

SECONDARY SCHOOLS
CURRICULUM GUIDES

TECHNOLOGY EDUCATION
KEY LEARNING AREA

PRINCIPLES OF ACCOUNTS
CURRICULUM GUIDE
(ADVANCED LEVEL)

PREPARED BY
THE CURRICULUM DEVELOPMENT COUNCIL
RECOMMENDED FOR USE IN SCHOOLS BY
THE EDUCATION DEPARTMENT
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**Membership of the
Working Group on the Development of the Curriculum Guide
for A-Level Principles of Accounts**

(Since November 1999)

Convenor: Senior Curriculum Development Officer, Education Department
(Mr. CHAU Wai-kau)

Members: Mr. Horace HO

Ms. NG Hing-wah

Mr. David TAM

Mr. WONG Siu-kai

PREAMBLE

This Curriculum Guide is one of the series prepared by the Hong Kong Curriculum Development Council for use in secondary schools.

The Curriculum Development Council is an advisory body giving recommendations to the Hong Kong Special Administrative Region Government on all matters relating to curriculum development for the school system from kindergarten to sixth form. Its membership includes heads of schools, practising teachers, parents, employers, academics from tertiary institutions, professionals from related fields or related bodies, representatives from the Hong Kong Examinations Authority and the Vocational Training Council, as well as officers from the Education Department.

This Curriculum Guide is recommended by the Education Department for use in secondary schools. The Curriculum Development Council will review the curriculum from time to time in the light of classroom experiences. All comments and suggestions on the Curriculum Guide may be sent to:

Chief Curriculum Development Officer (Technology Education),
Education Department,
Room 501,
24 Tin Kwong Road,
Tokwawan,
Kowloon,
Hong Kong.

1. INTRODUCTION

In a changing environment, accounting is being re-positioned to meet the changing needs of modern society. Instead of being seen as a convenient mechanical device for a review of the stewardship and a measurement of the status and results of a business enterprise, accounting is nowadays seen as an integrated component of a business information system within its socio-economic environment, facilitating decision making of economic entities. Any course in accounting must be so designed as to develop the students' understanding, capability and awareness in processing business data and give them the opportunity to reason inductively and to formulate judgments from the perspectives of novice executives, entrepreneurs, investors, voters, etc.

This curriculum has put great emphasis on the broad understanding of the theory and practice of accounting so as to provide students with a good foundation to further their studies in business disciplines in tertiary institutions and to pursue a career in accounting.

This curriculum assumes no previous accounting knowledge although those learners who have completed some elementary accounting courses such as Principles of Accounts (S4-5) may have an advantage in the early stage of the course.

2. AIMS AND OBJECTIVES

Principles of Accounts is part of the sixth form curriculum. The accounting curriculum not only aims to develop knowledge and skills in students, but also to provide a vehicle for the development of students' sound moral character as well as the enhancement of their generic skills and commitment as life-long learners.

The specific objectives of the subject are to enable students to:

1. have a thorough appreciation of accounting concepts, conventions, principles, techniques, procedures and their applications in various contexts;
2. be equipped with an understanding and capability to analyze and present business data and acquire useful information for business decision-making;
3. become aware of the development of the business practices and statutory requirements of accounting practices in Hong Kong and, in particular, become aware of how changing technologies lead to changes in accounting and business practices; and
4. appreciate the responsibilities of accounting professionals and business to various stakeholders and society as a whole and the possible impact of alternative accounting practices and/or business decisions on the society.

As part of the general curriculum, the subject also aims to nurture in students:

1. the ability of self-management, the initiative to study and work on their own and collaborate with others;
2. generic skills in numeracy, communication, problem solving, critical thinking, creativity, and IT; and
3. sound moral characters, e.g. how to respect others, pursue specific goals with perseverance and develop a strong sense of national identity, responsibility and commitment.

3. CURRICULUM OUTLINE AND TIME ALLOCATION

The suggestion below is based on an assumption that the course is implemented in forty 6-day cycles with nine 40-minute periods per cycle:

	Suggested number of periods
1. The Accounting System	
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4. CURRICULUM CONTENT

Topics	Learning Outcome: Students are expected to be able to	Remarks (Elaboration of the learning elements)	Suggested no. of periods
1. THE ACCOUNTING SYSTEM			
1.1 Purposes of financial reporting	<p>(a) Describe the functions of accounting to serve the following functions: reporting, controlling, evaluating and planning</p> <p>(b) Explain how accounting can assist the decision making of interested parties including owners, managers, creditors, investors, employees, government and the general public</p> <p>(c) State the limitations of conventional financial statements</p> <p>(d) Suggest some factors affecting the ways in which financial reporting is prepared</p> <p>(e) Discuss what society expects from accounting professionals</p>	<p>- Qualitative characteristics of useful accounting information: relevance, reliability, neutrality, completeness, comparability, understandability and timeliness</p> <p>- The need for accounting information: profitability, financial position, cash and fund flows, liquidity, stability, and financial risk</p> <p>- Generally accepted accounting principles (GAAP)</p>	4

Topics	Learning Outcome: Students are expected to be able to	Remarks (Elaboration of the learning elements)	Suggested no. of periods
1.2 Accounting principles and concepts	(a) Discuss the following concepts and principles in relation to their meaning, importance, functions and shortcomings: going concern, stable monetary unit, historical cost, accrual, prudence, consistency, objectivity, timeliness, materiality, uniformity, relevance, disclosure, substance over form	- Accounting principles as theoretical assumptions	14
1.3 Books of accounts and records	(a) State the principles of double-entry bookkeeping (b) Apply the principles to the recording of business transactions	- Duality concept - Business entity concept - Accounting equation - Effects of business transactions upon the accounting equation - Rules of debit and credit	4
1.3.1 Double-entry book-keeping			

Topics	Learning Outcome: Students are expected to be able to	Remarks (Elaboration of the learning elements)	Suggested no. of periods
1.3.2 Books of original entries	(a) Explain the functions of books of original entries (b) Compile the following books: i Journal ii Cash book iii Purchases book iv Sales book v Returns outwards book vi Returns inwards book vii Petty cash book (c) Explain how the books of original entries are related to the double entry system (d) Differentiate between: i purchases and sales transactions ii cash and credit transactions iii cash and trade discounts iv bank loan and bank overdraft (e) Describe the principal documents in a business transaction, including invoice, credit note and debit note (f) Explain and record contra entries (g) Record entries in the ledger with appropriate narrative from the books of original entries	- Special meanings of ‘sales’ and ‘purchases’ in accounting - Use of folio columns - Posting procedures - Imprest system - Analysis columns	8

Topics	Learning Outcome: Students are expected to be able to	Remarks (Elaboration of the learning elements)	Suggested no. of periods
1.3.3 Ledgers and their classifications	(a) Explain the need for ledger subdivision (b) Identify the most common divisions of the ledger (c) Record transactions by double entries, using 'T' form and running balances (d) Balance off accounts and bring down balances (e) Explain the different nature of debit and credit balances (f) Differentiate between: i capital and revenue items ii real and nominal accounts iii sales and purchases ledgers (g) Explain the principles of control accounts and how to prepare such accounts (h) Identify errors by reconciling control account balances with subsidiary ledgers	- Use of folio columns - Sources of information for purchases and sales control accounts - Close accounts and transfer balances to final accounts - Minority balances - Set-offs - Significance of ledger balances	8

Topics	Learning Outcome: Students are expected to be able to	Remarks (Elaboration of the learning elements)	Suggested no. of periods
1.3.4 Information technology applications in accounting systems	(a) Discuss the advantages and disadvantages of using computers in accounting (b) Describe the general features of an accounting information system (and as part of a management information system) (c) Describe how accounting data are captured, validated, stored and backed-up (d) Describe the importance and desirable features of internal controls (e) Describe how a typical accounting software package handles accounting data in accordance with a defined chart of accounts and transforms them into accounting information for reporting and/or decision-making purposes	- Students are expected to have initial exposure on how information technology is applied in processing accounting information	6
1.4 Control systems			
1.4.1 Trial balance	(a) Explain the functions of a trial balance (b) Prepare a trial balance	- Limitations of a trial balance - Procedures to be adopted if a trial balance does not agree	2

Topics	Learning Outcome: Students are expected to be able to	Remarks (Elaboration of the learning elements)	Suggested no. of periods
1.4.2 Control accounts and their reconciliation	(a) Explain the need to keep ledger control accounts for the debtors / creditors ledger (b) Prepare ledger control accounts, post entries to the general ledger, and reconcile with subsidiary ledgers		4
1.4.3 Bank reconciliation statement	(a) Explain the functions of a bank reconciliation statement (b) Prepare a bank reconciliation statement	- Interpretation of a bank statement - Causes of discrepancy in the cash book and bank statement balances	8
1.4.4 Types of errors and their correction	(a) Identify the classes of errors which can occur in an accounting system (b) Make appropriate correcting entries (c) Write up a suspense account	- Errors not affecting the agreement of the trial balance - Errors affecting the agreement of the trial balance - The effect of errors on reported profit	10

Topics	Learning Outcome: Students are expected to be able to	Remarks (Elaboration of the learning elements)	Suggested no. of periods
<p>2. FINANCIAL ACCOUNTING</p> <p>2.1 Accounting for sole proprietors (generic form of final accounts)</p>	<p>(a) Describe the purposes and functions of final accounts</p> <p>(b) State what is meant by the terms ‘net sales’ and ‘net purchases’, ‘gross profit’ and ‘gross loss’, ‘net profit’ and ‘net loss’</p> <p>(c) Draw up trading and profit and loss accounts using alternative forms of layout with all the appropriate income and expense entries relating to the period given</p> <p>(d) Draw up a balance sheet using alternative forms of marshalling the assets and liabilities in a specific order</p>	<ul style="list-style-type: none"> - Differentiate between the two stock figures shown in the trading account - Calculate the cost of goods sold - Computation of stock: FIFO, LIFO, average cost, lower of cost and net realizable value - Distinguish between capital and revenue expenditure - Effects of transactions on the elements of an accounting equation - General balance sheet classifications: order of permanence and liquidity - Differentiate between fixed and current assets, current and long-term liabilities - Explain the nature of working capital - Define drawings and distinguish between drawing of cash and goods 	<p>8</p>

Topics	Learning Outcome: Students are expected to be able to	Remarks (Elaboration of the learning elements)	Suggested no. of periods
2.1.1 Balancing day adjustments relating to the preparation of final accounts	(a) State why adjustments are necessary in the preparation of final accounts (b) Prepare the journal, profit and loss account and balance sheet entries to deal with adjusting entries (c) Distinguish between prepaid expenses, accrued expenses, unearned revenues and accrued revenues (d) Distinguish between bad debts and provision for doubtful debts, discounts and provision for discounts (e) State the meaning and objectives for depreciation (f) Explain and show how depreciation relates to income measurement, income taxes and cash balances (g) Distinguish between the types of expenditures made subsequent to the purchase of fixed assets and understand the accounting treatment for each (h) Define and compare some typical depreciation methods	- Differentiate between cash accounting and accrual accounting - Explain why it is necessary to make a provision for doubtful debts - Causes of depreciation - Capital and revenue expenditure - Methods of calculation: <ul style="list-style-type: none"> • straight-line • reducing-balance • sum-of-the-years-digits • units of production • revaluation 	12

Topics	Learning Outcome: Students are expected to be able to	Remarks (Elaboration of the learning elements)	Suggested no. of periods
2.2 Accounting for partnerships	(i) Explain the accounting procedure for the disposal of fixed assets by sale, abandonment, or trade-in, and how gains and losses on disposal are determined (a) State the nature of a partnership as a business entity (b) Explain how profit/loss is shared between partners in the absence of a partnership agreement (c) Explain why it is necessary to treat partners' salaries differently from employees' salaries in the accounts of partnership (d) Determine the interest on capital and interest on drawings (e) Draw up an appropriation account with relevant items such as interest on capital, partners' salaries, interest on drawings and share of remaining profits or losses	- Accounting methods: • depreciation account • depreciation provision account - Importance of a partnership agreement - Columnar presentation of partners' capital and current accounts - Fixed capital accounts and fluctuating capital accounts	6

Topics	Learning Outcome: Students are expected to be able to	Remarks (Elaboration of the learning elements)	Suggested no. of periods
2.2.1 Valuation and accounting treatment of goodwill	<ul style="list-style-type: none"> (f) Explain the reasons for maintaining separate partners' capital and current accounts to account for owners' equity in partnership (g) Differentiate between debit and credit balances in current accounts (h) Prepare partnership final accounts (a) Define goodwill (b) Explain how goodwill should be valued (c) State the methods to assess the value of goodwill (d) Explain how the value is to be derived (e) Record goodwill in a partnership on the following changes: <ul style="list-style-type: none"> i. admission of new partner ii. retirement of partner iii. death of partner iv. dissolution v. change in profit sharing ratio 	<ul style="list-style-type: none"> - Special reference to the calculation of super profits and average profits - Capitalization of future profits 	6

Topics	Learning Outcome: Students are expected to be able to	Remarks (Elaboration of the learning elements)	Suggested no. of periods
2.2.2 Admission and/or retirement of partner(s)	<ul style="list-style-type: none"> (a) Make the necessary adjustments for changes in assets (b) Record cash paid for goodwill by incoming partner (c) Record resources drawn by the out-going partner and associated changes such as changes in capital structure and profit-sharing ratio 		6
2.2.3 Dissolution of partnership	<ul style="list-style-type: none"> (a) State the factors leading to the dissolution of a partnership (b) List the accounting procedures required in a dissolution and make the necessary accounting entries (c) Record the final cash distribution among the partners: solvency and insolvency (application of Garner vs Murray Rule) 	<ul style="list-style-type: none"> - Special reference to partnership agreement - Determination of last agreed capital balances 	4

Topics	Learning Outcome: Students are expected to be able to	Remarks (Elaboration of the learning elements)	Suggested no. of periods
2.3 Accounting for non-trading organizations	(a) Explain why the final accounts of a trading firm are not suitable for non-profit making organizations (b) Prepare a receipts and payments account and explain the significance of the balance shown (c) Explain that a receipts and payments account does not provide all the information needed in judging the financial position of a non-profit making organization (d) Prepare an income and expenditure account including separate fund raising activities (e) Explain the functions of an income and expenditure account (f) Prepare a balance sheet of a non-profit making organization (g) Calculate the accumulated fund	- Distinguish between <ul style="list-style-type: none"> • receipt and income • payment and expenditure - Treatment of <ul style="list-style-type: none"> • subscriptions in arrears • subscriptions in advance • donations • life membership fees • entrance fees 	10

Topics	Learning Outcome: Students are expected to be able to	Remarks (Elaboration of the learning elements)	Suggested no. of periods
2.4 Preparation of financial statements from incomplete records	(a) Explain that capital is the difference between the totals of the assets and the liabilities (b) Explain that an increase in capital between the beginning and end of a trading period suggests a profit; and that a decrease in capital over the same period suggests a loss (c) Prepare final accounts from incomplete records (d) Value stock in trade i. at time of fire ii. after financial year end	- Application of the accounting equation - Effects of drawings and additional capital - Compute sales from a 'total debtors account' and purchases from a 'total creditors account' - Application of accounting ratios: • margins • mark-ups • stock turnover rate	12
2.5 Accounting for limited liability company	(a) Identify the main characteristics of a limited liability company (b) Explain the advantages of a limited liability company	- Memorandum and Articles of Association; legal entity; limited by shares, guarantee, and statute -	6

Topics	Learning Outcome: Students are expected to be able to	Remarks (Elaboration of the learning elements)	Suggested no. of periods
2.5.1 Types and raising of capital	<p>(c) Distinguish between private and public limited companies</p> <p>(a) Differentiate between the following classes of shares and debentures: ordinary, preference and debenture</p> <p>(b) Distinguish between authorized, issued, called up and paid-up capital</p>	<p>- A brief introduction to the regulatory framework of accounting in the Hong Kong SAR, within which the published accounts should comply with the requirements of the Companies Ordinance, Statements of Standard Accounting Practices and Listing Rules (for listed companies)</p> <p>- The role of auditors in the compilation of annual reports and the uses of the auditor's report</p>	12

Topics	Learning Outcome: Students are expected to be able to	Remarks (Elaboration of the learning elements)	Suggested no. of periods
2.5.2 Final accounts for internal use	<ul style="list-style-type: none"> (c) Distinguish between shareholders' capital and loan capital (d) Explain the nature of reserves and provisions and distinguish between the two (e) Record journal and ledger entries for raising of capital including <ul style="list-style-type: none"> i. the issue of ordinary and preference shares at par, at discount and at premium ii. the issue of debentures at par, at a discount and at a premium iii. methods of payment: payable in full (a) Prepare final accounts for internal use <ul style="list-style-type: none"> i. prepare a trading and profit and loss account and a balance sheet ii. set out an appropriation account for appropriation and distribution of profits iii. calculate the dividends on various classes of shares and the interest on loan capital iv. demonstrate the treatment of preliminary expenses v. demonstrate an awareness of the advantage of vertical presentation of final accounts 	<ul style="list-style-type: none"> - Over-subscription and under-subscription - Issues payable by instalments and forfeiture of shares are excluded - Distinguish between charges against profit and the appropriation of profit - Distinguish between statutory reserves and non-statutory reserves - Special reference to directors' current accounts in private limited companies 	10

Topics	Learning Outcome: Students are expected to be able to	Remarks (Elaboration of the learning elements)	Suggested no. of periods
2.5.3 Limited company taking over a sole proprietorship or a partnership	(a) Demonstrate the treatment of a take-over of a sole-proprietorship or a partnership by a limited liability company i. At the end of an accounting period ii. In the middle of a financial year		4
2.5.4 Consolidated accounts	(a) Explain the idea of a group of companies. (b) Prepare the consolidated financial statements of a group of companies consisting of only one subsidiary acquired by the holding company	- How one company can invest in another company - The difference between a subsidiary and an associated company - Goodwill and capital reserve, inter-company trading and borrowing, unrealized profit, minority interests, pre-acquisition and post-acquisition profits	14
2.5.5 Published accounts	(a) Describe the general format of financial statements (b) Discuss the meaning of ‘true and fair’ view in the context of published accounts of limited companies	- Students are expected to have an understanding of published accounts only - A very brief introduction to the Listing Rules	6

Topics	Learning Outcome: Students are expected to be able to	Remarks (Elaboration of the learning elements)	Suggested no. of periods
	(c) Identify some of the disclosure items as required by law, regulations, and professional bodies (d) Discuss the principal accounting policies of an annual report of a listed company or a public utility	- Compile a note for a published report on a basket of fixed assets and derive the aggregate value for the balance sheet	

Topics	Learning Outcome: Students are expected to be able to	Remarks (Elaboration of the learning elements)	Suggested no. of periods
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3. ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS

3.1. Cash flow statement	<ul style="list-style-type: none"> (a) Explain the nature of a cash flow statement and how it relates to the profit and loss account and the balance sheet (b) Prepare a cash flow statement (c) Analyze the changes in working capital (d) Explain the role of depreciation in the cash flow statement (e) Show how some typical transactions affect income and working capital and how such effects are presented in the cash flow statement (f) Interpret a cash flow statement 	<ul style="list-style-type: none"> - The order of permanency or liquidity of various assets and liabilities - The importance of working capital in the operation of a business - How the operation is financed 	14
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Topics	Learning Outcome: Students are expected to be able to	Remarks (Elaboration of the learning elements)	Suggested no. of periods
3.2 Ratio analysis	(a) State the general functions of accounting ratios (b) Calculate and draw logical conclusions from a range of ratios used in analyzing financial statements (c) State the limitations associated with ratio analysis	- Use of ratios to assist in the interpretation of the accounts of a company: profitability, liquidity, management efficiency, investment appraisal, financial stability e.g. gross profit ratio, net profit ratio, working capital/current ratio, quick/liquid ratio, stock turnover rate, credit period allowed to trade debtors, credit period allowed by trade creditors, debtors ratio, creditors ratio, return on capital employed, earnings per share, total asset turnover, gearing, dividend cover and price-earnings ratio	14
3.3 Evaluation of a firm's position	(a) Discuss how a firm can be evaluated in terms of its profitability, liquidity, management efficiency, investment return, and financial stability		4

Topics	Learning Outcome: Students are expected to be able to	Remarks (Elaboration of the learning elements)	Suggested no. of periods
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4. AN INTRODUCTION TO MANAGERIAL ACCOUNTING

4.1 Costing principles and systems

(a) State and explain the general nature of managerial accounting.

(b) Identify the costs of a product in terms of direct and indirect costs, and factory and administrative overheads.

It is desirable that the nature of managerial accounting should be discussed within the broad framework of management and information needs of an enterprise.

Some classificatory frameworks of cost:

- historical and replacement
- accounting and economic
- opportunity cost and sunk cost
- fixed and variable
- average, marginal, and total
- prime, production, and total
- direct, indirect, and overheads
- unexpired and expired

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Topics	Learning Outcome: Students are expected to be able to	Remarks (Elaboration of the learning elements)	Suggested no. of periods
	<p>(c) State and explain costing systems such as job, process, and activity-based costing</p> <p>(d) Prepare a manufacturing account</p> <p>(e) Compare the advantages and disadvantages of adopting marginal and absorption costing.</p> <p>(f) Study a typical break-even or cost-volume-profit chart. State the marginal contribution to profit at any level. Recommend the minimal level of production.</p>	<p>- Allocation of costs to a single job such as a vehicle repair job</p> <p>- Allocation of costs to mass-production goods in accordance with costs accumulated in processing departments in a certain period, e.g., an oil refinery; equivalent unit of production</p> <p>- Allocation of costs to activities leading to the production of products; upstream and downstream activities</p> <p>- Assumptions:</p> <ul style="list-style-type: none"> • constant technical production relationship implying linear fixed cost, variable cost • a very small firm in a large market implying that it faces a constant selling price 	

Topics	Learning Outcome: Students are expected to be able to	Remarks (Elaboration of the learning elements)	Suggested no. of periods
4.2 Standard costing	(a) State and explain the need to set and process standards of cost performance for control purposes. (b) Calculate and suggest factors leading to direct costs, sales price and sales volume variances.	- The sources of standards	20
4.3 Budgeting	(a) Discuss the various issues related to the use of a budgetary system (b) Compare the advantages and disadvantages of using a fixed and flexible budget. (c) Identify and explain the factors to consider in setting and revising budgets (d) Prepare a cash budget. (e) Prepare a forecast trading, profit and loss account for a certain period and a balance sheet at end of the period.		24
4.4 Investment appraisal	(a) Discuss the factors affecting a capital investment decision, in particular the financial factors.	- Compare the investment decisions for a real capital asset and a financial asset such as bonds and shares	24

Topics	Learning Outcome: Students are expected to be able to	Remarks (Elaboration of the learning elements)	Suggested no. of periods
	<p>(b) Discuss the risk nature of investment in the future and the needs to ascertain cash in- and out-flows in the future.</p> <p>(c) State and explain the criteria for investment decisions such as payback period, net present value and internal rate of return.</p> <p>(d) Calculate payback period and net present value.</p>	<p>- Cost of capital and opportunity cost; compare the accounting and economic rate of return</p>	

Topics	Learning Outcome: Students are expected to be able to	Remarks (Elaboration of the learning elements)	Suggested no. of periods
<p>5 ACCOUNTING THEORY</p> <p>5.1 Income determination</p>	<p>(a) State and explain the concepts of revenue and its recognition</p> <p>(b) State and explain the concepts of expense and its measurement</p> <p>(c) Discuss the question of measurement of income including the periodic matching of costs with revenues following the realization and accrual conventions.</p> <p>(d) Define extraordinary gains and losses and give examples</p> <p>(e) Define prior year adjustments and give examples</p>	<p>- Revenue as:</p> <ul style="list-style-type: none"> • the inflow of assets resulting from the operational activities of the firm • the creation of goods and services and the transfer of these to third parties • Expense as cost expired in the process of obtaining revenue <p>- The measurement and timing problems of revenues and expenses in periodic accounting</p> <p>- Treatments of extraordinary gains/losses and prior year adjustments in published accounts</p>	<p>14</p>

Topics	Learning Outcome: Students are expected to be able to	Remarks (Elaboration of the learning elements)	Suggested no. of periods
5.2 Valuation of fixed assets	<p>(a) Discuss the difference between capital and revenue expenditure</p> <p>(b) Discuss valuation concepts and methods (historical cost and current replacement cost)</p> <p>(c) Discuss the question of measurement of the cost of fixed assets with examples of additions, improvements, replacements and repairs of assets</p> <p>(d) Discuss the concepts, reasons and methods of providing for depreciation (methods limited to those stated at 2.1.1(I))</p>	<p>- The relationship between asset valuation and income determination</p> <p>- Contrast between expired cost and unexpired cost carried forward</p> <p>- Valuation based on</p> <ul style="list-style-type: none"> • historical cost • current replacement cost <p>For a more complete discussion, teacher may include</p> <ul style="list-style-type: none"> • net realizable value • discounted cash flow • deprival value <p>- Depreciation as a process of valuation and cost allocation</p> <p>- Sinking fund method of depreciation not required</p>	12

Topics	Learning Outcome: Students are expected to be able to	Remarks (Elaboration of the learning elements)	Suggested no. of periods
5.3 Valuation of intangible assets	<p>(e) Explain the nature of a leased asset and demonstrate the accounting treatment in the lessee's books and final accounts (including the accompanying notes)</p> <p>(a) Briefly discuss patents, copyrights, franchises, research and development costs, trademarks</p> <p>(b) Discuss goodwill in relation to its</p> <ol style="list-style-type: none"> i. nature and characteristics ii. valuation methods iii. accounting treatment 	<ul style="list-style-type: none"> - Substance over form; finance lease and operating lease - Finance charge for and depreciation charge on the leased asset - Nominal and effective rate of interest - Nature of research and development expenditure - Goodwill as the difference between the value of the business as a whole and the value of the separable net assets - Difference between purchased and non-purchased goodwill - Accounting treatment (immediately written off or to be carried forward and amortized) and relevant accounting principles 	10
5.4 Valuation of stock	<p>(a) Discuss its nature and show the relationship between stock valuation and determination of cost of sales and profit</p>	<ul style="list-style-type: none"> - Effects of different valuation bases on reported profits and closing stocks 	14

Topics	Learning Outcome: Students are expected to be able to	Remarks (Elaboration of the learning elements)	Suggested no. of periods
	<p>(b) Determine the quantity under</p> <ol style="list-style-type: none"> i. periodic count ii. perpetual record <p>(c) Determine the valuation of stock by</p> <ol style="list-style-type: none"> i. historical cost ii. current replacement cost iii. the lower of cost and the net realizable value <p>(d) Determine cost (based on historical cost valuation) with:</p> <ol style="list-style-type: none"> i. specific identification ii. average cost iii. first in, first out iv. last in, first out 	<p>- Ascertain the lower value of cost and net realizable value by means of</p> <ul style="list-style-type: none"> • article method • category method • aggregate method 	

5. LEARNING, TEACHING AND ASSESSMENT

A suggested learning sequence with time allocation is laid down in the previous section for teachers' reference. More general issues pertinent to learning, teaching, and assessment in this section are put forward to teachers for their consideration in pace with the current curriculum reforms specified in *Learning to Learn: Life-long Learning and Whole-person Development*, Curriculum Development Council (June 2001).

1. LEARNING

There have been accounting activities since the dawn of civilization. It was largely a craft before it became a profession when the first professional body was established in 1854 in Scotland. It became an academic discipline in universities in England about a century later. But accountants do have various views about the treatment of accounting. This explains why professional accounting bodies publish standards for practitioners to observe. When students put forward a solution to a specific problem that is falling short of the expected answer, they are in the process of learning and constructing knowledge relying on their initiatives. Encouragement and useful hints are more rewarding than giving away the 'answer' immediately. After all, there might not be one 'answer' at all. More than usual, there are answers under different sets of assumptions. Frustrated students may give up very easily. Those students with less initiative may be led to believe that there are simple answers.

Learning takes place effectively in a safe environment in which students can experiment and exchange ideas that connect with their prior knowledge. With clear purposes, support and feedback facilitated by teachers who are well equipped with a sound understanding of the curriculum content and nature of learning, students will be more motivated. A classroom environment based on relations of trust, respect, care and empathy makes it a safe environment for learning. Learning takes place effectively as interactions occur among individuals who are learning together despite the fact that there might be different levels of learning attainment or learning ability. Students will learn to expand their capability together in an organization and continue to learn how to learn and work together in a knowledge-based economy. After all, an accounting course should serve to induct students into the business world with the special role of an educated being who understands how to communicate with others via business data.

To achieve the curriculum objectives teachers should adopt various strategies in an appropriate manner with good planning at the unit and lesson levels. The teaching sequence should be devised according to the abilities of the students so as to enhance learning. The contexts of learning should also be relevant to the students' daily life. Teachers can deviate from their original plans, improvise to maximize learning and adjust their teaching and assessment strategies according to the needs and best interests of their students.

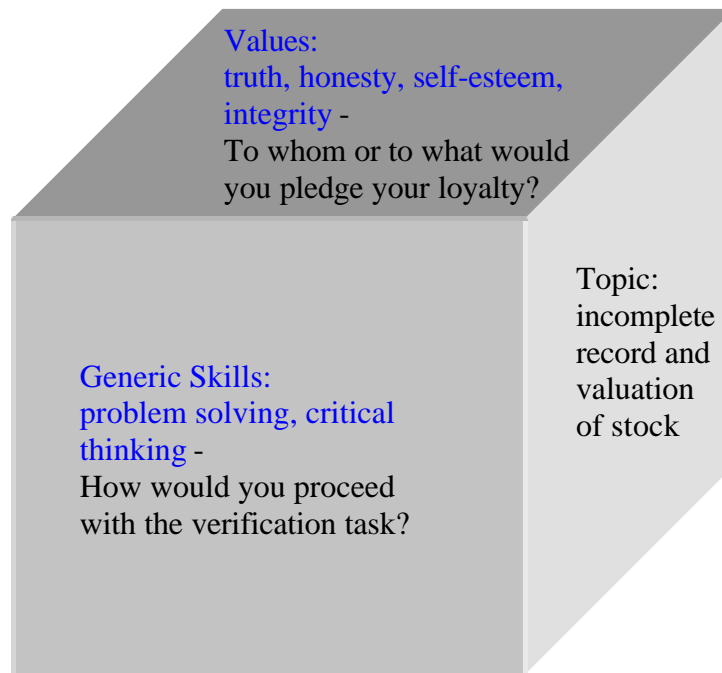
2. MULTIPLE DIMENSIONS OF THE SUBJECT CURRICULUM

It is worth reiterating the learning objectives specified previously - that the accounting curriculum aims at a balanced development of students' business capability, sound moral character and generic skills and commitment as life-long learners. The objectives are in line with the curriculum framework and components proposed in the document *Learning to Learn: Life-long Learning and Whole Person Development*, Curriculum Development Council (June 2001). A

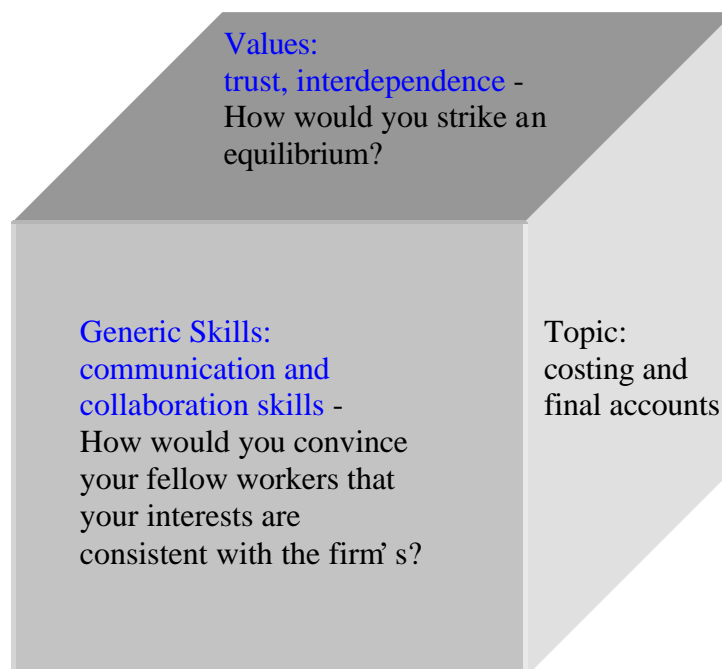
framework with three inter-related components, viz. Key Learning Areas, Generic Skills, Values and Attitudes, is proposed in Chapter 3 of the aforesaid document. These components form the basis for defining the elements of learning for students at different levels of specificity, as appropriate.

Two suggested classroom activities are put forward below for illustrative purposes:

- (a) Insurance investigator: You are an investigator from an insurance company and assigned to verify a claim on a loss due to fire that occurred in a chinaware store.



- (b) Chief Executive Officer: As CEO of a public utility, you are about to receive a delegate of a trade union that is asking for a salary raise in the next period in accordance with an agreement on productivity reached two years ago. But now economic circumstances do not allow this.



3. MORAL AND CIVIC EDUCATION

The most usual approach to an accounting curriculum is to treat it as a training ground for students to acquire a grasp of the accounting skills required in their future employment. In particular, it is not uncommon for secondary teachers to assume after completing their matriculation course that the accounting students are likely to join the workforce at the entry level of businesses. This imposes a job stereotype on the students that may be detrimental to their motivation to excel. The emphasis on skills also scales down the intrinsic value of the accounting discipline/profession and the curriculum as a vehicle for the development of morally sound characters in modern citizens.

As an elective subject in a general education curriculum, this course is contributing no less than other subjects to building up the characters of students. Even accepting that accounting is a work-related curriculum, business ethics and social responsibilities should also be rightly addressed. As business is central to human civilization, its responsibility to society should be well considered in an accounting classroom.

4. GENERIC SKILLS

Another issue related to the skills approach is that it usually puts much weight on the accounting skills and procedures necessary to derive an accounting solution specific to problems in a specific context. There is a lack of encouragement to explore causes leading to the problems and alternative solutions, some of which may not fall in the accounting domain at all. This lacks a dimension for students to develop their generic skills, in particular, creativity, problem solving and critical thinking skills. Teachers should allow room for students to exercise their own initiatives to tackle the problems at hand and should not direct the students to conform too soon to the conventions of the discipline.

5. READING TO LEARN

In teaching accounting, some teachers often emphasize the use of symbols and overlook the internalization of concepts through verbalization. Students should be encouraged to read and discuss, for example, newspaper articles on topics relevant to the discipline. Furthermore, students should be required to read and learn the prescribed learning materials rather than relying on the exposition of accounting principles by the teachers. This is to develop the ability of the students in using accounting as a business language and reading to learn what is critical to empower them to become life-long learners. On the other hand, reading to learn is one of the effective means to close the gaps among students who have achieved different levels of attainment in accounting. Those who are in a more advantageous position may be recommended to read more general references to widen their scope while others may concentrate on more basic readings when catching up.

This leads to an issue specific to the study of accounting underpinned by conventions and glossaries that are culturally and institutionally dependent. It is understood that public assessments adopt glossaries commonly used by local professionals. But economic activities in North America are frequently reported in the media. When this curriculum guide was being prepared, the collapse of Enron set off a profound debate on the roles of accounting professionals. Students might not be able to understand these global affairs if they are only given information which prevails in specific regions. Teachers will need to strike a balance between the possibility of confusing their students

with the jargon of different institutional contexts and of broadening their students' vision.

6. INFORMATION TECHNOLOGY (IT)

Other learning tools such as IT should be suitably adopted as well. On the one hand, the opportunity for students to master IT skills should be maximized. Students should be able to work out accounting solutions on a computer with a spreadsheet instead of relying on paper and pencil. Enabling students to become intelligent users of modern technology may help them to survive in a world of ever-changing technological challenges. On the other hand, the interactive features of IT should be exploited to enhance learning effectiveness. In particular, software designed for independent learning sessions could be prescribed to students who need to catch up with the general level of the class.

7. PROJECT LEARNING

The body of accounting skills and knowledge is well structured. Thus, more mature tertiary students may fare well with the discipline. However, secondary students would learn accounting more effectively if they could acquire the skills and knowledge in more authentic contexts such as an entrepreneur project in which accounting and finance is part of the indispensable element for success. This approach makes students realize that accounting is a business skill, although it has become a profession on its own. Students adopt a broader outlook and learn to analyze problems in a holistic way. Different learning opportunities are also provided for students when they assume different roles and contribute their talent and effort to the project.

8. ASSESSMENT FOR LEARNING

Assessment of the performance of students is an integral part of the learning /teaching cycle. It is important that teachers and students should understand how to use the results from a variety of assessment methods to improve learning and teaching. Attention should be paid to both formative and summative functions of assessment in assessing student learning. Teachers are strongly encouraged to -

- provide timely and effective feedback to students (e.g. corrective, diagnostic, etc.) that motivates and improves learning;
- assess student performance with quality criteria agreed among students and teachers;
- adopt various modes of assessment applicable to the different needs of the students so as to enhance learning and teaching;
- challenge students with assessment in the form of more open questions and provide them with the opportunity to think and discuss among themselves;
- measure the progress of their students towards the aims of the course and adjust the resources, approaches and strategies adopted in the learning/teaching process to accomplish the goals effectively;
- implement continuous assessment throughout the course using different modes of assessment.

In accounting, student performance can be assessed using different modes of assessment.

Amongst others, it could be in the form of -

- practice assignments;
- paper-and-pen tests during lessons with short, multiple-choice and/or structured questions;
- simulated accounting case studies over several weeks;
- accounting services provided to school clubs for a year;
- reenactment of a court case and a competitive debate;
- projects, such as an enterprise project or a social investigation on the pricing of a public utility; and
- reports on visits to manufacturing plants or interviews of business professionals.

Each mode has its merits under specific circumstances. As front line professionals, teachers will better understand the needs of their students and will be in a better position to select the most appropriate assessment mode in assessing the performance of their students. In general, it is desirable that student performance is assessed by a combination of different modes so as to provide a comprehensive picture of the students' progress towards the curriculum goals.

Appendix A: Suggested Activities for Selected Topics

Topic	Activity
2.2 Accounting for partnerships, the nature of a partnership as a business entity	<ul style="list-style-type: none"> Invite the students to work on a mini-project studying the issues of allowing solicitors, doctors, or public auditors to form limited companies
2.3 Accounting for non-trading organizations	<ul style="list-style-type: none"> Take the receipts and payments account and income and expenditure account of a school club as an example to examine the functions of such accounts
2.5 Accounting for a limited liability company	<ul style="list-style-type: none"> Ask students to visit the website of the Company Registry, http://www.info.gov.hk/cr/index.htm, and collect information about the Annual Return
2.5.1 Types and raising of capital	<ul style="list-style-type: none"> Ask students to collect relevant newspaper clippings or product briefs and suggest various ways of financing an investment project
2.5.4 Published accounts	<ul style="list-style-type: none"> Ask students to study the general format of an annual report of a listed company downloaded from a website of a listed company via the hyperlink lists of the Hong Kong Stock Exchange, http://www.hkex.com.hk/listedco/hyperlist/hyperlist.htm
3.2 Ratio analysis	<ul style="list-style-type: none"> Visit the website of FinBenchmarkIt.com (http://www.finbenchmarkit.com/finbenchmarkit/index.html) and suggest what products FinBenchmarkIt.com is supplying and suggest who are its potential customers

Topic	Activity
3.3 Evaluation of a firm's positions	<ul style="list-style-type: none"> • A brief survey on the pledges of various government departments • Explore the idea of benchmarking as a tool to enhance performance by visiting some of the benchmarking consortium websites. Examples: Benchmarking Co-Ordination Office, (http://www.benchmarking-in-europe.com/) Electric Utility Benchmarking Association™ (http://www.well.com/user/benchmark/euba.html)
4.1 Costing principles and systems, Prepare a manufacturing account	<ul style="list-style-type: none"> • Visit a manufacturing plant and identify various costs involved in operating the plant
4.3 Budgeting	<ul style="list-style-type: none"> - Invite the students to study the website Student Financial Handbook published by the University Students' Council (University of Western Ontario) http://www.usc.uwo.ca/document/financial_handbook/default.htm and ask them to propose a budget for their university education indicating clearly how their university education is financed
4.4 Investment appraisal	<ul style="list-style-type: none"> • Ask the students to visit the website of Standard & Poor's (http://www.standardandpoors.com), and find out the services provided by Standard & Poor's • Ask the students to decide how to rent or buy a factory plant

Appendix B: Formulae of Some Accounting Ratios

$$\text{gross profit ratio} = \frac{\text{gross profit}}{\text{sales}}$$

$$\text{net profit ratio} = \frac{\text{net profit}}{\text{Sales}}$$

$$\text{working capital (current) ratio} = \frac{\text{current assets}}{\text{current liabilities}}$$

$$\text{quick (liquid) ratio} = \frac{\text{current assets less stock}}{\text{current liabilities}}$$

$$\text{stock turnover ratio} = \frac{\text{cost of goods sold}}{\text{average stock}}$$

$$\text{credit period allowed to trade debtors in months} = \frac{\text{average trade debtors} \times 12}{\text{annual credit sales}}$$

$$\text{credit period allowed by trade creditors in months} = \frac{\text{average trade creditors} \times 12}{\text{annual credit purchases}}$$

$$\text{debtors turnover} = \frac{\text{annual credit sales}}{\text{average trade debtors}}$$

$$\text{creditors turnover} = \frac{\text{annual credit purchases}}{\text{average trade creditors}}$$

$$\text{return on capital employed} = \frac{\text{profit before interest and tax}}{\text{capital employed}}$$

$$\text{earnings per share} = \frac{\text{net profit after tax} - \text{preference dividend}}{\text{number of ordinary shares}}$$

$$\text{asset turnover} = \frac{\text{sales}}{\text{Total assest}}$$

$$\text{gearing ratio} = \frac{\text{long term loans and preference shares}}{\text{capital employed}}$$

$$\text{dividend cover for ordinary shares} = \frac{\text{net profit after tax}}{\text{total dividend}}$$

$$\text{price-earnings ratio} = \frac{\text{current price per share}}{\text{earnings per share}}$$

Appendix C: Suggested Reference Books

The books listed below are suggested for teachers' reference. They are by no means exhaustive. Teachers should also select other appropriate reference materials for their use.

Title	Author/Editor	Publisher	Year
Accounting	Charles T. Horngren, <i>et al.</i>	Prentice Hall	2001
Accounting in Hong Kong Regulatory Framework and Advanced Accounting Practice	W. F. Hui and P. H. Ng	City University of Hong Kong	1999
Advanced Financial Accounting in Hong Kong	Lynne Chow, <i>et al.</i>	Longman	1997
Advanced Level Accounting	H. Randall	Letts Educational Ltd.	1996
Accounting Theory and Practice	M. W. E. Glautier, and B. Underdown,	FT Prentice Hall	2000
Book-keeping and Accounts	Lindy W. W. Yau and Richard C. K. Yau	The Hong Kong Association of Accounting Technicians	1998
Business Accounting, Vol. 1 & 2	F. Wood, and A. Sangster	FT Prentice Hall	2001
Cost Accounting: A Managerial Emphasis	Charles T. Horngren, <i>et al.</i>	Prentice Hall	1999
Financial Accounting I	Andy Li and Patrick Ng	The Hong Kong Association of Accounting Technicians	1999
Financial Accounting II	Y. Y. Cheung, <i>et al.</i>	The Hong Kong Association of Accounting Technicians	1998
Financial Accounting for Hong Kong	A.R. Jennings, Patrick Po Hing Ng, and Andy Tak Ming Li	Pilot Publishing Company Ltd.	1998
Accounting: The basis for Business Decisions	Robert F., Meigs, <i>et al.</i>	McGraw-Hill	2000
會計學：企業決策的基礎(管理 會計分冊)(Accounting: The basis for Business Decisions 中譯本簡 體字版)	Robert F., Meigs, <i>et al.</i> (馮正權 譯)	机械工業出版社 McGraw-Hill	2000
Financial and Managerial Accounting	J. R. William, <i>et al.</i>	McGraw-Hill	2001
Frank Wood's A-Level Accounting	Wood, F. and A. Sangster	FT Prentice Hall	1998
Frank Wood's Business Accounting (Hong Kong Edition)	Frank Wood, Lindy Yau Richard Yau, and Joseph Yau	Financial Times Pitman Publishing	1999
Introduction to Management	Charles T. Horngren, <i>et al.</i>	Prentice Hall	2002

Accounting

管理會計教程 (Introduction to Management Accounting 中譯本簡體字版)	Charles T. Horngren, <i>et al.</i> (許秉岩、史向東譯)	華夏出版社 Prentice Hall	1999
漢英會計教程: A Chinese-English Accounting Course	蔣彥振主編	北京大學出版社	2000
會計與簿記	邱韞華、邱在光	香港專業會計員協會	2001
管理會計	王怡心	三民書局股份有限公司	2002
Excel 在會計學與財務管理之應用	邱振崑	松崗電腦圖書資料股份有限公司	2001
會計學原理	香港管理專業發展中心	中文大學出版社	2001
朗文會計學原理	Frank Wood	朗文出版亞洲有限公司	2001
成本管理(上、下冊)	Maryanne M. Mowen 、 Don R. Hansen	揚智文化事業股份有限公司	1999
香港會計與管理	陳孟賢	中文大學出版社	1999
成本與管理決策會計(上、下冊)	馬君梅 、 李建華	超越企管顧問股份有限公司	1999
會計師職業道德與責任：理論、規範及案例 (簡體字版)	王立彥等編著	北京大學出版社	2001

Remark: Teachers are expected to use the latest editions of reference books.
