

# **The Accounting Module**

11 December 2013

# Curriculum Framework

## Business, Accounting and Financial Studies

40%

### Compulsory Part

*Business Environment*

*Introduction to Management*

*Introduction to Accounting*

*Basics of Personal Financial Management*

60%

### Accounting Module

*Financial Accounting*

*Cost Accounting*

### Elective Part

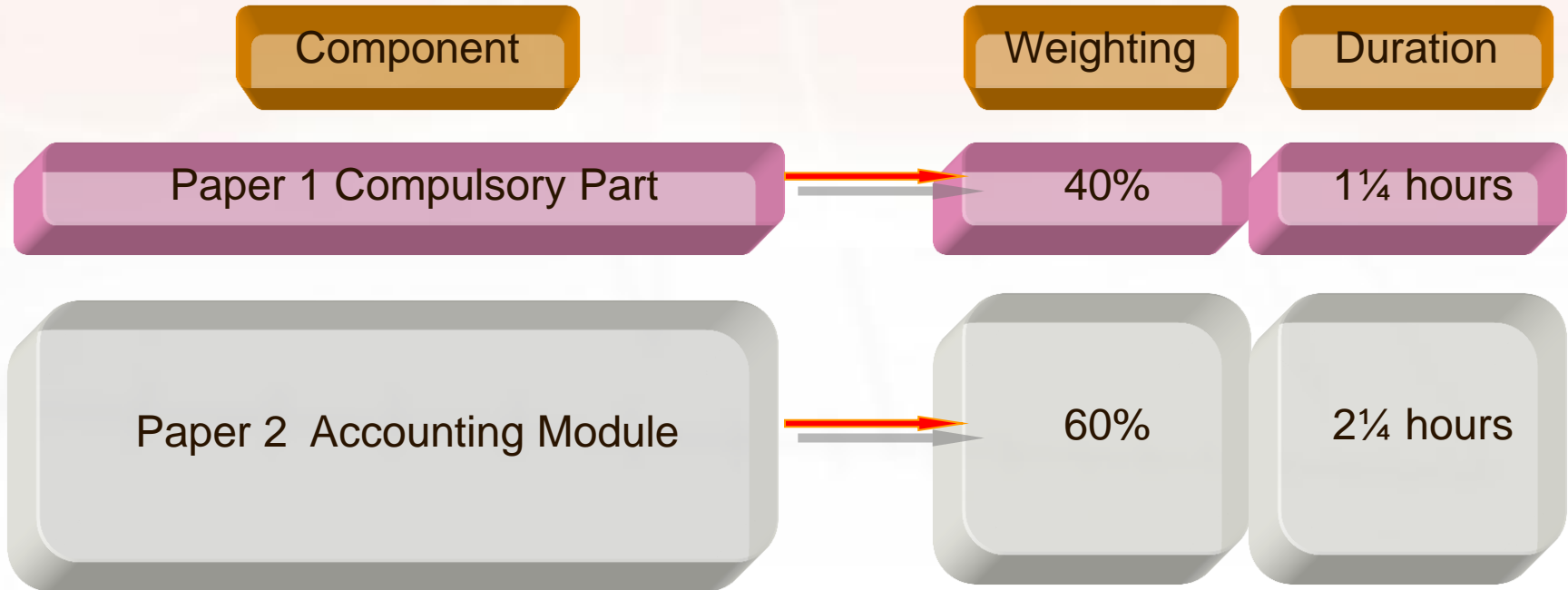
### Business Management Module

*Financial Management*

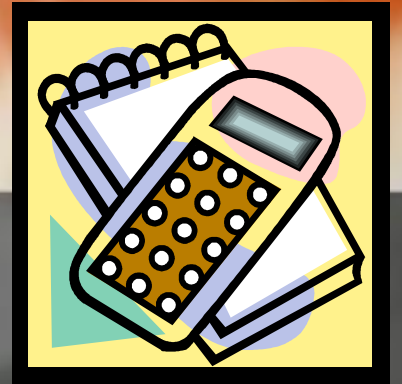
*Human Resources Management*

*Marketing Management*

# Mode of Assessment



# Financial Accounting



# Books of Original Entries and types of Ledgers

- Moved from Compulsory Part, with Petty Cash Book trimmed from the curriculum
- Books of original entries include the following:
  - Sales/Purchase Day Book (Journal)
  - Returns Inwards/Outwards Day Book (Journal)
  - Two/Three-column Cash Book
  - The (General) Journal
- Types of Ledgers include the following:
  - Accounts Receivables Ledger
  - Accounts Payables Ledger
  - General Ledger
- **Journalizing** (from sources to journals) vs **Posting** (from journals to accounts)



# Period-end Adjustments Relating to the Preparation of Financial Statements

- to ascertain the amount of **profit** through period-end adjustments

- Recalling:

$$C = A - L - (R - E)$$

i.e.

$$\blacktriangle \text{ Profit} = \triangle A - \triangle L - \triangle C$$





# Period-end Adjustments Relating to the Preparation of Financial Statements

- For  $\Delta A$  (major components: fixed assets, accounts receivables, stocks)
  - Additions/Disposal of fixed assets? (trade-in\*)
  - Allowance for depreciation? (straight-line, reducing-balance, actual usage)
  - Bad debts/Allowance for doubtful debt? (whole, specific, ageing)
  - Stock value determination? (LCM, sales or return; normal/abnormal loss; weighted average\*)

# Period-end Adjustments Relating to the Preparation of Financial Statements

- For  $\Delta L$

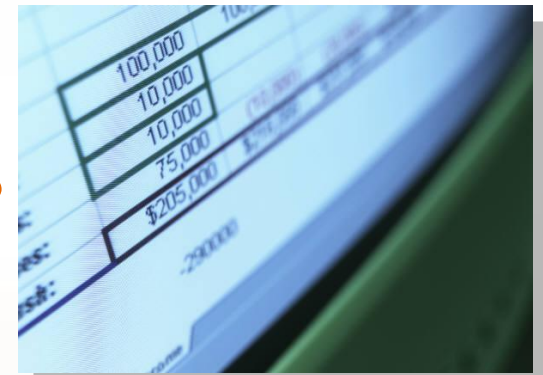
- ☐ Additions/ Issuance of liabilities?
- ☐ Repayment of long/short-term liabilities?

- For  $\Delta C$

- ☐ Additions/Withdrawal of capital?

- For  $\Delta P$

- ☐ In arrear/In advance of revenues?
- ☐ Accrual/Prepayment of expenses?



100,000	
10,000	
10,000	
75,000	
\$205,000	
-280,000	



# Financial Reporting for Different Forms of Business Ownership

- Forms of Business Ownership:
  - Sole proprietorship
  - Partnership
  - Limited company
- Purpose of Financial Statements:
  - Internal vs External
  - General vs Publishing
- Terminology:
  - Profit and loss account Vs Statement of comprehensive income Vs Statement of profit and loss and other comprehensive income (effective: 1 July 2012)
  - Balance sheet Vs Statement of financial position
  - Ref to supplementary notes



# Financial Reporting for Different Forms of Business Ownership

- Forms of Statement of profit and loss and other comprehensive income:
  - by function Vs by nature
  - one statement Vs two statements
- Presentation of Financial Statements:
  - HKFRS – HKAS 1
  - HKFRS for Private Entities – Section 3, 4 and 5
  - SME FRF<sub>n</sub>FRS – Section 1



**\*\* Candidates are expected to be aware of the impact of standards issued by the Hong Kong Institute of Certified Public Accountants upon the accounting definitions and treatments covered by this curriculum. Standards newly issued or revised before 1 September 2013 are applicable to the examination.**

# Accounting for Partnership

- Implication of Appropriation Account and Current Account required
- Valuation of goodwill Vs Treatment of goodwill

Goodwill was to be valued at \$350 000. No goodwill account was to be maintained in the books.

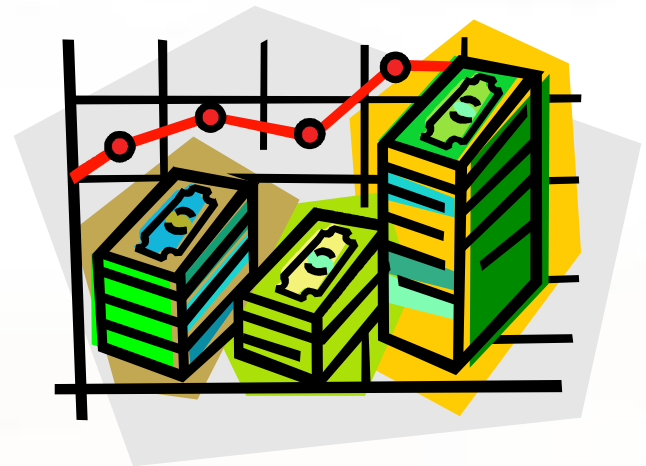
2012 HKDSE Paper 2A:Q5

- Implication of Garner and Murray rule not required



# Accounting for Limited Company

- Shares issued at discount?
- Over-subscription and related refund are required
- Rights and bonus issues of shares are not required
- Appropriation account: an allocation of profit or loss / total comprehensive income for the period



# Control System

- Bank Reconciliation Statement

- Cash book / bank statement balance comes first?

(b) Prepare a bank reconciliation statement as at 31 December 2011, commencing with the updated cash at bank balance. (5 marks)

2012 HKDSE Paper 2A:Q5

- Corrections of Errors

- Narrations required?

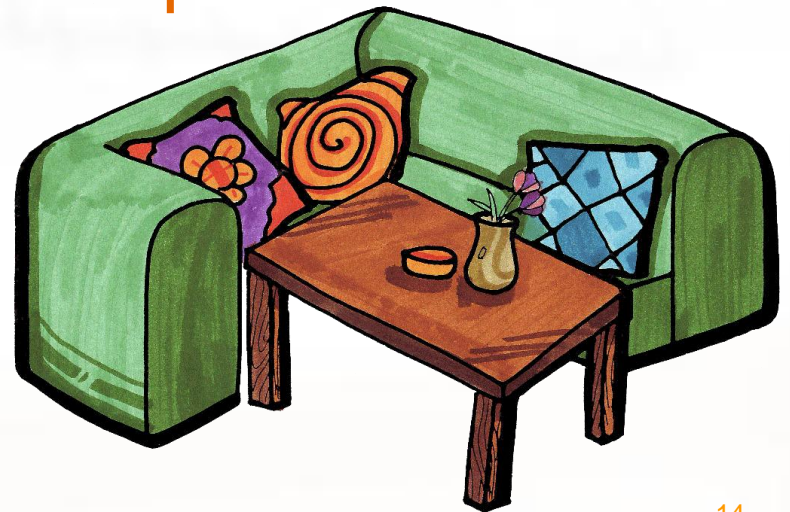
Prepare the necessary journal entries to correct the above. Narrations are not required. (8 marks)

- Corrections made to ledger a/c or P&L?

Subsequent to the preparation of the draft statement of financial position, the following were discovered:

# Generally Accepted Accounting Principles

- Explain (L2) meaning, importance and shortcomings of principles and conventions
- Apply (L2) them into accounting situations: No common clues
- Substance over forms not required





# Financial Analysis

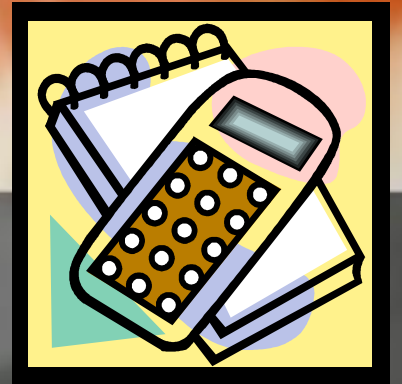
- Ref to supplementary notes for formulae of ratios
- Calculate (L2) and Comment (=Evaluate=L4) using ratios (In-depth application of ratios in Compulsory Part)
- Explain (L2) the functions and limitations



# Incomplete Records

- Forms of statement of affairs
- Calculate cash and inventory value
  - Fire loss, cash stolen...(Normal Vs Abnormal)
  - No sales/purchases control account compared with list of sales/purchases ledgers balances are required
  - Lower of cost/NRV, sales or return and weighted average cost of inventory costing required

# Cost Accounting



# Cost Classification, Concepts and Terminology

## – Distinguish (L3) between different cost items

Define direct costs and indirect costs and identify one example for each from the case above.  
(3 marks)

HKDSE Sample Paper 2A:Q9

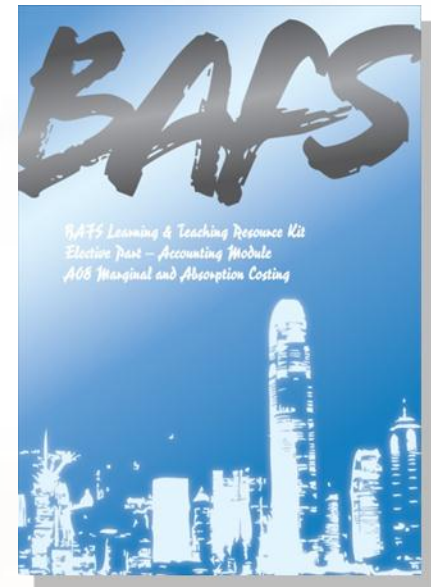
Eva Company manufactures stainless steel mailboxes. The budgeted income statement for the year 2014 is as follows:

	\$
Sales	960 000
Direct materials cost	(120 000)
Direct labour cost	(150 000)
Fixed production overheads	(190 000)
Variable production overheads	(66 000)
Fixed administrative overheads	(57 000)
Net profit	<u>377 000</u>

2013 HKDSE Paper 2A:Q6

# Marginal and Absorption Costing

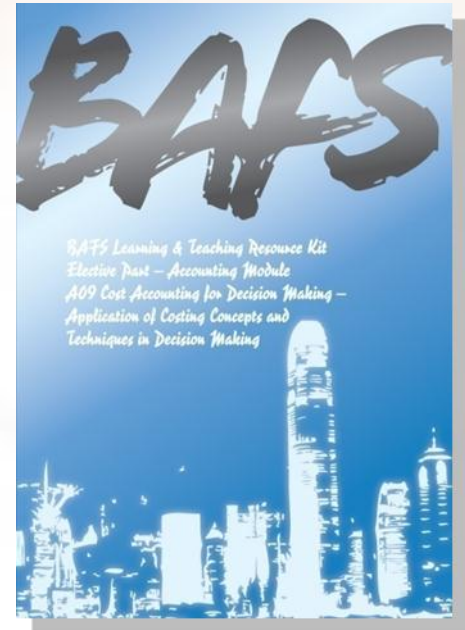
- Apply weighted average cost of inventory only
- Over and under-absorption of overheads is to be charged to cost of goods sold only
- Compare (L3) the advantages and disadvantages of each costing:
  - Treatments for fixed manufacturing overheads
  - Values of finished goods
  - Reported profits



# Cost Accounting for Decision Making

- Identify (L3) the nature of cost items and relevance in decision making

➡ Effects on **Profit**

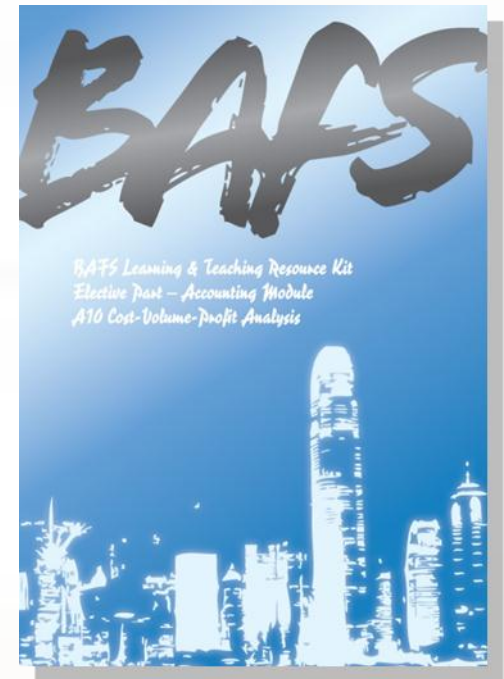


- Apply (L4) costing concepts and techniques
  - Joint product costing is not required



# Cost Accounting for Decision Making

- CVP analysis for multiple products is required
- Involvement of limiting factor is required
  - on raw materials
  - on labour
  - on machine
- Graphical presentation is not required



**End of This Part**

**Thank you**