LEVEL 2

BUSINESS ACCOUNTING 2

PAPER 5

OVERALL AIM

To enable learners prepare and interpret financial statements and any other accounting information for application in decision making.

LEARNING OUTCOMES

On completion of this course, the learner should be able to:

	Learning outcome	K	C	A	An	S	E
1.	Prepare financial statements for non-profit making organizations.			✓			
2.	Reconcile bank statements.				✓		
3.	Prepare accounts and financial statements from incomplete records.			✓			
4.	Explain the treatment of consignment and joint venture accounts.		✓				
5.	Prepare accounts for hire purchase transactions.			✓			
6.	Distinguish the different bases of preparing financial statements.				✓		
7.	Apply international financial reporting standards.			✓			

LEVEL OF ASSESSMENT

The learner should be able demonstrate an in-depth analysis of financial reporting standards and their applicability in business.

EXAMINATION STRUCTURE

There will be a three hour examination comprising of five questions of 25 marks each. The candidate will be required to attempt any four questions.

DETAILED SYLLABUS

A CONCEPTUAL FRAMEWORK

1. The objective of general purpose financial reporting: Information about a reporting entity's economic resources and claims; changes in resources and claims; information about use of the entity's economic resources
2. Qualitative characteristics of useful financial information: Fundamental and enhancing qualitative characteristics
3. Financial statements and the reporting entity
4. Elements of the financial statements
5. Recognition and de-recognition
6. The Companies Act, 2012:
   (a) Accounting and reporting requirements
   (b) Impact of the Act on financial accounting and reporting
7. Measurement of the elements of financial statements- accounting bases (historical cost, modified historical cost, current cost, realizable / settlement value, present value)
   (a) Advantages and disadvantages of each base

(b) Valuation of assets

(c) Measurement of profit: Financial and physical capital maintenance concepts

(d) Preparation of financial statements under historical cost, current cost,realisable value and present value bases

8. Presentation and disclosure

B PREPARATION OF FINANCIAL STATEMENTS FROM INCOMPLETE RECORDS

1. Definition of incomplete records
2. Opening position statement
3. Accounts from incomplete records
4. Statement of affairs method and final account method
5. Disadvantages of incomplete records
6. Analysis of cash and bank transactions
7. The need for control accounts
8. Deriving missing figures and preparation control accounts
9. Deriving figures for sales and purchases
10. Deduce figures for profit where only the increase in capital and details of drawings are known
11. Calculating mark-up and margin
12. Suspense account and errors
13. Preparation of financial statement from incomplete records

C PREPARATION OF FINANCIAL STATEMENTS FOR NON-PROFIT MAKING ORGANIZATIONS

1. Definition of a non-profit making organization
2. Objectives/ purpose of non-profit making organizations
3. Differences between non-profit making organizations and profit making organizations
4. Subscriptions account
5. Treatment of receipts and payments account
6. Preparation of a receipts and payments account
7. Treatment for the various forms of revenue
8. Treatment for donations, life membership fees and entrance fees
9. Income and expenditure account
10. Capital and revenue expenditure
11. Treatment of profits or losses from special activities
12. The accumulated fund
13. Effect of surplus or deficit on accumulated fund
14. Compare an income and expenditure account to the income statement

D CORRECTION OF ERRORS, SUSPENSE ACCOUNT AND BANK RECONCILIATION

1. Definition of errors
2. Types of errors:
   (a) Revealed by a trial balance
   (b) Not revealed by the trial balance
3. Suspense account; uses and preparation
4. Correction of errors

5. Preparation of a corrected:
   (a) Trial balance
   (b) Statement of corrected net profit or loss
   (c) Statement of corrected financial position
6. Preparation of bank reconciliation statement:
   (a) Nature and purpose of a bank reconciliation statement
   (b) Bank statement balance versus cashbook balance
   (c) Cheque system:
   (d) Preparation of an adjusted cashbook and bank reconciliation statement
   (e) Effect of bank overdraft on the reconciliation process

E INVENTORIES

1. Define inventory
2. Raw materials work-in-progress and finished goods
3. Accounting treatment for inventory and carriage costs
4. Handling written off and written down items
5. Items in the purchases figure
6. Use of stock/ inventory ledgers under each stock
7. Methods of inventory valuation
8. Factors affecting choice of method adopted
9. Preparation of stores ledger account

F CONSIGNMENT AND JOINT VENTURE ACCOUNTS

1. Key definitions.
2. Consignment and joint venture accounts
3. Features of consignment/joint venture transactions Consignment and sale compared

4. Expenses of a consignment
5. Accounting treatment in the books of the consignor and consignee
6. Accounting procedures for joint ventures
7. Joint bank account
8. Records maintained by co-venture

G HIRE PURCHASE ACCOUNTS

1. Definition of key terms
2. Accounting for hire purchase transactions
3. Journal entries and ledger accounts in the books of hire vendors
4. Journal entries and ledger accounts in the books of a hire purchaser for large value items
5. Default and repossession

H STATEMENT OF CASH FLOWS

1. Need for management to control cash flows
2. Composition of a statement of cash flows
3. Operating, investing, financing activities and cash and cash equivalents
4. The objective of IAS 7: Statement of Cash Flows
5. Profit and liquidity compared
6. Preparation of a statement of cash flows
7. Usefulness of the statement of cash flows information
8. Limitations of the statements of cash flows

I FINANCIAL REPORTING STANDARDS

1. International Accounting Standard (IAS) 2, Inventories
   - (a) Objective and scope of the Standard
   - (b) Exceptions to the Standard
   - (c) Key concepts of the Standard
   - (d) Measurement of inventories, cost, net realisable value and fair value
   - (e) Accounting treatment: Composition of cost of inventory, exclusions from the cost of inventory, cost formulas, techniques for measuring cost of inventory (standard cost and retail method)
   - (f) Presentation and disclosure: Accounting policies, total carrying amounts for every class of inventory, write-offs, recognised as expenses, circumstances or events leading to write-offs, carrying amounts of inventory pledged as security for liabilities
2. International Accounting Standard (IAS) 7, Statement of Cash Flows
   - (a) Scope and objective of the Standard
   - (b) Need for management to control cash flows
   - (c) Operating, investing and financing activities
   - (d) Cash and cash equivalents
   - (e) Preparation of a statement of cash flows: Direct and indirect methods
   - (f) Usefulness of the information from statement of cash flows
   - (g) Limitations of the statements of cash flows; profitability versus liquidity
3. International Accounting Standard (IAS) 12, Income Taxes
   - (a) Objective, scope of the Standard
   - (b) Definition of key terms:
     - (i) Accounting profit

(ii) Taxable profit (tax loss)

(iii) Tax expense (tax income)

(iv) Current tax

(v) Deferred tax assets and liabilities

(vi) Taxable and deductible temporary differences

(c) Recognition of current tax assets and liabilities

(d) Measurement of current tax assets and liabilities

(e) Recognition of current tax and deferred tax:

(i) Items recognised in profit or loss

(ii) Items recognised outside profit or loss

(f) Taxation in financial statements

4. International Accounting Standard (IAS) 16, Property, Plant and Equipment (PPE)

(a) Objective and scope of the Standard

(b) Definition of key terms:

(i) Asset

(ii) Depreciation

(iii) Depreciable amount

(c) Recognition of PPE

(d) Initial measurement

(e) Subsequent measurement after recognition

(f) Cost and revaluation models of accounting

(g) Depreciation of PPE

(h) Derecognition of PPE on disposal and/ or retirement

(i) Disclosure requirements

5. International Financial Reporting Standard (IFRS) 16, Leases

(a) Objective and scope of the Standard

(b) Recognition exemptions

(c) Key concepts of the Standard: Lessee; lessor

(d) Lease identification; separating components of a lease contract

(e) Lease term

(f) Lessee:

  (i) Recognition and measurement; initial measurement of right-to-use asset and lease liability

  (ii) Subsequent measurement of right-of-use asset and lease liability

(g) Reassessment of the lease liability

(h) Lease modifications

(i) Presentation and disclosure

(j) Lessor: Classification of leases; finance and operating leases

(k) Accounting treatment for leases by the lessee and the lessor: The five step model:

  (i) In an ordinary lease contract/ arrangement where there is change in conditions of the lease during the course of the lease

  (ii) In a sale and lease back transaction

(l) Presentation and disclosure

6. International Financial Reporting Standard (IFRS) 15, Revenue from Contracts with Customers

(a) Objective and scope of the Standard

(b) Exceptions to the Standard

(c) Key concepts of the Standard:

  (i) Contract

  (ii) Customer

  (iii) Income versus revenue

  (iv) Performance obligation

  (v) Transaction price

(d) Recognition (five steps of revenue recognition):
   (i) Identification of the contract
   (ii) Combination of contracts
   (iii) Contract modifications
   (iv) Identification of performance obligations
   (v) Satisfaction of performance obligations
(e) Measurement:
   (i) Transaction price; variable consideration, significant financing component in the contract, non-cash consideration, consideration payable to customer
   (ii) Allocation of the transaction price to performance obligations; stand-alone selling prices, allocation of a discount, allocation of variable consideration
   (iii) Changes in transaction price
(f) Contract costs:
   (i) Incremental costs of obtaining a contract
   (ii) Costs to fulfil a contract
   (iii) Amortisation and impairment
(g) Presentation and disclosure requirements
   (i) Contracts with customers
   (ii) Disaggregation of revenue
   (iii) Contract balances
   (iv) Performance obligations
   (v) Transaction price allocated to the remaining performance obligations
   (vi) Significant judgements in the application of the Standard
   (vii) Assets recognised from costs to obtain or fulfil a contract with customer

7. International Accounting Standard (IAS 21), Effect of Change in Foreign Exchange Rates
   (a) Objective and scope of the Standard
   (b) Key concepts of the Standard
   (c) Translation methods (functional currency to presentation currency)
   (d) Recording and re-translation of monetary and non-monetary items at the reporting date
   (e) Recognition of exchange differences
   (f) Disclosure

8. International Accounting Standard (IAS 40), Investment Property
   (a) Objective and scope of the Standard
   (b) Exceptions to the Standard
   (c) Key concepts of the Standard
   (d) Accounting treatment:
      (i) Recognition criteria
      (ii) Initial measurement
      (iii) Subsequent measurement (fair value and cost models)
      (iv) Principles used to determine the fair value of investment property
      (v) Transfers to and/ or from investment property
      (vi) De-recognition
   (e) Presentation and disclosure

9. International Accounting Standard (IAS 23), Borrowing Costs
   (a) Objective and scope of the Standard
   (b) Key concepts of the Standard
   (c) Arguments for/ against capitalisation

(d) Accounting treatment:
   (i) Methods of accounting for borrowing costs
   (ii) Capitalisation: Commencement, cessation, eligible costs and eligible amounts
(e) Presentation and disclosure
(f) Accounting versus tax treatment of borrowing costs

10. International Accounting Standard (IAS 36), Impairment of Assets
   (a) Objective and scope of the Standard
   (b) Exceptions to the Standard
   (c) Key concepts of the Standard
   (d) Identification of a potentially impaired asset
   (e) Accounting treatment:
      (i) Estimation of recoverable amount of tangible and intangible assets
      (ii) Recognition and measurement of an impairment loss
      (iii) Determination of recoverable amounts for cash generating units
      (iv) Impairment of intangible assets
   (f) Presentation and disclosure

11. International Accounting Standard (IAS 37), Provisions, Contingent Liabilities and Contingent Assets
   (a) Objective and scope of the Standard
   (b) Key concepts of the Standard
   (c) Accounting treatment:
      (i) Conditions for recognition of a provision
      (ii) Legal and constructive obligations
      (iii) Recognition and measurement principles
   (d) Presentation and disclosure

12. International Accounting Standard (IAS 38) Intangible Assets
    (a) Objective and scope of the Standard
    (b) Exceptions to the Standard
    (c) Key concepts of the Standard
    (d) Accounting treatment:
        (i) Conditions for recognition of intangible asset
        (ii) Initial recognition of intangible asset
        (iii) Cost and revaluation models
        (iv) Conditions for recognition of research and development expenditure
        (v) Impairment of intangible assets
    (e) Presentation and disclosure

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5. International Accounting Standards Board (current issue), International Financial Reporting Standards, IFRS Foundation