AM SYLLABUS (2018)

ACCOUNTING	**AM01**
SYLLABUS	

Accounting AM01	(Available in September)
Syllabus	Paper I (3 hrs) + Paper II (3 hrs)

Introduction

The syllabus builds on the topics set for the SEC Examination in accounting and seeks to develop the students' financial literacy, presentation and evaluative skills in the broad areas of Financial and Management Accounting.

Candidates are expected to demonstrate a sound knowledge of basic accounting appropriate for an understanding of the areas covered by the syllabus contents.

Candidates are expected to base their answers on local legislation and International Financial Reporting Standards.

The Examination

Two papers of three (3) hours each are set.

Paper 1 examines Financial Accounting and Paper 2 examines Cost and Management Accounting. Each paper carries 50% of the global mark.

Paper 1 shall consist of three sections (100 marks).

- **Section A**: **COMPULSORY** short answer theoretical questions, which are spread over a number of topics, carrying 3 to a maximum of 4 marks each. Questions might include a simple analysis and evaluation of information from given data. This section carries 22 marks.
- **Section B**: One **COMPULSORY** question involving the preparation of final accounts (including Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Financial Position) from a given trial balance with adjustments of a sole trader **OR** limited liability company for Internal use or for Publication (excluding notes to the financial statements). Final accounts may refer to either a retailer or a manufacturer. This section carries 26 marks.
- **Section C: 4 practical questions to choose 2,** which may include extension questions of a theoretical nature. Each question in this section carries 26 marks. This section carries 52 marks.

Paper 2 shall consist of section A and section B (100 marks).

- **Section A: COMPULSORY** short answer theoretical questions carrying 3 to a maximum of 4 marks each. Questions might include a simple analysis and evaluation of information from given data. This section carries 22 marks.
- **Section B: 5 practical questions to choose 3,** which may include extension questions of a theoretical nature. Each question in this section carries 26 marks. This section carries 78 marks.

Both papers shall include approximately an overall of 30% of the marks as short theoretical questions as follows:
Paper 1: Section A and Section C
Paper 2: Section A and Section B.

Questions of an entirely essay type nature shall **NOT** be set.

Noiseless and non-programmable calculators are permitted. **CANDIDATES ARE ADVISED TO SHOW WORKINGS.**

FINANCIAL ACCOUNTING	**Notes for Guidance – PAPER 1** *QUESTIONS INVOLVING AMALGAMATIONS, TAKEOVERS OR CONVERSIONS OF ANY FORM OF BUSINESS UNIT ARE **NOT** EXAMINABLE.*
Introduction	**The role of the Accountant** as a financial accountant, a cost and management accountant and an auditor. **Conceptual Accounting framework limited to** : • a basic understanding of the purposes of the Conceptual Framework; • objectives of financial statements; • users of accounting and their information needs; • a basic understanding of the qualitative characteristics of financial statements limited to: Relevance, Materiality and Faithful Presentation . Candidates are required to demonstrate knowledge and understanding of the following **accounting concepts**: Accruals, Going Concern, Materiality, Prudence, Consistency, Realisation, Cost, Dual Concept, Money Measurement and Business Entity.
Students must have knowledge of the following:	• accruals and prepayments of expenses and revenues; • irrecoverable debts; bad debts recovered; allowance for doubtful debts (both specific and general) • cash discounts and trade discounts; • the VAT account, comprising VAT on sales, purchases, expenses and non-current assets (VAT on vehicles is not refundable). An understanding of the business as a tax collector on behalf of the VAT Department. • the treatment of goods sold on a sale-or-return basis, **excluding** goods received on a purchase-or-return basis; • books of prime entry; • Control Accounts: Preparation of Trade Receivables Control Account and Trade Payables Control Account. *The benefits of control accounts and reconciliation of control accounts with payables and receivables lists are **NOT** examinable.*
Depreciation and Disposal of Non-Current Assets	• Accounting treatment: the straight-line, reducing balance and revaluation methods of depreciation ONLY. • The suitability of depreciation method and change in the useful life of non-current assets. • Causes of depreciation; • Purpose of providing for depreciation and the underlying concepts. • Amortisation of other intangible assets (goodwill and development costs). Refer to appendix for notes referring to IAS 16 and IAS 36. *The Non–Current Asset Schedule is **NOT** examinable*
Sole Trader	Final Accounts
Manufacturing Accounts	Final accounts. The manufacturing profit and the allowance for unrealised profit on inventory of finished goods. The reason for maintaining an allowance for unrealised profit.

Types of errors and their correction	• Different types of errors; • Correction of errors through the journal; • The suspense account; • The statement of corrected net profit. • Corrected Final Accounts : Income Statement and Statement of Financial Position
Incomplete Records	• The preparation of final accounts from incomplete records; • calculation of capital; • Mark-up and Margin; • calculation of inventory lost in fire or by theft, for insurance claims; • calculation of a commission on net profit after charging commission.
Non-Profit making organisations	The preparation of final accounts, including treatment and understanding of : • calculation of accumulated fund; • ordinary memberships; • life memberships; • subscriptions written off; • donations (questions should clearly identify the nature of a donation; whether it is of a capital or a revenue nature); • surplus/deficit arising from trading and other activities. The difference between Receipts and Payments and Income and Expenditure. Reason for the difference in the treatment of ordinary subscriptions and life membership fees. *Joining fees and Government Grants are **NOT** examinable.*
Company Accounting	• A basic understanding of the Memorandum of Association and Articles of Association required for company formation. • The difference between limited and unlimited liability. • The difference between a public and a private company. • Understanding the different terms concerning **capital structure:** o Equity; o Authorised and issued share capital; o Ordinary shares, **redeemable** preference shares and debentures; o Capital and revenue reserves; how the following reserves are created and utilised: retained earnings, general reserve, share premium; revaluation reserve and capital redemption reserve; o Nominal and market value of shares; o Provisions and reserves.

The Capital Structure of COMPANIES	The procedure and accounting treatment of : • a public issue; • a bonus issue; • a rights issue; • redemption of redeemable preference shares. *The following are NOT examinable:* *Issue of shares by installments and forfeiture of shares;* *Issue of debentures and convertible loan stock;* *Purchase back of own shares*

Preparation of Financial statements of COMPANIES	Preparation of Financial Statements for **Internal** use : • Income Statement/Statement of Comprehensive Income (including adjustments for revaluation **ONLY);** • Statement of Changes in Equity; • Statement of Financial Position. Preparation of **Published** Financial Statements: • Income Statement/Statement of Comprehensive Income (including adjustments for revaluation **ONLY);** • Statement of Changes in Equity; • Statement of Financial Position. (see Appendix 1 for suggested format) *Accompanying notes to the Financial statements, Director's Report and Audit Report are **NOT** examinable.* (Refer to Appendix ll for content of International Accounting Standards which students are to be familiar with.)
Interpretation of Accounts and Preparation of Reports	Interpretation by means of ratio analysis assisting the appraisal of short-term and long-term solvency, profitability and efficiency. (Refer to appendix lll for the list of ratios.)
Statement of Cash Flow	• Preparation of the Statement of Cash Flow using the Indirect Method Only as per IAS 7. • Evaluating the difference between profitability and the cash position of a business. • Benefits of preparing The Statement of Cash Flow.

COST AND MANAGEMENT ACCOUNTING	**Notes for Guidance – PAPER 2**
Introduction	• the purpose of management accounting; • the role of the management accountant; • the difference between financial and management accounting.
Inventory (stock) valuation	• Valuing inventory using the FIFO and AVCO perpetual methods; • An understanding of why different inventory valuation methods produce different calculations of profit; • Reference to IAS 2 vis-à-vis the costs comprising inventory; • Inventory control: calculation and significance of economic order quantity, minimum and maximum inventory levels and the reorder level. *The calculation of the LIFO method of inventory valuation is **NOT** examinable.*
The cost of labour	• Calculation of labour cost using the following methods of remuneration: time rate and overtime, piecework, and guaranteed piecework, (excluding differential piecework) and bonus on time saved, involving individual schemes ONLY. • Calculation and interpretation of labour turnover and labour recovery rates.

Overheads	• The characteristics and treatment of overhead expenses allocation, apportionment and absorption overheads. • Calculation of overhead recovery rates: direct labour hour rate; machine hour rate; direct labour cost percentage rate; cost per unit rate. • Treatment of reciprocal services of service department using the elimination method ONLY. • Calculation of over and under-absorption of overheads. *The repeated distribution method and the blanket rate are **NOT** examinable.*
Job costing	• Characteristics of job costing; • Estimating the cost of a job.
Process costing	• Characteristics of process costing; • The preparation of process cost accounts; • Accounting for normal losses, abnormal losses and abnormal gains. *The closing work in progress, the concept of equivalent production and joint products and by-products are **NOT** examinable.*
Cost Behaviour and Break-Even analysis	• Types of costs: fixed costs, variable costs, semi-variable costs, relevant costs, irrelevant costs, product costs, period costs, direct costs and indirect costs. • Cost classification by function: production and non-production costs. • The Hi-Low Method • An understanding and calculation of contribution. • Calculation of the break-even point, margin of safety and the contribution/sales ratio. • Break-Even analysis including the traditional BEP chart ONLY.
Marginal and Absorption costing	• Comparison of marginal costing and absorption costing *(excluding under and over absorption of overheads);* • Reconciliation of both profits.
Decision making	• Make or buy decisions; • Dropping a product; • **One** limiting factor; • Accepting special orders *Questions on this topic can involve **ONLY ONE** decision-making situation from the above.*
Budgeting	• Functional budgets for: inventories; sales; purchases; debtors (trade receivables), creditors (trade payables), production and cash. • The Master Budget: The Budgeted Income Statement and the Budgeted Statement of Financial Position. • Flexible Budgeting; • Budgetary Control *Questions shall be set for a maximum of **FOUR** months only so as to highlight the understanding of the process of preparing budgets over repeated numerical calculations.*

<table>
<tr><td>Standard Costing and Variance Analysis</td><td>

The purpose of standard costing;
Calculation and understanding of variance analysis of the following:

Material-price and quantity variances;
Labour-rate and efficiency variances;
Variable overhead-expenditure and efficiency variances;
Fixed overhead- expenditure and volume variances;
Sales – price and volume variances;
Reconciliation of budgeted with actual profit.

Calculation of variances shall be based on the absorption costing method only. Variances utilising the marginal costing system are NOT examinable.
</td></tr>
<tr><td>Social Accounting</td><td>

A basic understanding of the purpose, benefits, limitations and applications of social accounting and social auditing.
A basic understanding of Corporate Social Responsibility (CSR) of firms towards employees, the community at large and the environment.

Question set shall be of a theoretical nature ONLY.
</td></tr>
</table>

<u>Reading List</u>

Financial Accounting

Izhar, R. & Hontoir J.
Accounting, costings and management. (Oxford University Press 2nd Ed.) ISBN 0-19-832823-0

Finch, C.
A Student's Guide to IFRS (2nd Ed.) (Kaplan) ISBN 978-1-84710-708-4

Randall, H.
Accounting (3rd Ed.) ISBN 1858051622

Wood, F.
A Level Accounting ISBN 0273 602608 (Pitman)

Cost and Management Accounting

Caruana, J. & Abela, M.
Cost and Management Accounting for A Level ISBN: 9789993286769

Hussey, J. & Hussey, R.
Cost and Management Accounting (2nd Ed.) ISBN-0-333-69407-4

Lucey, T.
Costing (6th Ed.) ISBN 0-8264-5510-7

Mearns, I.
Fundamentals of Cost and Management Accounting ISBN 0273 027514 (Pitman)

Pace, A. & Xuereb, J.
Cost and Management Accounting - Principles and Practice ISBN 978-99957-0-219-9

APPENDIX I - Suggested format for Published Accounts based on IAS 1

Statement of Comprehensive Income for the year ended ………….

	€	€
Revenue		X
Cost of sales		(X)
Gross profit		X
Other income		X
		X
Distribution costs	X	
Administrative expenses	X	
Other expenses	X	
Finance costs	X	(X)
Profit before tax		X
Income tax expense		(X)
Profit for the year		X
Revaluation gain		X
Total comprehensive income		X

A Statement of Changes in equity is also to be compiled

Statement of Financial Position as at …………….

	€	€	€
Assets			
Non-current assets			
Property			X
Plant and equipment			X
Motor Vehicles			X
Furniture and Fittings			X
Goodwill			X
Development costs			X
Investments			X
			X
Current assets			
Inventories		X	
Trade receivables (net)		X	
Other receivables		X	
Cash and Bank		X	
			X
Total assets			X
EQUITY AND LIABILITIES			
Total equity			X
Non-current liabilities			
Debentures		X	
Loans		X	
Redeemable preference shares		X	
Total non-current liabilities			X
Current liabilities			
Trade payables	X		
Other payables	X		
Total current liabilities		X	
Total liabilities			X
Total equity and liabilities			X

APPENDIX ll - International Accounting Standards

IAS 1 – Presentation of Financial Statements

- Awareness of the fact that according to IAS 1, a complete set of financial statements comprises the following:
    - Statement of financial position (balance sheet);
    - Statement of comprehensive income (income statement);
    - Statement of changes in equity;
    - Statement of cash flows;
    - Explanatory notes (not examinable).
- The purpose of each statement.
- Refer to Published Accounts (Presentation of Financial Statements) topic in syllabus.

IAS 2 – Accounting for Inventories

- The measurement of inventory at the lower of cost and net realisable value including the ability to calculate NRV.
- The inventory methods accepted by IAS 2 i.e. FIFO and AVCO.

IAS 7 – Statement of Cash Flows

- Refer to Statements of Cash Flow topic in syllabus.

IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

- Treatment of:
    - changes in accounting estimates (i.e. change in useful life of a non-current asset, **only**)
    - material errors.
- Accounting policies and any changes therein are **not** examinable.

IAS 16 – Property Plant and Equipment

- The accounting treatment of depreciation
    - Cost Model
    - Revaluation Model
- Refer to Depreciation topic in syllabus.
- Basic understanding and accounting treatment of impairment of **Property**, **only**.

IAS 36 Impairment

- Accounting treatment of Impairment
- Impairment of Goodwill
- Impairment of Development costs

IAS 37 – Provisions, Contingent Liabilities and Contingent Assets

- Basic understanding of the difference between a provision and a contingent liability and their accounting treatment.

IAS 38 – Intangible Assets

- Research and Development Costs:
    - Basic knowledge of the difference between Research Costs and Development Costs.
    - Accounting treatment of Development Costs (including impairment) and Research Costs.
- Goodwill:
    - Definition of Goodwill.
    - Difference between Purchased and Non-Purchased Goodwill.
    - Accounting treatment of Purchased Goodwill and its impairment.

APPENDIX III - Suggested Accounting Ratios

$$\text{Gross Profit margin} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

$$\text{Mark up} = \frac{\text{Gross Profit}}{\text{Cost of Sales}} \times 100$$

$$\text{Net Profit margin} = \frac{\text{PBIT}}{\text{Net Sales}} \times 100$$

Or

$$\frac{\text{Net Profit}}{\text{Net Sales}} \times 100$$

$$\text{ROCE} = \frac{\text{PBIT}}{\text{Capital Employed}} \times 100$$

$$\text{Utilisation of capital employed} = \frac{\text{Net Sales}}{\text{Capital Employed}} \times 100$$

$$\text{Current ratio (Working Capital ratio)} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{Quick (Acid Test) ratio} = \frac{\text{Current Assets - Inventory}}{\text{Current Liabilities}}$$

$$\text{Inventory Turnover} = \frac{\text{Cost of Sales}}{\text{Average Inventory}}$$

$$\text{Collection period of receivables} = \frac{\text{Trade Receivables}}{\text{Credit Sales}} \times 365$$

$$\text{Payment period of payables} = \frac{\text{Trade Payables}}{\text{Credit Purchases*}} \times 365$$

$$\text{Gearing} = \frac{\text{Non-Current Liabilities}}{\text{Capital Employed}} \times 100$$

$$\text{Interest Cover} = \frac{\text{PBIT}}{\text{Fixed annual charges}}$$

$$\text{EPS} = \frac{\text{Net Profit after tax}}{\text{No of ordinary shares}}$$

*If purchases are not given and cannot be calculated, Cost of Sales may be used.

N.B.

Capital Employed = Issued Ordinary Shares + Reserves + Non-Current Liabilities

Alternative acceptable methods of calculating the above ratios are allowable.