style-type: none"> seldom records routine transactions accurately rarely processes accounting information correctly in usual situations rarely prepares and presents accounting reports accurately.

	Standard A	Standard B	Standard C	Standard D	Standard E
<i>Criterion: Challenging practical application</i>	<p>The candidate:</p> <ul style="list-style-type: none"> effectively applies accounting knowledge and concepts to accurately record a variety of transactions which include complex elements applies accounting knowledge and concepts to consistently and correctly process accounting information which includes complex elements accurately prepares and effectively presents accounting reports involving complex processing consistently and effectively solves problems involving complex practical processes. 	<p>The candidate:</p> <ul style="list-style-type: none"> usually applies accounting knowledge and concepts to accurately record a variety of transactions which include complex elements applies accounting knowledge and concepts to correctly process, in most situations, accounting information which includes complex elements accurately prepares and effectively presents, on most occasions, accounting reports involving complex processing usually solves problems involving complex practical processes. 	<p>The candidate:</p> <ul style="list-style-type: none"> generally applies accounting knowledge and concepts to accurately record transactions which include complex elements follows a given procedure to process accounting information which includes complex elements prepares and presents accounting reports involving complex processing with varying degrees of accuracy solves problems involving complex practical processes on some occasions. 	<p>The candidate:</p> <ul style="list-style-type: none"> occasionally records accurately transactions which include complex elements follows a given procedure, in part, to process accounting information which includes complex elements prepares and presents accounting reports involving complex processing with little accuracy. 	<p>The candidate:</p> <ul style="list-style-type: none"> seldom records transactions or processes information which include complex elements rarely prepares or presents accounting reports involving complex processing.

8. Resources

QSA website

The QSA website provides essential resources for all candidates for the Senior External Examination. The website address is www.qsa.qld.edu.au

The following information (current at time of first printing in 2007) is available:

Senior External Examination Handbook

- the handbook gives information about:
 - how to nominate to sit the examinations
 - teaching centres that provide tuition for the subjects
 - examination timetable
 - important dates relating to the Senior External Examination.

Subject resources

The syllabus and examination papers for the previous three years are available.

Notices to candidates

Information is provided by Chief Examiners to help candidates prepare for the examination.

Notices to teaching centres

Information is provided by Chief Examiners to help tutors and candidates prepare for the examination.

Candidate references

Greig, P., Mackay, J., Beaumont, S. & Sagner, R. 2003, *Accounting Concepts and Applications: Introductory theory and practice*, 3rd edn, Macmillan Education Australia, Melbourne.

Stanley, T., Ryan, C., Falt, J. & Kirkwood, L. 2003, *Accounting: An introductory framework*, 2nd edn, Pearson Education Australia (Longman), Melbourne.

Library references

Box, N. 2006, *VCE Accounting 1 & 2*, 2nd edn, Macmillan, Melbourne.

Box, N. & King, K. 2006, *VCE Accounting 3 & 4*, 2nd edn, Macmillan, Melbourne.

Hoggett, J., Edwards, L., & Medlin, J. 2006, *Financial Accounting in Australia*, 5th edn, John Wiley, Brisbane.

Horngren, C., Harrison, W., Bamber, L., Best, P., Fraser, D. & Willett, R. 2006, *Accounting*, 4th edn, Pearson Education, Sydney.

Kimmel, P., Carlon, S., Loftus, J., Madenovic, R., Kieso, D. & Weygandt, J. 2006, *Accounting: Building business skills*, John Wiley, Brisbane.

Newspapers and periodicals

In the Black, Journal of CPA Australia

Accountancy Online — <http://www.accountancymag.co.uk/>

Journal of Accountancy Online — <http://www.aicpa.org/pubs/jofa/joaiss.htm>

Australian IT

Australian Personal Computer

Business Review Weekly

Bulletin

Charter, Journal of the Institute of Chartered Accountants in Australia.

Financial Review

Smart Investor

Other resources

Accounting Concepts and Applications: Introductory theory and practice solutions manual, 3rd edn, Greig, P., Mackay, J., Beaumont, S., Sagner, R. & Campbell, J. 2003, Macmillan Education Australia, Melbourne.

MYOB and GST, Introductory Booklets 1, 2, 3 and Exercises, Greig, P., McAnally, H. and Radford, J., Radford Business Services, (0418) 744 610, email: julieradford@bigpond.com

MYOB and GST, Advanced Booklets 4, 5, 6 and Exercises, Greig, P., McAnally, H. and Radford, J., Radford Business Services, (0418) 744 610, email: julieradford@bigpond.com

Software Publications for training manuals in EXCEL, MYOB and Quicken. Web <http://www.sortwarepublications.com.au>.

Accounting: An introductory framework solutions manual, 2nd edn, Stanley, T., Ryan, C., Falt, J. & Kirkwood, L. 2003, Pearson Education Australia (Longman), Melbourne.

Software

Microsoft Excel, spreadsheet — <http://microsoft.com/office/>

MYOB (Mind Your Own Business), Accounting package — www.myob.com.au

QuickBooks Pro, Accounting package — www.quicken.com.au/

McGraw-Hill Professional — <http://bools.mcgraw-hill.com/>

SmartPros — <http://accounting.smartpros.com/accountinghome.xml>

Woolworths Online — www.woolworths.com.au/

Useful contacts

Business/commerce departments and libraries of tertiary institutions.

Business Educators' Association of Queensland (BEAQ), GPO Box 3254, Brisbane Qld 4001.

CPA Australia, Level 7 and 8, CPA Centre, 307 Queen St, Brisbane Qld 4000. Phone (07) 3100 0100. Toll free 1800 773 059. Fax (07) 3100 0111. Email cpa@qld.cpaonline.com.au

Institute of Chartered Accountants in Australia (Qld), Level 1, 200 Mary Street, Brisbane Qld 4001. Phone (07) 3221 5644. Fax (07) 3221 0856. Email qservice@icaa.org.au

Longman (a division of Pearson Education Australia), Suite B, Level 2, 57 Coronation Drive,

Brisbane Qld 4000. Phone (07) 3238 0725. Fax (07) 3236 5907.

Macmillan Education Australia, Secondary Schools Division, 2/857 Kingsford Smith Drive, Eagle Farm Qld 4009. Phone (07) 3868 4406. Fax (07) 3868 4423.

Queensland Studies Authority, 295 Ann Street, Brisbane Qld 4000.
Phone (07) 3864 0299. Fax (07) 3221 2553. Email office@qsa.qld.edu.au Website
www.qsa.qld.edu.au

Websites

Academic Assessment Items — www.academicai.com.au

Accountancy Online — www.accountancymag.co.uk/

Australian Stock Exchange (ASX) — www.asx.com.au

Business Educators' Association of Queensland (BEAQ) — www.beaq.org.au/

The Business Branch Office Inc. — www.bboinc.com/ — an educational resource for teachers and candidates beginning accounting at the college level.

Coles Online — www.colesonline.com.au

CPA Australia — www.cpaaustralia.com.au/

Great Ideas for Teaching Accounting — www.swcollege.com/vircomm/gita/gita_main.html

The Institute of Chartered Accountants in Australia — www.icaa.org.au/

Journal of Accountancy Online — www.aicpa.org/pubs/jofa/joaiss.htm

Longman Schools Division — www.longman.com.au/

Macmillan Education Australia — <http://mac-ed.macmillan.com.au/>

AASB Accounting Standards

(Current at 26 March 2007)

AASB and AAS Accounting Standards available from The Australian Accounting Standards Board website: <http://www.aasb.com.au/>

AASB No.	Title
---	Framework for the Preparation and Presentation of Financial Statements
AASB 1	First-time Adoption of Australian Equivalents to International Financial Reporting Standards
AASB 2	Share-based Payment
AASB 3	Business Combinations
AASB 4	Insurance Contracts
AASB 5	Non-current Assets Held for Sale and Discontinued Operations
AASB 6	Exploration for and Evaluation of Mineral Resources
AASB 7	Financial Instruments: Disclosures
AASB 8	Operating Segments
AASB 101	Presentation of Financial Statements
AASB 102	Inventories
AASB 107	Cash Flow statements
AASB 108	Accounting Policies, Changes in Accounting Estimates and Errors
AASB 110	Events after the Balance Sheet Date
AASB 111	Construction Contracts
AASB 112	Income Taxes
AASB 114	Segment Reporting
AASB 116	Property, Plant and Equipment
AASB 117	Leases
AASB 118	Revenue
AASB 119	Employee Benefits
AASB 120	Accounting for Government Grants and Disclosure of Government Assistance
AASB 121	The Effects of Changes in Foreign Exchange Rates
AASB 123	Borrowing Costs
AASB 124	Related Party Disclosures
AASB 127	Consolidated and Separate Financial Statements

AASB 128	Investments in Associates
AASB 129	Financial Reporting in Hyperinflationary Economies
AASB 130	Disclosures in the Financial Statements of Banks and Similar Financial Institutions
AASB 131	Interests in Joint Ventures
AASB 132	Financial Instruments: Presentation
AASB 133	Earnings per Share
AASB 134	Interim Financial Reporting
AASB 136	Impairment of Assets
AASB 137	Provisions, Contingent Liabilities and Contingent Assets
AASB 138	Intangible Assets
AASB 139	Financial Instruments: Recognition and Measurement
AASB 140	Investment Property
AASB 141	Agriculture
AASB 1004	Contributions
AASB 1023	General Insurance Contracts
AASB 1031	Materiality
AASB 1038	Life Insurance Contracts
AASB 1039	Concise Financial Reports
AASB 1045	Land Under Roads: Amendments to AAS 27A, AAS 29A and AAS 31A
AASB 1048	Interpretation and Application of Standards
AASB	Financial Reporting of General Government Sectors by Governments

AAS Accounting Standards

AAS 25	Financial Reporting by Superannuation Plans
AAS 27	Financial Reporting by Local Governments
AAS 27A	Amendments to the Transitional Provisions in AAS 27
AAS 29	Financial Reporting by Government Departments
AAS 29A	Amendments to the Transitional Provisions in AAS 29
AAS 31	Financial Reporting by Governments
AAS 31A	Amendments to the Transitional Provisions in AAS 31
AAS 1045	Land Under Roads: Amendments to AAS 27A, AAS 29A and AAS 31A

Acts

Associations Incorporation Act (Qld)

Companies Act (Cwth)

Partnership Act (Qld)

Partnership (Limited Liability) Act (Qld)

State Acts are available from Goprint, Government Printing Office, Head Office 371 Vulture Street, Woolloongabba, Brisbane: www.goprint.qld.gov.au Goprint Bookshop, Phone (07) 3246 3399, email: retail@goprint.qld.gov.au