

JUNE AND DECEMBER 2008 – STUDY GUIDE  
CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

**ACCA**

Paper 1 (INT)  
Recording Financial  
Transactions

# Introduction

This booklet contains the Study Guide for ACCA's Certified Accounting Technician Paper 1 (INT): Recording Financial Transactions.

The Study Guide is designed to help you plan your studies and to provide more detailed interpretation of the syllabus for ACCA's Certified Accounting Technician examinations. It contains both the Syllabus and the Study Sessions for the paper, which you can follow when preparing for the examination.

The Syllabus outlines the content of the paper and how that content is examined. The Study Sessions take the syllabus and expand it into teaching or study sessions of similar length. These sessions indicate what the examiner expects of candidates for each part of the syllabus, and therefore gives you guidance in the skills you are expected to demonstrate in the examinations. The time to complete each session will vary according to your individual capabilities and the time you have available to study. Tuition providers offering face-to-face tuition are recommended to design courses with a minimum of two hours tuition per study session. However, repeated coverage of the material is vital to ensure your understanding and recall of the subject. Be sure to practice past examination questions to consolidate your knowledge and read your *student accountant* magazine regularly.

If you have any queries concerning the study guide, please direct them to:

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Additional information can be accessed on the ACCA website at:  
[www.accaglobal.com](http://www.accaglobal.com)

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January 2008

## **ABOUT ACCA**

ACCA is the largest and fastest-growing international accountancy body with 296,000 students and 115,000 members in 170 countries. We aim to offer first choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management. ACCA works to achieve and promote the highest professional, ethical and governance standards and advance the public interest.

# Recording Financial Transactions (INT)

## AIMS

To develop knowledge and understanding of the operational aspects of maintaining accounting records and procedures relating to invoicing, receipts and payments, recording income and expenditure, the preparation of ledger accounts, and the preparation of an initial trial balance.

## OBJECTIVES

On completion of this paper, candidates should be able to:

- distinguish between types of business transactions and documentation, recognising basic principles of business law and data protection
- prepare basic ledger accounts under the double entry system
- record income and receipts from credit customers
- explain and account for irrecoverable debts
- record purchases, expenditure, and payments to suppliers
- account for banking transactions
- maintain general cash and petty cash records
- produce bank reconciliation statements
- record payroll transactions
- prepare and reconcile control accounts
- prepare an initial trial balance identifying and correcting errors using journal entries.

## POSITION OF THE PAPER IN THE OVERALL SYLLABUS

No prior knowledge is required before commencing study for Paper 1. This paper provides the basic techniques required to enable candidates to prepare financial statements for various enterprises at a later stage. Candidates will, therefore, need a sound knowledge of the methods and techniques introduced in this paper to ensure they can employ them in later papers. The methods used in this paper are extended in Paper 3, *Maintaining Financial Records* and further developed in Paper 6, *Drafting Financial Statements*.

## SYLLABUS CONTENT

### 1 Business transactions and documentation

- (a) Types of business transactions
  - (i) sales
  - (ii) purchases

- (iii) receipts
- (iv) payments
- (v) petty cash
- (vi) payroll
- (b) Types of business documentation
  - (i) quotation
  - (ii) sales and purchase orders
  - (iii) delivery note
  - (iv) invoice
  - (v) credit note
  - (vi) debit note
  - (vii) statement
  - (viii) remittance advice
  - (ix) receipt
  - (x) internal cheque requisition
  - (xi) petty cash claim
  - (xii) payslip
- (c) Basic principles of regulation and business policies
  - (i) contract law
  - (ii) regulation of sale of goods
  - (iii) document retention policies
  - (iv) data protection

### 2 Double entry bookkeeping

- (a) Double entry transactions
  - (i) nature and function of primary records
  - (ii) types of ledger accounts
  - (iii) posting by means of double entry
  - (iv) balancing-off ledger accounts
- (b) Classification of expenditure
  - (i) capital
  - (ii) revenue
- (c) The accounting equation

### 3 Banking and petty cash

- (a) Sources of funds and documentation
  - (i) types of receipts / payments: e.g. cash, cheque, standing orders, direct debits, credit card, debit card and BACs
  - (ii) supporting information: e.g. invoice, credit note, remittance advice and statement

## Recording Financial Transactions (INT)

- (iii) unusual features: e.g. wrongly completed cheques, credit and debit card limits exceeded, disagreement with / insufficient supporting documentation

(b) Banking monies received

- (i) banking documentation: e.g. paying-in slips, credit and debit card documentation
- (ii) methods of handling and storing money, including security aspects

(c) Recording payments and monies received

- (i) manual cash book
- (ii) manual general ledger and receivables ledger
- (iii) computerised records

(d) Authorising and making payments

- (i) documentation
- (ii) authorisation

(e) Maintaining petty cash records

- (i) documentation
- (ii) authorisation
- (iii) security of cash
- (iv) queries: e.g. unauthorised claims for payment, insufficient supporting evidence, claims exceeding authorised limit
- (v) manual petty cash book
- (vi) imprest and non-imprest methods
- (vii) reconciliation of petty cash book to cash in hand

#### 4 Sales and sales records

(a) Sales and sales returns

- (i) source documents
- (ii) invoices and credit notes
- (iii) general principles of a sales tax
- (iv) types of discount
- (v) methods of coding data
- (vi) sales day book
- (vii) sales returns day book
- (viii) authorisation

(b) Recording sales

- (i) manual general ledger
- (ii) manual receivables ledger
- (iii) computerised ledgers
- (iv) statements

- (v) aged receivables analysis
- (vi) communication with customers (orally and in writing)
- (vii) credit limits
- (viii) irrecoverable debts

#### 5 Purchases and purchase records

(a) Purchases and purchase returns

- (i) ordering systems: Internet, verbal, written
- (ii) source documents
- (iii) suppliers' invoices and credit notes
- (iv) types of discount
- (v) methods of coding data
- (vi) purchase day book
- (vii) purchase returns day book

(b) Recording purchases

- (i) manual general ledger
- (ii) manual payables ledger
- (iii) computerised ledgers
- (iv) statements
- (v) aged payables analysis
- (vi) communication with suppliers: (orally and in writing), incorrect calculations, non-delivery of goods charged, duplication of invoices, incorrect discounts

#### 6 Payroll

(a) Recording payroll transactions

- (i) documentation
- (ii) authorisation
- (iii) payment methods: e.g. cash, cheques, automated payment
- (iv) queries
- (v) security and control
- (vi) cash book
- (vii) general ledger

#### 7 Control accounts and the initial trial balance

(a) Bank reconciliations

- (i) general bank services and operation of bank clearing system
- (ii) function and form of banking documentation

## Recording Financial Transactions (INT)

- (iii) bank reconciliation statement
- (b) Control accounts
  - (i) different types of errors
  - (ii) correction of errors (including journals)
  - (iii) reconciliation of control account with ledger:  
receivables ledger, payables ledger
- (c) The trial balance
  - (i) initial trial balance
  - (ii) identification of errors
  - (iii) suspense accounts

### EXCLUDED TOPICS

The following topics are specifically excluded from Paper 1:

- detailed knowledge of sales tax
- allowances for receivables
- foreign currency transactions
- preparation of financial statements

### KEY AREAS OF THE SYLLABUS

The key topic areas are as follows:

- sales
- purchases
- receipts
- payments
- petty cash
- bank reconciliations
- control accounts
- the trial balance.

### APPROACH TO EXAMINING THE SYLLABUS

The examination is a two-hour paper. It can be taken as a written paper or as a computer based exam. Assessment will be based on multiple choice questions covering the breadth of the syllabus, testing that candidates have acquired the necessary knowledge of the areas identified above.

	<i>No. of marks</i>
50 multiple choice questions:	100

### RELEVANT TEXTS

There are a number of sources from which you can obtain a series of materials written for the ACCA CAT examinations. These are listed below:

ACCA's approved publishers:

#### **BPP Learning Media**

**Contact number: +44(0)20 8740 2222**

**Website: [www.bpp.com](http://www.bpp.com)**

#### **Kaplan Publishing**

**Contact number: +44(0)118 989 0629**

**Website: [www.kaplanpublishing.co.uk](http://www.kaplanpublishing.co.uk)**

Additional reading:

Accountancy Tuition Centre (ATC)

International

Contact: [ronniesmith@atc-global.com](mailto:ronniesmith@atc-global.com)

Website: [www.atc-global.com](http://www.atc-global.com)

Candidates may also find the following texts useful although they should be aware that these are based on UK accounting standards:

Wood, Frank and Robinson, Sheila. *Bookkeeping and Accounts*

(Pitman Publishing: 4th edition) – Sections 1, 2 and 3

ISBN: 0273646192

Cox, David and Fardon, Michael. *Cash and Credit Accounting –*

*NVQ Level 2 Accounting* (Osborne Books)

This is a tutorial and workbook.

ISBN: 1872962033

Whitehead, Geoffrey. *Bookkeeping* (Made Simple Books, Butterworth & Heinemann) – Chapters 1 to 10

Wider reading is also desirable, especially regular study of relevant articles in ACCA's *student accountant* magazine.

# Recording Financial Transactions (INT)

## STUDY SESSIONS

### 1 Types of business transactions and types of business documentation

- (a) Identify the main types of business transactions e.g. sales, purchases, payments, receipts, cash and bank, and payroll
- (b) Define a simple contract
- (c) Identify the main provisions of a sale of goods act or equivalent (fitness for purpose, merchantable quality, description)
- (d) Understand the importance of coding transactions correctly
- (e) Distinguish between cash and credit transactions
- (f) Identify the key personnel involved in initiating, processing and completing transactions
- (g) Understand the need for effective control over transactions
- (h) Identify the timing of various transactions e.g. daily, monthly, annually
- (i) Understand the need to document business transactions
- (j) Explain the purpose and scope of data protection, storage and archiving policies
- (k) Distinguish between different types of business documentation e.g. quotation, sales and purchase order, delivery note, invoice, statement, credit note, debit note, remittance advice, receipt, internal payment, petty cash claim and payslip
- (l) Outline the contents and purpose of each piece of documentation
- (m) Describe the documentation and the flow of documentation for different transactions including Internet transactions
- (n) Identify the personnel involved in preparing and authorising documents
- (o) Outline the main features of systematic recording and filing of documents and data in manual and computerised systems

### 2 The duality of transactions and the double entry system

- (a) Understand the nature and function of books of prime entry

- (b) Recognise the duality of transactions and understand and apply the accounting equation
- (c) Explain the fundamental rules of double entry accounting and debits and credits
- (d) Identify the main types of ledger account
- (e) Identify and classify assets, liabilities, income and expenditure
- (f) Distinguish between capital and revenue expenditure and identify examples of each

### 3 Recording business transactions in the double entry bookkeeping system

- (a) Record a complete series of basic transactions within a double entry system
- (b) Prepare journal entries and identify the uses of the journal
- (c) Balance off ledger accounts, recording closing balances
- (d) Understand the basic functions of a computerised accounting system

### 4 Banking systems and transactions

N.B for the purpose of answering questions, please note that a detailed understanding of banking legislation will not be required

- (a) Describe the relationship between a bank and its customer
  - (b) Outline the working of a central bank clearing system
  - (c) Recognise the obligation owed by a bank to its clients
  - (d) Understand the content and format of a cheque
  - (e) Prepare a cheque prior to despatch
  - (f) Outline the purpose and format of paying-in documents
  - (g) Describe the procedures and documentation relating to the use of cash, cheques and credit and debit cards, receipts and payments
  - (h) Describe other services offered by banks e.g. inter-bank transfers, payable orders, automated credit systems, standing orders, direct debits, credit transfers
- N.B foreign currency transactions are not examinable

## Recording Financial Transactions INT)

### 5 **Cash handling, petty cash operations and cash security**

- (a) Identify the documentation accompanying payments and receipts
- (b) Recognise the importance of accurately recording all payments and receipts
- (c) Identify the main ways to ensure that only authorised payments are made
- (d) Record payments and receipts in the cash book, general ledger, payables and receivables ledger (manual or computerised)
- (e) Understand procedures for banking cash receipts
- (f) Recognise the types of transaction likely to be paid out of petty cash
- (g) Account for petty cash using imprest and non-imprest methods
- (h) Exercise control over petty cash and recognise how control can be maintained – e.g. security of cash, authorised personnel and reconciliations
- (i) Record petty cash claims
- (j) Describe the key procedures for ensuring safety, security and, where appropriate, confidentiality over the handling of cash and cheques
- (k) Explain the correct procedure to cope with unusual situations: e.g. wrongly completed cheques, exceeded credit limits on debit or credit cards, or discrepancies between receipts and supporting documents, unauthorised claims for payment, insufficient supporting evidence, or claims exceeding authorised limits

### 6 **Sales and sales records**

- (a) Identify and recognise source sales documents
- (b) Complete sales invoices and process credit notes / debit notes
- (c) Understand the general principles of a sales tax
- (d) Calculate sales tax on transactions
- (e) Calculate and record trade and settlement discounts
- (f) Record transactions in a sales day book and a sales returns day book
- (g) Code sales and customer records and data
- (h) Recognise and describe authorisation procedures

- (i) Record sales
  - (i) maintain a manual general and receivables ledger
  - (ii) describe a computerised receivables ledger
  - (iii) prepare, reconcile and understand the purpose of customer statements
- (j) Communicate efficiently and effectively with customers

### 7 **Credit control and bad debts**

- (a) Explain the benefits and costs of offering credit facilities to customers
- (b) Understand the purpose of and prepare an aged receivables analysis
- (c) Understand the purpose of credit limits
- (d) Recognise the existence and impact of irrecoverable debts
- (e) Record the accounting treatment of irrecoverable debts

### 8 **Purchases and purchase records**

- (a) Identify and recognise source purchase and expenditure documents
- (b) Complete purchase invoices and process credit notes
- (c) Calculate and record trade and settlement discounts
- (d) Record transactions in a purchase day book and a purchase returns day book
- (e) Code purchases and supplier records and data
- (f) Record purchases
  - (i) maintain a manual general and payables ledger
  - (ii) describe a computerised payables ledger
  - (iii) understand the purpose of and prepare an aged payables analysis
  - (iv) prepare, reconcile and understand the purpose of supplier statements
- (g) Communicate efficiently and effectively with suppliers

### 9 **Bank reconciliation statements**

- (a) Recognise the need to reconcile the cash book with the bank statement periodically
- (b) Identify the main reasons for any discrepancies between the cash book and the bank statement, such as errors, unanticipated receipts and payments and timing differences

## Recording Financial Transactions (INT)

- (c) Correct cash book errors and/or omissions
- (d) Perform reconciliations between the cash book and the bank statement

### 10 Payroll

- (a) Understand payroll systems
- (b) Understand the duties of employers in relation to taxes, state benefit contributions and other deductions
- (c) Record hours worked; e.g. time sheets, clock cards
- (d) Calculate gross wages for employees paid by hour, by output (piecework) and salaried workers
- (e) Define and calculate bonuses, overtime, and commission given the details of each scheme
- (f) Describe the documentation required for recording various elements of wages and salaries
- (g) Recognise the need for payroll to be authorised and identify appropriate authorisation, security and control procedures
- (h) Make other deductions from wages - e.g. trade union subscriptions, payroll saving, pension contributions and payroll giving
- (i) Identify various methods for making payments to employees
- (j) Account for payroll costs and payroll deductions

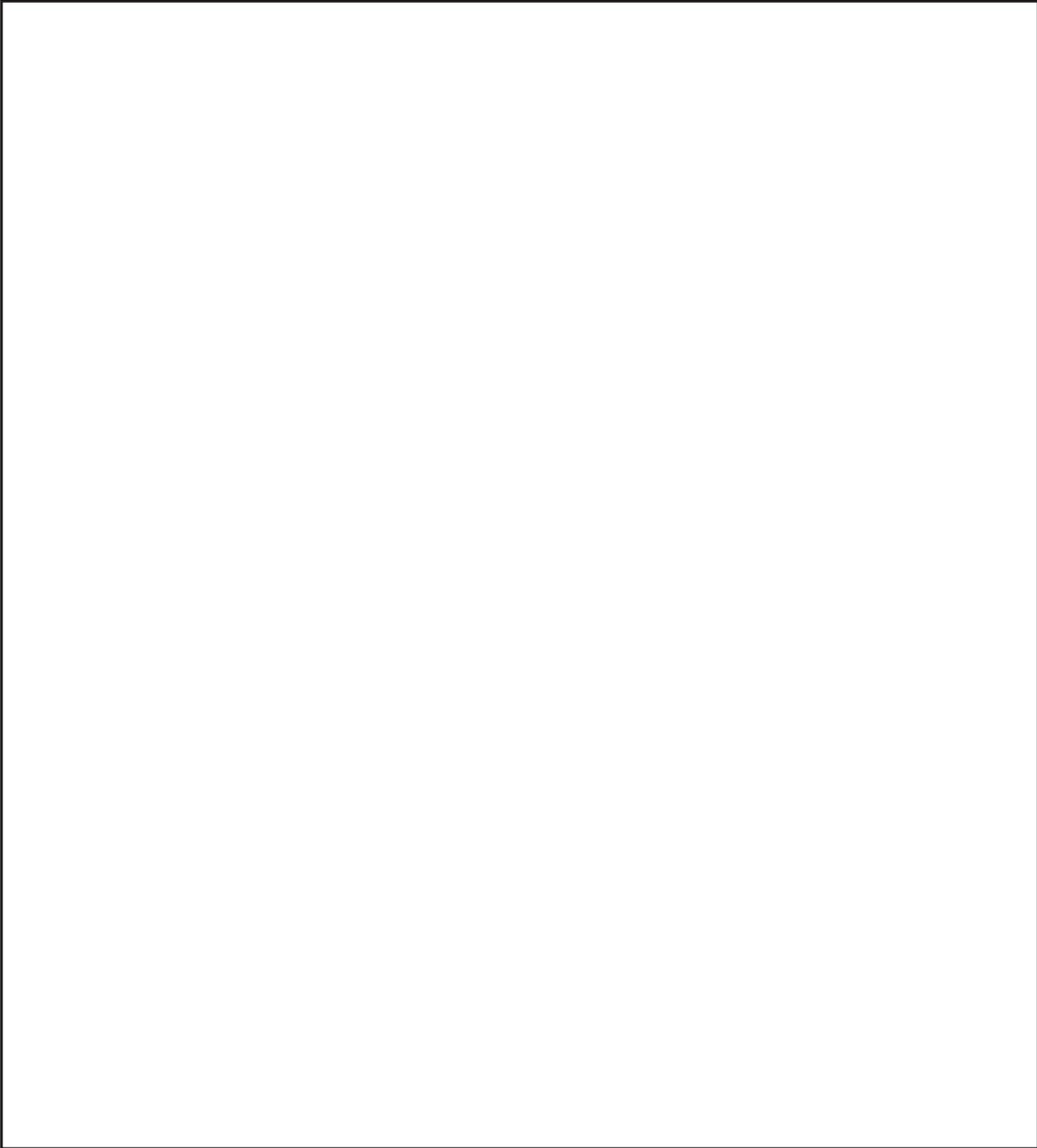
### 11 Principles of internal checks and control accounts

- (a) Understand the need for internal checks
- (b) Complete postings to control accounts and understand the link to books of prime entry
- (c) Understand the need for individual receivables and payables accounts and understand the link to books of prime entry
- (d) Explain the purpose of control accounts
  - (i) as a check on the accuracy of entries in the individual accounts
  - (ii) to establish a total of receivables and payables at any time
  - (iii) to identify errors in the completion of the day book and in posting the totals from books of prime entry
  - (iv) as an internal check; the control account should be administered by someone other than the person who completes the day books

- (e) Perform a basic control account reconciliation
- (f) Identify errors which would be highlighted by performing a control account reconciliation

### 12 Preparing an initial trial balance and recognising and correcting errors

- (a) Compile an initial trial balance
- (b) Identify errors which would be highlighted by the extraction of a trial balance
- (c) Identify and explain different types of errors:
  - (i) errors of commission
  - (ii) errors of principle
  - (iii) errors of omission
  - (iv) single entry
  - (v) transposition errors
  - (vi) casting errors
- (d) Distinguish between compensating and non-compensating errors
- (e) Prepare and explain the function of a suspense account
- (f) Correct errors using journal entries



JUNE AND DECEMBER 2009 – STUDY GUIDE  
CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

Paper 10  
Managing Finances

# Introduction

This booklet contains the Study Guide for Paper 10: Managing Finances

The Study Guide is designed to help you plan your studies and to provide more detailed interpretation of the syllabus for ACCA's Certified Accounting Technician examinations. It contains both the Syllabus and the Study Sessions for the paper, which you can follow when preparing for the examination.

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e-mail: [info@accaglobal.com](mailto:info@accaglobal.com)

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## AIMS

To develop knowledge and understanding of the way organisations finance their operations, plan and control cash flows, optimise their use of working capital and allocate resources to capital expenditure projects.

## OBJECTIVES

On completion of this paper, candidates should be able to:

- describe the cash flow cycle
- describe sources of short, medium and long-term finance
- prepare cash budgets and cash flow forecasts
- explain the principles of effective working capital management
- calculate working capital requirements
- describe credit management methods and procedures
- describe cash management methods and procedures
- make short-term decisions to enhance business performance
- evaluate capital expenditure proposals.

## POSITION OF THE PAPER IN THE OVERALL SYLLABUS

Paper 10 will build on the knowledge of the main receipts and payments that an organisation has and the methods of recording these receipts and payments, developed in the Introductory and Intermediate Level papers.

There are also links with other Advanced Level papers, particularly:

- budgets, forecasts, time series analysis and index numbers in Paper 7, *Planning, Control and Performance Management*
- interpretation of limited company financial statements in Paper 6, *Drafting Financial Statements*.

However, there will not be a presumption of any prior knowledge from the other Advanced Level papers.

## SYLLABUS CONTENT

### 1 Cash receipts and payments

- (a) Types of receipts and payments
- (b) Cash budgets and forecasts
  - (i) form and structure of cash budgets and forecasts
  - (ii) modelling of sensitivity of elements to change (e.g. price, wage rate changes)

- (iii) preparation of cash budgets, including adjustments for timing
- (iv) preparation of simple cleared funds forecasts
- (v) budgets and forecasts as mechanisms of monitoring and control
- (c) Accounting for cash
  - (i) relationship of cash flow accounting to accruals accounting
  - (ii) profits and cash flow
- (d) Cash management
  - (i) role of the treasury function
  - (ii) cash handling procedures

### 2 Cash balances

- (a) Surplus funds
  - (i) types of investments
  - (ii) investment risk and exposure
  - (iii) short and long-term investment management
- (b) Liquidity management
  - (i) optimum liquidity levels
  - (ii) liquidity ratios and the working capital cycle
  - (iii) comparison with cash budgets and forecasts
  - (iv) legal relationship between bank and customer
  - (v) statutory and other regulations relating to cash management of public sector organisations

### 3 Working capital management

- (a) Importance of working capital management
- (b) Working capital cycle
- (c) Inventory control
  - (i) inventory ordering and storing policies
  - (ii) economic order quantity
  - (iii) impact of lean manufacturing and just-in-time
- (d) Control of accounts payable
  - (i) monitoring of accounts payable
  - (ii) payment procedures
  - (iii) risks of excess credit

### 4 Credit granting

- (a) Information sources
  - (i) internal sources of credit information

# Managing Finances

- (ii) external sources of credit information
- (iii) interpretation of credit information
- (b) Credit terms
  - (i) credit policies
  - (ii) individual customers
- (c) Accounts receivable records
  - (i) content of records
  - (ii) data protection issues
- (d) Legal issues
  - (i) basic contract
  - (ii) terms and conditions of contracts relating to the granting of credit

## 5 Debt collection

- (a) Monitoring of accounts receivables
  - (i) internal sources
  - (ii) external sources
- (b) Collection of accounts receivable
  - (i) methods of collection
  - (ii) factoring arrangements
  - (iii) invoice discounting
  - (iv) accounts receivable insurance
- (c) Dealing with slow-paying credit-customers
  - (i) identification of potential problems
  - (ii) methods of contacting credit customers
  - (iii) legal procedures for recovery of debts and breach of contract
  - (iv) bankruptcy and insolvency of credit customers

## 6 Sources of finance

- (a) Overview of the economic environment
  - (i) banking system and money market in the UK
  - (ii) relationship between financial institutions
  - (iii) impact of government and central bank monetary policy
- (b) Sources of finance

Discussion of the relative risks and costs of various types of finance and their suitability to different circumstances and organisations (large and small, listed and unlisted), including:

- (i) balance of short / medium / long-term finance
- (ii) the nature and importance of internally generated funds
- (iii) capital markets
- (iv) bank finance (short, medium and long-term)
- (v) hire purchase, finance and operating leases
- (vi) trade credit
- (vii) government sources
- (viii) problems of small and medium-sized enterprise financing
- (ix) venture capital and other financial sources particularly suited to the small and medium sized enterprises
- (c) Calculations for relative gearing and EPS under different financial structures

## 7 Short-term decisions

Application of the following principles:

- (a) Cost behaviour and cost volume profit analysis
- (b) Break-even charts and profit-volume charts
- (c) Make or buy decisions
- (d) Opportunity costs and relevant costs

## 8 Capital investments

- (a) Nature of capital investment budgeting
- (b) Capital investment procedures (authorisation and monitoring)
- (c) Non-discounted cash flow methods of project appraisal
  - (i) accounting rate of return
  - (ii) payback
- (d) Discounted cash flow techniques
  - (i) time value of money
  - (ii) compounding and discounting
  - (iii) relevant cash flows
  - (iv) net present value
  - (v) internal rate of return
  - (vi) discounted payback

## EXCLUDED TOPICS

The following topics are specifically excluded from Paper 10:

- detailed knowledge of bankruptcy and insolvency legislation
- double entry for bad and doubtful debts
- NPV calculations for tax, inflation and working capital.

## KEY AREAS OF THE SYLLABUS

The key topic areas are:

- sources of finance
- cash budgets
- working capital management
- credit management
- short-term decisions
- capital investment appraisal.

## APPROACH TO EXAMINING THE SYLLABUS

The examination is a three-hour paper combining multiple choice questions and written questions as follows:

	<i>No. of marks</i>
Section A: 10 multiple-choice questions:	20
Section B: 4 written questions (20 marks each):	80
	———
Total	100

## RELEVANT TEXTS

There are a number of sources from which you can obtain a series of materials written for the ACCA CAT examinations. These are listed below:

ACCA's official publishers:

### BPP Learning Media

Contact number: +44(0)20 8740 2222

Website: [www.bpp.com](http://www.bpp.com)

### Kaplan Publishing

Contact number: +44(0)118 989 0629

Website: [www.kaplanpublishing.co.uk](http://www.kaplanpublishing.co.uk)

Additional reading:

Accountancy Tuition Centre (ATC)

International

Contact: [ronnie.smith@atc-global.com](mailto:ronnie.smith@atc-global.com)

Website: [www.atc-global.com](http://www.atc-global.com)

Wider reading is also desirable, especially regular study of relevant articles in ACCA's *student accountant* magazine.

## STUDY SESSIONS

### 1 The nature of cash and cash flows

- (a) Define cash, cash flow and funds
- (b) Explain the importance of cash flow management and its impact on liquidity and company survival

### 2 The cash flow cycle and accounting for cash

- (a) Outline the various sources and applications of finance
  - (i) regular revenue receipts and payments
  - (ii) capital receipts and payments
  - (iii) drawings or dividends and disbursements
  - (iv) exceptional receipts and payments
- (b) Distinguish between the cash flow patterns of different types of organisations
- (c) Explain the importance of cash flow for sustainable growth of such organisations
- (d) Define "cash accounting" and "accruals accounting"
- (e) Explain the difference between cash accounting and accruals accounting
- (f) Reconcile cash flow to profit

### 3 Overview of financial markets

- (a) Explain the structure of a banking system
- (b) Explain the role and functions of various types of banks (including central and commercial banks)
- (c) Identify the major financial intermediaries
- (d) Outline the general roles of financial intermediaries
- (e) Outline the key benefits of financial intermediation
- (f) Outline the relationships between financial institutions
- (g) Explain the basic nature of a money market

# Managing Finances

## 4 Cash in the economy

- (a) Define what is meant by “money supply” in an economic context
- (b) Outline how money supply may be controlled in an economy
- (c) Outline the basic relationship between the demand for money and interest rates
- (d) Describe how the application of different monetary policies can affect the economy (for example, effect on inflation)

## 5 Types of finance and short-term finance

- (a) Discuss the relative merits and limitations of short/medium/long term finance
- (b) Outline the key factors that should be considered in deciding the mix of short/medium/long term finance in an organisation
- (c) Discuss the nature and importance of internally generated funds
- (d) Outline the major sources of government funds e.g. grants, regional and national schemes
- (e) Discuss situations where it may be appropriate to raise short-term finance
- (f) Outline the different forms of bank loans and overdrafts, their terms and conditions
- (g) Explain the legal relationship between bank and customer
- (h) Explain the nature of trade credit and its use as a short-term source of finance
- (i) Evaluate the risks associated with increasing the amount of short-term finance in an organisation

## 6 Medium-term finance

- (a) Discuss situations where it may be appropriate to raise medium-term finance
- (b) Describe the main features of hire purchase, finance leases and operating leases
- (c) Compare and contrast the main features of hire purchase, finance leases and operating leases  
(NB – lease or buy decisions are not examinable)

## 7 Long-term finance 1

- (a) Discuss situations where it may be appropriate to raise long-term finance
- (b) Outline the key factors to be considered when deciding on an appropriate source of long term finance (debt or equity)
- (c) Calculate relative gearing and earnings per share under different financial structures

## 8 Long-term finance 2

- (a) Describe the way in which a stock market (both main and second tier) operates
- (b) Discuss ways in which a company may obtain a stock market listing
- (c) Explain the advantages and disadvantages of having a stock market listing
- (d) Outline the features of different types of securities (equity, preference, debt, convertible debt, warrants)

## 9 Sources of finance for small and medium sized enterprises 1

- (a) Outline the requirements for finance of SMEs (purpose, how much, how long)
- (b) Describe the nature of the financing problem for SMEs in terms of the funding gap, maturity gap and inadequate security
- (c) Discuss the contribution of lack of information in SMEs to help explain the problems of SME financing
- (d) Describe and discuss the response of government agencies and financial institutions to the SME financing problem

## 10 Sources of finance for small and medium sized enterprises 2

- (a) Describe the main features of venture capital
- (b) Describe the key areas of concern to venture capitalists when evaluating an application for funding
- (c) Explain how the use of such measures as credit suppliers, hire purchase, factoring and second tier listing can help to ease the financial problems of SMEs
- (d) Outline appropriate sources of finance for SMEs

## 11 Inflation

- (a) Define inflation
- (b) Explain the nature of inflation
- (c) Explain briefly the interaction between inflation and interest rates
- (d) Evaluate and demonstrate the impact of inflation on cash flow and profits (note calculations are required)
- (e) Explain how organisations may protect themselves against the effects of inflation
- (f) Discuss the possible consequences of inflation in an economy
- (g) Discuss the effects of inflation on organisations in general

## 12 Investing surplus funds 1

- (a) Define what is meant by "surplus funds"
- (b) Explain how surplus funds may arise
- (c) Discuss the objectives to be considered in the investment of surplus funds
- (d) Define the risk-return trade-off
- (e) Outline what is meant by risk of default, systematic risk and unsystematic risk
- (f) Outline how the Baumol cash management model works (note – calculations are not required)
- (g) Discuss the limitations of the Baumol cash management model
- (h) Suggest appropriate liquidity levels for a range of different organisations

## 13 Investing surplus funds 2

- (a) Explain the purpose and main features of:
  - (i) bank deposits
  - (ii) certificates of deposit
  - (iii) government stocks
  - (iv) local authority short term loans
  - (v) bills of exchange
- (b) Explain the purpose and main features of:
  - (i) debentures
  - (ii) unsecured loan stocks
  - (iii) convertibles

- (iv) corporate preference shares (cumulative, participating, convertible, redeemable)
- (v) permanent interest bearing securities

## 14 Review of sessions 1 – 13

## 15 Cash management

- (a) Outline the basic treasury functions
- (b) Discuss the advantages and disadvantages of a centralised treasury function
- (c) Discuss the advantages and disadvantages of centralised cash control
- (d) Describe cash handling procedures
- (e) Outline the issues to be considered when attempting to hold optimal cash balances
- (f) Outline the statutory and the other regulations relating to the management of cash balances in public sector organisations.

## 16 & 17 Cash Budgets

- (a) Explain the objectives of a cash budget
- (b) Prepare a cash budget, including adjustments for timing of receipts and payments
- (c) Discuss how cash budgets can be used as a mechanism for monitoring and control
- (d) Carry out simple sensitivity analysis on a cash budget or forecast
- (e) Prepare a simple cleared funds forecast

## 18 Decision-making - short-term decisions

- (a) Describe the relationship between fixed and variable costs and the time horizon under consideration
- (b) Explain the advantages and limitations of different costing methods when used in decision-making (marginal and absorption costing)
- (c) Describe the concept of relevant costs and its importance for decision-making

# Managing Finances

- (d) Outline the advantages and limitations of using short-term decisions
- (e) Describe the qualitative factors that may influence short-term decisions
- (f) Prepare reports making recommendations for management action in connection with short-term decisions

## 19 Cost/volume/profit (CVP) relationships

- (a) Calculate and explain the break-even point in single product situations
- (b) Analyse the effect on the break-even point of changes in sales price and costs
- (c) Prepare and explain the break-even charts and profit volume charts
- (d) Describe the advantages and limitations of breakeven analysis for management decision-making

(Note: break-even analysis will only be examined in the context of single product situations)

## 20 Capital budgeting

- (a) Discuss the importance of capital investment planning and control
- (b) Outline the issues to consider and the steps involved in the preparation of a capital expenditure budget
- (c) Define and distinguish between capital and revenue expenditure
- (d) Compare and contrast investment in fixed assets and investment in working capital
- (e) Describe capital investment procedures (authorisation and monitoring)
- (f) Calculate the payback of a project and assess its usefulness as a method of investment appraisal
- (g) Calculate the discounted payback of a project and assess its usefulness as a method of investment appraisal
- (h) Calculate the accounting rate of return of a project and assess its usefulness as a method of investment appraisal

## 21 Financing concepts

- (a) Explain the differences between simple and compound interest
- (b) Calculate future values
- (c) Discuss the concept of time value of money
- (d) Discuss the concept of discounting
- (e) Calculate present values, making use of present value tables to establish discount factors

## 22 Capital investment decisions 1

- (a) Discuss the concept of relevant cash flows for decision making
- (b) Identify and evaluate relevant cash flows for individual investment decisions
- (c) Explain the concept of net present value and how it can be used for project appraisal
- (d) Calculate net present value and interpret the results (Note: NPV calculations will not include adjustments for inflation, tax or working capital)

## 23 Capital investment decisions 2

- (a) Outline the concept of internal rate of return and how it can be used for project appraisal
- (b) Calculate internal rate of return and interpret the results
- (c) Discuss the relative merits of NPV and IRR, including mutually exclusive projects and multiple yields
- (d) Calculate payback, discounted payback and accounting rate of return
- (e) Explain the superiority of DCF methods over payback and accounting rate of return

## 24 Working capital management

- (a) Define working capital
- (b) Explain why working capital management is important
- (c) Explain the relationship between cash flows and the working capital cycle
- (d) Demonstrate the calculation of the working capital cycle (also known as the cash operating cycle)

- (e) Outline the possible relationships between inventory levels and sales
- (f) Define and explain over-trading and over-capitalisation
- (g) Identify and calculate over-trading and over-capitalisation financial indicators

## 25 Inventory control

- (a) Discuss the key considerations when developing an inventory ordering and storage policy
- (b) Define and explain work in progress
- (c) Define economic order quantity (EOQ)
- (d) Apply the EOQ model
- (e) Discuss the effects of just-in-time on inventory control  
(Note: Economic Batch Quantities, where all items in a batch do not arrive simultaneously, will not be examined)

## 26 Accounts payables control

- (a) Explain the role of accounts payables in the working capital cycle
- (b) Explain the need to monitor accounts payables
- (c) Explain accounts payables control operations and the importance of accounts payables management
- (d) Describe the various types and form of accounts payables
- (e) Describe the various accounts payables payment methods and procedures (for example, direct debit, cheque)
- (f) Evaluate and demonstrate the issues involved with early payment and settlement discounts
- (g) Identify the risks of taking increased credit and buying under extended credit terms

## 27 Accounts receivables control 1

- (a) Explain the role of accounts receivables in the working capital cycle
- (b) Explain the importance of credit management, including the level of trade credit, the role of the credit control function and the activities of the credit control function
- (c) Explain the need to establish a credit policy and outline the steps involved, including setting maximum credit amounts and periods and total credit levels

- (d) Explain the key categories that should be considered when assessing the credit-worthiness of a customer
- (e) Outline the various internal sources of information that may be used in assessing the credit-worthiness of a customer
- (f) Outline the various external sources of information that may be used in assessing the credit-worthiness of a customer
- (g) Define and explain credit scoring
- (h) Identify possible reasons for rejecting an application for credit

## 28 Accounts receivables control 2

- (a) Outline how the financial statements of a customer can be used to assess the credit-worthiness of a customer
- (b) Identify and apply the common ratios that may be used to analyse the financial statements of a customer in order to assess their credit-worthiness
- (c) Evaluate the usefulness and limitations of ratio analysis in assessing credit-worthiness

## 29 Accounts receivables control 3

- (a) Identify the main contents of accounts receivables records
- (b) Identify the main data protection issues that should be considered when dealing with accounts receivables records
- (c) Describe the main internal sources that may be used to monitor accounts receivables (including aged trade receivables analysis, average periods of credit, incidence of bad debts). Note - you may be required to prepare an aged accounts receivables analysis
- (d) Describe the main external sources that may be used to monitor accounts receivables (including credit agencies, industry sources, financial reports, press coverage)
- (e) Outline ways in which credit customers could be encouraged to pay promptly

## 30 Collection of debts

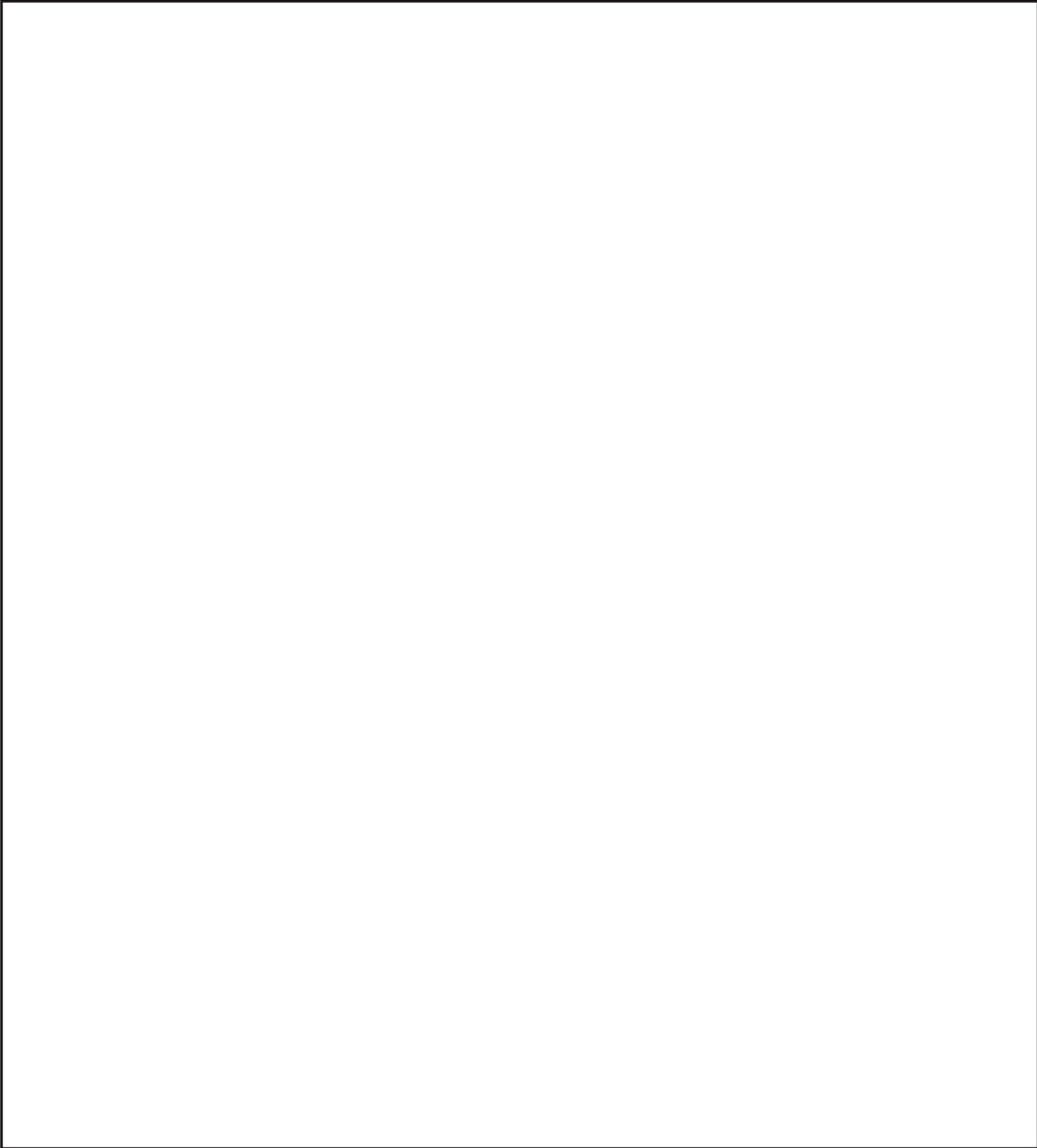
- (a) Identify the main methods used to identify potential problems with credit customers meeting their payment obligations

- (b) Outline the main techniques that may be used to assist in the collection of overdue debts
- (c) Describe how factoring works and the main types of service provided by factors
- (d) Define invoice discounting and outline how this form of factoring works
- (e) Calculate the cost of factoring arrangements, invoice discounting and changes in credit policy

**31 Legal issues**

- (a) Explain the key elements of a basic contract (offer, acceptance, etc)
- (b) Briefly outline specific terms and conditions that may be included in contracts with credit customers (e.g. length of credit period, amount of interest on late payments, retention of title)
- (c) Outline the basic legal procedures for the collection of debts

**Revision**



JUNE & DECEMBER 2009 – STUDY GUIDE  
CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

Paper 2  
Information for Management  
Control

# Introduction

This booklet contains the Study Guide for the ACCA's Certified Accounting Technician Paper 2: Information for Management Control.

The Study Guide is designed to help you plan your studies and to provide more detailed interpretation of the syllabus for ACCA's Certified Accounting Technician examinations. It contains both the Syllabus and the Study Sessions for the paper, which you can follow when preparing for the examination.

The Syllabus outlines the content of the paper and how that content is examined. The Study Sessions take the syllabus and expand it into teaching or study sessions of similar length. These sessions indicate what the examiner expects of candidates for each part of the syllabus, and therefore gives you guidance in the skills you are expected to demonstrate in the examinations. The time to complete each session will vary according to your individual capabilities and the time you have available to study. Tuition providers offering face-to-face tuition are recommended to design courses with a minimum of two hours tuition per study session. However, repeated coverage of the material is vital to ensure your understanding and recall of the subject. Be sure to practice past examination questions to consolidate your knowledge and read your *student accountant* magazine regularly.

If you have any queries concerning the study guide, please direct them to:

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Additional information can be accessed on the ACCA website at:  
[www.accaglobal.com](http://www.accaglobal.com)

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January 2009

## **ABOUT ACCA**

ACCA is the largest and fastest-growing international accountancy body with 296,000 students and 115,000 members in 170 countries. We aim to offer first choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management. ACCA works to achieve and promote the highest professional, ethical and governance standards and advance the public interest.

# Information for Management Control

## AIMS

To develop the ability to use a computer system safely and effectively and to understand the need for data and information to be kept confidential and secure. To develop knowledge and an understanding of how organisations provide basic management information for decision-making, planning and control.

## OBJECTIVES

On completion of this paper, candidates should be able to:

- carry out simple visual safety checks on hardware and follow appropriate powering up and shutting down procedures
- understand the purpose of passwords
- access, amend, save and print documents and other files and exit from the relevant software
- use appropriate computer file and folder names
- follow procedures for taking back-up copies of computer files
- understand different types of risk including viruses and hacking
- understand relevant security and legal regulations covering data protection, copyright, health and safety and record retention
- seek assistance when difficulties occur when working with computers
- recognise the need for management information
- identify different elements of cost
- identify different sources of income and expenditure
- code and extract income and expenditure correctly
- deal with problems / errors correctly
- provide comparisons on costs and income
- use relevant software applications to access, analyse, present and communicate information (accounting package, spreadsheet, word processing, e-mail)
- handle confidential information in the correct manner
- present information using house style.

## POSITION OF THE PAPER IN THE OVERALL SYLLABUS

No prior knowledge is required before commencing study for Paper 2. This paper provides the basic techniques required to use a computer system safely and to effectively recognise, provide and maintain management information.

Candidates require a sound understanding of the methods and techniques covered in this paper to enable them to move on to the

more complex systems and management control problems covered at subsequent levels.

Some of the methods introduced in this paper are revisited and extended in Paper 4, *Accounting for Costs*.

## SYLLABUS CONTENT

### 1 Use computer systems safely and effectively

- (a) Visual safety checks
  - (i) hardware components
  - (ii) plugs and cables
- (b) Types of system
  - (i) stand-alone PC
  - (ii) networked system
  - (iii) mainframe with terminals

### 2 Security, confidentiality and legal issues

- (a) Confidentiality
  - (i) system access controls
  - (ii) individual file (document or spreadsheet) protection
- (b) Security
  - (i) back-up copies
  - (ii) archiving
  - (iii) secure storage
  - (iv) theft and fraud
- (c) Legal regulations
  - (i) data protection legislation
  - (ii) VDU regulations
  - (iii) computer-related Health and Safety
  - (iv) document and record retention

### 3 Management information

- (a) Introduction to management information
  - (i) the relationship between financial and management accounting
  - (ii) the purpose of management information: decision making, planning and control
- (b) Reporting management information
  - (i) methods of extracting, analysing, presenting and communicating information (including letter, memo, report and e-mail message)

# Information for Management Control

- (ii) handling confidential information
- (iii) using software to perform (b)(i) and (ii) when relevant
- (iv) understanding of the organisation's accounting systems and administrative procedures

## 4 Income and expenditure

- (a) Elements of cost
  - (i) materials
  - (ii) labour (including makeup of gross pay)
  - (iii) expenses
- (b) Responsibility centres
  - (i) cost centres
  - (ii) profit centres
  - (iii) investment centres
- (c) Relevant documents / sources of information
  - (i) purchase orders and purchase invoices
  - (ii) sales orders and sales invoices
  - (iii) policy manual
  - (iv) payroll
  - (v) management reports and spreadsheets
- (d) Organisational structures
  - (i) coding systems
  - (ii) cost classification

## 5 Comparisons

- (a) Sources of information for comparison
  - (i) previous period data
  - (ii) corresponding period data
  - (iii) forecast data
  - (iv) ledgers
- (b) Variances
  - (i) adverse / favourable
  - (ii) exception reporting
  - (iii) controllable / non-controllable
  - (iv) reports

## 6 Decision-making

- (a) Marginal costing
  - (i) contribution
  - (ii) break-even
  - (iii) margin of safety

- (b) Management information
  - (i) extraction from relevant sources
  - (ii) use in decision-making
  - (iii) role in organisation

## EXCLUDED TOPICS

The following topics are specifically excluded from Paper 2:

- software and systems development
- database design and database software.

## KEY AREAS OF THE SYLLABUS

All areas of the syllabus are equally important.

## APPROACH TO EXAMINING THE SYLLABUS

The examination is a two-hour paper. It can be taken as a written paper or as a computer based exam. Assessment will be based on multiple choice questions covering the breadth of the syllabus, testing that candidates have acquired the necessary knowledge of the areas identified above.

	<i>No. of marks</i>
50 multiple choice questions:	100

## RELEVANT TEXTS

There are a number of sources from which you can obtain a series of materials written for the ACCA CAT examinations. These are listed below:

ACCA's official publishers:

### BPP Learning Media

**Contact number: +44(0)20 8740 2222**

**Website: [www.bpp.com](http://www.bpp.com)**

### Kaplan Publishing

**Contact number: +44(0)118 989 0629**

**Website: [www.kaplanpublishing.co.uk](http://www.kaplanpublishing.co.uk)**

Wider reading is also desirable, especially regular study of relevant articles in ACCA's *student accountant* magazine.

## STUDY SESSIONS

### 1 Nature, safety and use of computer systems

- (a) Describe the different types of hardware configuration: stand-alone PC, networked system, mainframe with terminals
- (b) Explain where the different types of hardware configuration may be used
- (c) Describe the hardware and software components of a computer system
- (d) Describe simple visual safety checks on computer hardware and ancillaries (plugs and cables) and explain their importance
- (e) Describe the correct process for powering up and for shutting down computer systems
- (f) Describe how to save, transfer and print documents
- (g) Outline the requirements of health and safety legislation related to the use of computer hardware

### 2 Computer system confidentiality and security

- (a) Explain computer system access controls and procedures for individual file protection
- (b) Describe procedures for backing-up, archiving and storing information securely
- (c) Discuss the prevention of computer fraud and data corruption, and of hardware/software problems and failure
- (d) Discuss security issues related to the location of hardware and software
- (e) Outline the requirements of data protection legislation relating to computer software/information

### 3 Introduction to management information

- (a) Discuss the purpose of management information: planning, control and decision-making
- (b) Distinguish between data and information
- (c) Describe the features of useful management information
- (d) Describe and identify sources and categories of information
- (e) Compare cost and management accounting with external financial reporting
- (f) Explain the limitations of cost and management accounting information

- (g) Describe the accounting technician's role in a cost and management accounting system

### 4 Reporting management information

- (a) Discuss methods of analysing, presenting and communicating information
- (b) Describe the nature of general purpose application software packages, including word processing and spreadsheets
- (c) Identify suitable formats for communicating management information according to purpose
- (d) Identify the general principles of distributing reports (e.g. procedures, timing, recipients) including the reporting of confidential information
- (e) Interpret information presented in management reports

### 5 Aspects of business organisation and accounting

- (a) Describe the organisation, and main functions, of an office as a centre for information and administration
- (b) Describe the function and use of a manual of policies, procedures and best practices
- (c) Identify the main types of transactions undertaken by a business and the key personnel involved in initiating, processing and completing transactions
- (d) Discuss the need for effective control over transactions
- (e) Explain and illustrate the principles and practice of double-entry book-keeping
- (f) Describe and illustrate the use of ledgers and prime entry records in both integrated and interlocking accounting systems
- (g) Identify the key features, functions and benefits of a computerised accounting system

### 6 Management responsibility and performance measurement

- (a) Explain and illustrate the concept of cost centres
- (b) Explain and illustrate the concept of profit centres
- (c) Explain and illustrate the concept of investment centres
- (d) Describe performance measures appropriate to cost, profit and investment centres (cost / profit per unit / % of sales; efficiency, capacity utilisation and production volume ratios; ROCE / RI, asset turnover)
- (e) Apply performance measures appropriate to cost, profit and investment centres

# Information for Management Control

## 7 Cost units, cost classification and profit reporting

- (a) Explain and illustrate the concept of cost units
- (b) Describe the variety of cost classifications used for different purposes in a cost accounting system, including by responsibility, function, behaviour, direct/indirect
- (c) Describe and illustrate the nature of variable, fixed and mixed (semi-variable, stepped-fixed) costs
- (d) Describe and illustrate the classification of material and labour costs
- (e) Prepare, and explain the nature and purpose of, profit statements in absorption and marginal costing formats
- (f) Calculate the cost of a product or service

## 8 Elements of cost

- (a) Describe and illustrate the accounting for material costs (NB stock issue pricing is excluded)
- (b) Calculate material requirements, making allowance for sales and product/material inventory changes (NB control levels and EOQ are excluded)
- (c) Describe and illustrate the accounting for labour costs (including overtime premiums and idle time)
- (d) Prepare an analysis of gross earnings
- (e) Explain and illustrate labour remuneration methods
- (f) Calculate the effect of remuneration methods and changes in productivity on unit labour costs
- (g) Explain and illustrate the process of cost apportionment and absorption for indirect costs (excluding reciprocal services)

## 9 Source documents and coding

- (a) Explain the use of codes in categorising and processing transactions and the importance of correct coding
- (b) Describe the material control cycle (including the concept of 'free' inventory, but excluding control levels and EOQ) and the documentation necessary to order, receive, store and issue materials
- (c) Describe the procedures required to ensure the correct authorisation, coding, analysis and recording of direct and indirect material costs
- (d) Describe the procedures and documentation required to ensure the correct coding, analysis and recording of

direct and indirect labour costs

- (e) Describe the procedures and documentation required to ensure the correct authorisation, coding, analysis and recording of direct and indirect expenses
- (f) Describe the procedures and documentation to ensure the correct coding, analysis and recording of sales

## 10 Information for comparison

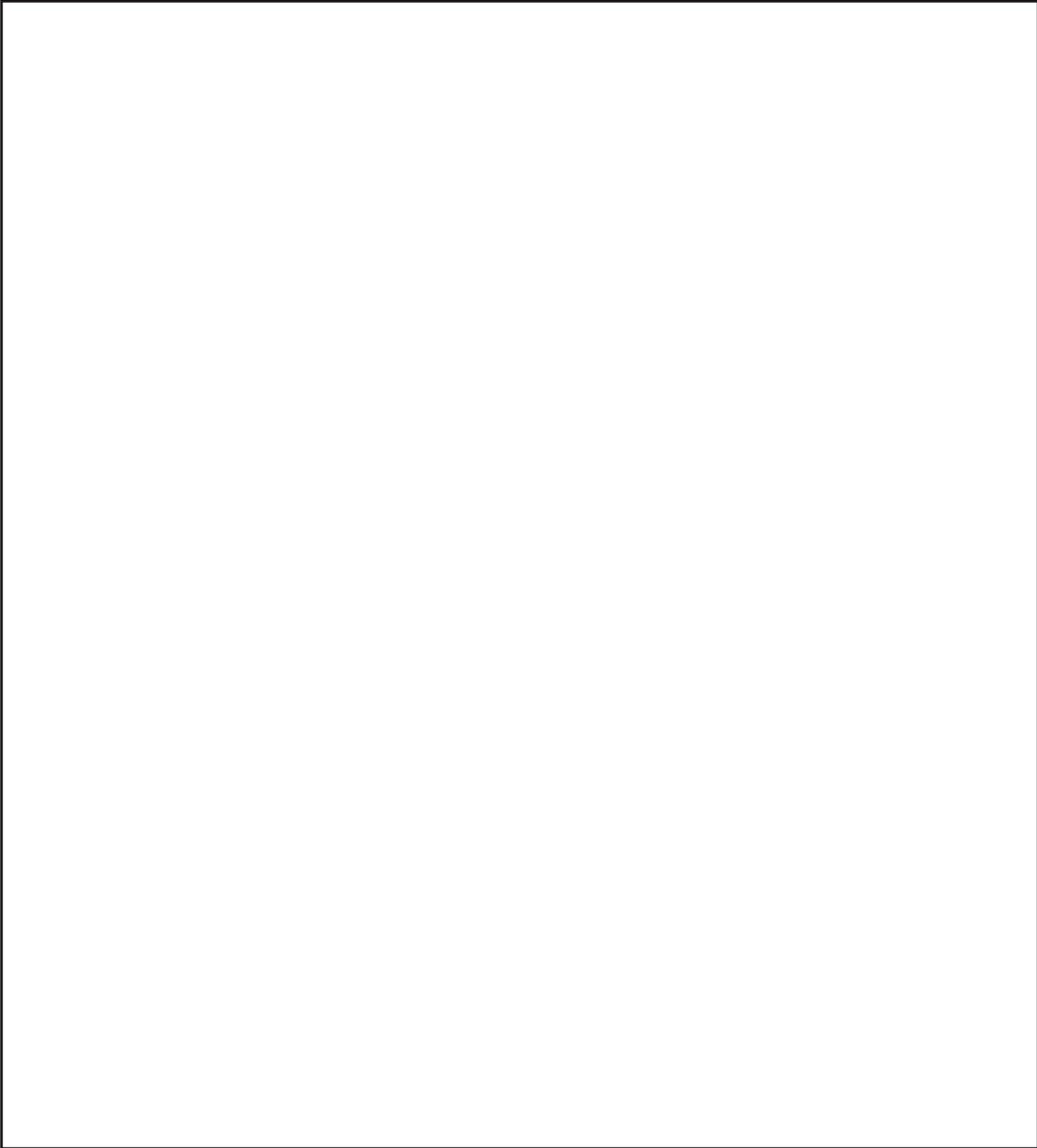
- (a) Explain the purpose of making comparisons
- (b) Identify relevant bases for comparison: previous period data, corresponding period data, forecast/budget data
- (c) Explain the forecasting/budgeting process and the concept of feedforward and feedback control
- (d) Explain the concept of flexible budgets
- (e) Use appropriate income and expenditure data for comparison

## 11 Variances

- (a) Explain the concept of exception reporting
- (b) Calculate variances between current actual and historical/forecast data which may or may not be adjusted for volume change (N.B. standard costing is excluded)
- (c) Identify whether variances are favourable or adverse
- (d) Identify possible causes of variances
- (e) Explain factors affecting the decision whether to investigate variances

## 12 Marginal costing and decision-making

- (a) Explain and illustrate the concept of contribution
- (b) Calculate and utilise contribution per unit, per £ of sales and per unit of limiting factor
- (c) Explain and calculate the break-even point and the margin of safety
- (d) Analyse the effect on break-even point and margin of safety of changes in selling price and cost
- (e) Describe the assumptions, uses and limitations of marginal costing and break-even analysis



JUNE AND DECEMBER 2009 – STUDY GUIDE  
CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

Paper 3 (INT)  
Maintaining Financial  
Records

# Introduction

This booklet contains the Study Guide for ACCA's Certified Accounting Technician Paper 3 (INT): Maintaining Financial Records.

The Study Guide is designed to help you plan your studies and to provide more detailed interpretation of the syllabus for ACCA's Certified Accounting Technician examinations. It contains both the Syllabus and the Study Sessions for the paper, which you can follow when preparing for the examination.

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Additional information can be accessed on the ACCA website at:  
[www.accaglobal.com](http://www.accaglobal.com)

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## **ABOUT ACCA**

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# Maintaining Financial Records (INT)

## AIMS

To develop knowledge and understanding of the techniques used to maintain accounting records and prepare final accounts of unincorporated entities.

## OBJECTIVES

On completion of this paper candidates should be able to:

- understand, describe and apply relevant accounting concepts, policies and standards
- maintain records relating to capital acquisition and disposal
- prepare reconciliations for the preparation of final accounts
- identify, calculate and record appropriate adjustments
- prepare and complete the extended trial balance
- prepare final accounts for a sole trader
- prepare final accounts for a partnership.

## POSITION OF THE PAPER IN THE OVERALL SYLLABUS

Before commencing this paper, a thorough knowledge of Paper 1, *Recording Financial Transactions*, is required. Paper 3 builds on the knowledge acquired in Paper 1, enabling students to prepare final accounts for a sole trader and for partnerships. This knowledge is further developed in Paper 6, *Drafting Financial Statements* which will enable students to prepare final accounts for limited liability companies.

## SYLLABUS CONTENT

### 1 Basic bookkeeping

- (a) The nature and confidentiality of business transactions
- (b) Double entry bookkeeping
- (c) Capital and revenue expenditure
- (d) Assets, liabilities, revenue and expenses
- (e) Initial trial balance
- (f) Format of simple final accounts
  - (i) income statement
  - (ii) statement of financial position (balance sheet)
- (g) The organisation's policies, regulations and timescales in the preparation of final accounts

### 2 Accounting standards, principles and policies

- (a) Accounting standards (IASs and IFRSs)
- (b) Accounting principles
  - (i) going concern
  - (ii) accruals
  - (iii) consistency
  - (iv) prudence
- (c) Accounting policies
  - (i) relevance
  - (ii) reliability
  - (iii) comparability
  - (iv) understandability

### 3 Non-current assets and depreciation

- (a) Non-current assets
  - (i) acquisition
  - (ii) asset register
  - (iii) accounting treatment
  - (iv) disposal
  - (v) part exchange
  - (vi) authorisation
  - (vii) maintenance of capital records
- (b) Depreciation
  - (i) straight line
  - (ii) reducing balance

### 4 Control accounts, reconciliations and errors

- (a) Reconciliations
  - (i) payables ledger reconciliation
  - (ii) receivables ledger reconciliation
  - (iii) bank reconciliation
- (b) Identification of errors
  - (i) incorrect double entry
  - (ii) missing entries
  - (iii) numerical errors
  - (iv) insufficient information
- (c) Correction of errors
  - (i) suspense account
  - (ii) journal entries

# Maintaining Financial Records (INT)

## 5 Adjustments to the trial balance

- (a) Accruals and prepayments
- (b) Depreciation
- (c) Irrecoverable debts and allowances for receivables
- (d) Closing inventory (and inventory valuation)
- (e) Extended trial balance
- (f) Provisions

## 6 Final accounts

- (a) Incomplete records
- (b) Sole trader accounts
  - (i) income statement
  - (ii) statement of financial position (balance sheet)
- (c) Partnership accounts
  - (i) income statement
  - (ii) appropriation of profit
  - (iii) statement of financial position (balance sheet)
  - (iv) partners' capital and current accounts

### EXCLUDED TOPICS

The following topics are specifically excluded from Paper 3:

- club accounts
- manufacturing accounts
- detailed knowledge of sales tax
- tax computations
- foreign currency transactions
- goodwill arising on admission of a new partner
- cash flow statements.

### KEY AREAS OF THE SYLLABUS

The key topic areas are as follows:

- accounting concepts, policies and standards
- non-current assets and depreciation
- control accounts and bank reconciliations
- correction of errors
- post trial balance adjustments
- incomplete records
- final accounts for sole traders and partnerships.

## APPROACH TO EXAMINING THE SYLLABUS

The examination is a two-hour paper. It can be taken as a written paper or as a computer based exam. The questions in the computer based exam are objective test questions – multiple choice, number entry and multiple response.

The written exam consists of two sections structured as follows:

	<i>No. of marks</i>
Section A – 20 compulsory multiple choice questions of two marks each	40
Section B – four compulsory questions of 15 marks each (Question 1 of Section B will comprise a number of short form questions of between two and five marks each)	60
Total	<hr style="width: 50px; margin-left: auto; margin-right: 0;"/> 100

## ADDITIONAL INFORMATION

Accounting standards will not be examined until six months after they have been issued. The cut off date for the June examination is 30 November preceding the June examination. The cut off date for the December examination is 31 May preceding the December examination.

## RELEVANT TEXTS

There are a number of sources from which you can obtain a series of materials written for the ACCA CAT examination. These are listed below:

ACCA's approved publishers:

### BPP Learning Media

Contact number: +44(0)20 8740 2222

Website: [www.bpp.com](http://www.bpp.com)

### Kaplan Publishing

Contact number: +44(0)118 989 0629

Website: [www.kaplanpublishing.co.uk](http://www.kaplanpublishing.co.uk)

# Maintaining Financial Records (INT)

Additional reading:

Accountancy Tuition Centre (ATC)  
International  
Website: [www.atc-global.com](http://www.atc-global.com)

Candidates may also find the following texts useful, although they should be aware that these are based on UK accounting standards:

Cox, D. *Business Accounts* (Osborne Books)

Wood, F and Sangster, A. *Business Accounting 1* (Pitman Publishing)

Wider reading is also desirable, especially regular study of relevant articles in ACCA's *student accountant* magazine.

## STUDY SESSIONS

### 1 Recording transactions

- (a) Understand the nature of business transactions, including the need to maintain confidentiality
- (b) Explain the basis of double entry bookkeeping
- (c) Explain and illustrate the dual aspect convention
- (d) Apply the accounting equation (and derivatives thereof)
- (e) Distinguish between assets, liabilities, revenue and expenses
- (f) Prepare journal entries to record transactions
- (g) Prepare ledger accounts
- (h) Understand how the structure of accounting records contributes to providing useful accounting information and complies with organisational policies and deadlines

### 2 The trial balance

- (a) Initial trial balance
  - (i) explain the purpose of the trial balance
  - (ii) identify the limitations of the trial balance
  - (iii) extract the ledger balances to form a trial balance

### 3 Introduction to final accounts

- (a) Explain the format and purpose of the income statement
- (b) Explain the format and purpose of the statement of financial position (balance sheet)

- (c) Explain the influence of organisational structure on accounting systems
- (d) Identify the users of final accounts and their needs

### 4 Basic framework of accounting

- (a) Principles of accounting
  - (i) explain and apply the basic principles of accounting:
    - business entity
    - double entry
    - historic cost
    - materiality
    - going concern
    - accruals
    - prudence
    - consistency
  - (ii) discuss the overriding need for the fair presentation of financial information
- (b) Accounting policies
  - (i) distinguish between accounting policies, accounting estimates and measurement bases
  - (ii) explain and discuss accounting policies and their objectives:
    - relevance
    - reliability
    - comparability
    - understandability
- (c) Regulation
  - (i) explain the role of International Accounting Standards and International Financial Reporting Standards

### 5 Assets

- (a) Capital and revenue expenditure
  - (i) distinguish between capital expenditure and revenue expenditure
  - (ii) calculate and explain the effect of incorrectly classifying capital expenditure as revenue expenditure, and vice versa, on the final accounts
- (b) Current assets
  - (i) define current assets
  - (ii) report current assets in the final accounts

## Maintaining Financial Records (INT)

### 6 Non-current assets I

- (a) Non-current assets
  - (i) define non-current assets
  - (ii) account for the acquisition of non-current assets
  - (iii) report non-current assets in the final accounts
- (b) Non-current asset records
  - (i) explain the purpose and function of an asset register
  - (ii) record data in an asset register
  - (iii) explain the purpose of data recorded in an asset register
  - (iv) explain how to identify and resolve any discrepancy between the asset register and the physical presence of assets
  - (v) explain the need for authorisation of the acquisition, disposal and part exchange of non-current assets

### 7 Non-current assets II

- (a) Depreciation
  - (i) define depreciation
  - (ii) explain the purpose of depreciation
  - (iii) calculate the charge for depreciation using the straight line and reducing balance methods
  - (iv) account for depreciation
- (b) Changes in non-current assets
  - (i) account for the disposal or scrapping of a non-current asset
  - (ii) account for the part exchange of a non-current asset
  - (iii) calculate the profit or loss arising on the disposal, scrapping or part exchange of a non-current asset

### 8 Errors

- (a) Identify different types of bookkeeping error
- (b) Distinguish between errors which will be detected by extracting a trial balance and those which will not
- (c) Identify and explain the action required to correct errors
- (d) Prepare correcting journal entries
- (e) Record correcting entries in the ledgers
- (f) Demonstrate how the income statement and statement of financial position (balance sheet) are affected by the correction of errors

### 9 Control and suspense accounts

- (a) Explain the purpose of a suspense account
- (b) Record entries in a suspense account
- (c) Make entries to clear a suspense account
- (d) Explain the nature and purpose of control accounts
- (e) Explain how control accounts relate to the double entry system

### 10 Payables ledger reconciliation

- (a) Explain the purpose of a payables ledger reconciliation
- (b) Identify errors in the ledger accounts and list of balances
- (c) Make correcting entries in the ledger accounts
- (d) Prepare a reconciliation between the list of balances and the corrected ledger balance
- (e) Identify the payables ledger balance to be reported in the final accounts
- (f) Report the payables ledger balance in the final accounts
- (g) Prepare a reconciliation between a supplier's statement and the account in the personal ledger

### 11 Receivables ledger reconciliation

- (a) Explain the purpose of a receivables ledger reconciliation
- (b) Identify errors in the ledger accounts and list of balances
- (c) Make correcting entries in the ledger accounts
- (d) Prepare a reconciliation between the list of balances and the corrected ledger balance
- (e) Identify the receivables ledger balance to be reported in the final accounts
- (f) Report the receivables ledger balance in the final accounts

### 12 Bank reconciliation

- (a) Explain the purpose of a bank reconciliation
- (b) Identify errors and omissions in the ledger account and bank statement
- (c) Identify timing differences
- (d) Make correcting entries in the ledger account
- (e) Prepare a reconciliation between the statement balance and the corrected ledger balance

## Maintaining Financial Records (INT)

- (f) Identify the bank balance to be reported in the final accounts
- (g) Report the bank balance in the final accounts

### 13 Accruals and prepayments

- (a) Describe the nature and purpose of accruals
- (b) Describe the nature and purpose of prepayments
- (c) Calculate accruals
- (d) Calculate prepayments
- (e) Account for accruals
- (f) Account for prepayments
- (g) Report accruals in the final accounts
- (h) Report prepayments in the final accounts

### 14 Irrecoverable debts and allowances for receivables

- (a) Calculate the allowance for receivables
- (b) Account for the write off of irrecoverable debts
- (c) Report the write off of debts in the final accounts
- (d) Account for the allowance for receivables
- (e) Account for the movement in the allowance for receivables
- (f) Report the movement in the allowance for receivables in the final accounts
- (g) Report the allowance for receivables in the final accounts

### 15 Closing inventory

- (a) Explain the application of accounting concepts to the valuation of inventory
- (b) Explain the methods of valuing inventory when items have been purchased at different prices (FIFO – first in first out; Periodic weighted average and Continuous weighted average)
- (c) Explain the impact of inventory valuation methods on profit and assets
- (d) Calculate the value of closing inventory
- (e) Report closing inventory in the final accounts

### 16 Provisions and liabilities

- (a) Explain the nature of provisions and liabilities
- (b) Distinguish between a current liability, a non-current liability and a provision
- (c) Distinguish between a provision and a liability
- (d) Calculate provisions and liabilities
- (e) Account for provisions and liabilities
- (f) Account for movements in provisions and liabilities
- (g) Report provisions, non-current liabilities and current liabilities in the final accounts

### 17 Extended trial balance (etb)

- (a) Record the correction of errors on the etb
- (b) Record post trial balance adjustments on the etb
  - (i) accruals and prepayments
  - (ii) depreciation
  - (iii) provisions
  - (iv) closing inventory
  - (v) allowances for receivables
  - (vi) irrecoverable debts written off
- (c) Extension and completion of the etb
  - (i) extend and complete the etb
  - (ii) calculate and record the net profit or loss for the period

### 18 Sole trader accounts

- (a) Prepare the final accounts (income statement and statement of financial position (balance sheet)) for a sole trader
- (b) Record the profit or loss for the period and drawings in the capital account
- (c) Prepare the opening trial balance for the next accounting period

### 19 Partnerships

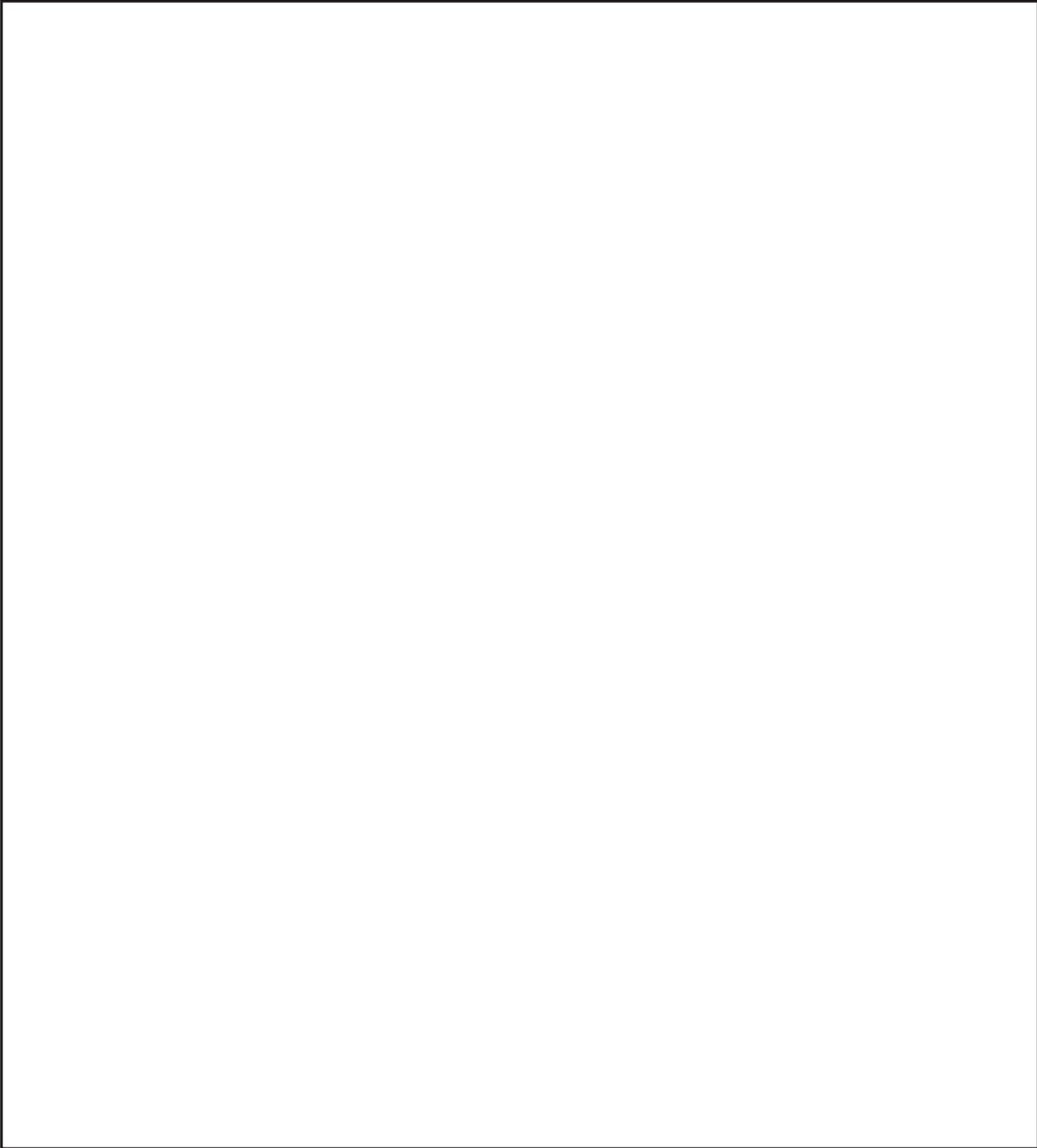
- (a) Define a partnership
- (b) Explain the purpose and the main content of a partnership agreement
- (c) Explain and account for appropriations of profit
  - salaries of partners
  - interest on capital

## Maintaining Financial Records (INT)

- interest on drawings
- share of residual profit
- (d) Explain the difference between partners' capital accounts and partners' current accounts
- (e) Prepare the final accounts (income statement, appropriation account and statement of financial position (balance sheet)) for a partnership
- (f) Prepare the partners' capital and current accounts
- (g) Prepare the opening trial balance for the next accounting period

### 20 Incomplete records

- (a) Describe the circumstances which lead to incomplete records
- (b) Calculate the net assets and profit or loss for a sole trader who has incomplete records
- (c) Prepare and complete ledger accounts to derive missing figures
- (d) Calculate missing figures using margin or mark up percentages
- (e) Construct final accounts for a sole trader who has incomplete records.



JUNE AND DECEMBER 2009 – STUDY GUIDE  
CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

Paper 4  
Accounting for Costs

# Introduction

This booklet contains the Study Guide for Paper 4: Accounting for Costs.

The Study Guide is designed to help you plan your studies and to provide more detailed interpretation of the syllabus for ACCA's Certified Accounting Technician examinations. It contains both the Syllabus and the Study Sessions for the paper, which you can follow when preparing for the examination.

The Syllabus outlines the content of the paper and how that content is examined. The Study Sessions take the syllabus and expand it into teaching or study sessions of similar length. These sessions indicate what the examiner expects of candidates for each part of the syllabus, and therefore gives you guidance in the skills you are expected to demonstrate in the examinations. The time to complete each session will vary according to your individual capabilities and the time you have available to study. Tuition providers offering face-to-face tuition are recommended to design courses with a minimum of two hours tuition per study session. However, repeated coverage of the material is vital to ensure your understanding and recall of the subject. Be sure to practice past examination questions to consolidate your knowledge and read your *student accountant* magazine regularly.

If you have any queries concerning the study guide, please direct them to:

Qualifications Department  
ACCA 29 Lincoln's Inn Fields London WC2A 3EE United Kingdom  
tel: +44 (0)20 7059 5833 fax: +44 (0)20 7059 5968  
e-mail: [info@accaglobal.com](mailto:info@accaglobal.com)

Additional information can be accessed on the ACCA website at:  
[www.accaglobal.com](http://www.accaglobal.com)

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January 2009

## **ABOUT ACCA**

ACCA is the largest and fastest-growing international accountancy body with 296,000 students and 115,000 members in 170 countries. We aim to offer first choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management. ACCA works to achieve and promote the highest professional, ethical and governance standards and advance the public interest.

## AIMS

To develop knowledge and understanding of how organisations record, analyse and report current and future costs and revenue data for use within the organisation.

## OBJECTIVES

On completion of this paper, candidates should be able to:

- explain the role of management accounting within an organisation and the requirement for management information
- describe costs by classification and behaviour
- identify appropriate material, labour and overhead costs
- understand and be able to apply the principles of marginal costing and absorption costing
- understand and be able to calculate product and service costs
- understand and be able to apply methods of estimating costs and revenues.

## POSITION OF THE PAPER IN THE OVERALL SYLLABUS

Knowledge of Paper 2, *Information for Management Control*, is required before commencing study for Paper 4.

This paper provides the basic techniques required to enable candidates to develop the various methods for recording and evaluating costs into more complex problems at the Advanced Level.

Candidates will need a sound understanding of the methods and techniques introduced in this paper to ensure that they can take them further in subsequent papers. The methods introduced in this paper are revisited and extended in Paper 7, *Planning, Control and Performance Management*.

## SYLLABUS CONTENT

### 1 Management information

- (a) Nature and purpose of internal reporting
  - (i) financial and non-financial information for managers
  - (ii) cost centres, profit centres and investment centres and the impact of these on management information and appraisal
- (b) Management information requirements
  - (i) definition and importance of good information

- (ii) presentation of information
- (iii) role of accounting technicians and accounting information
- (iv) role of information technology
- (c) Maintaining an appropriate cost accounting system
  - (i) cost units and responsibility centres
  - (ii) sources of relevant information
  - (iii) methods for recording, processing and storing relevant information
  - (iv) analysis and dissemination of output information

### 2 Cost classification and cost behaviour

- (a) Cost classification
  - (i) classifications used in cost accounting according to purpose
- (b) Cost behaviour
  - (i) cost behaviour patterns
  - (ii) identification of fixed, variable and semi-variable costs
  - (iii) use of fixed, variable and semi-variable costs in cost analysis
  - (iv) analysis of the effect of changing activity levels on unit costs

### 3 Elements of cost

- (a) Materials
  - (i) direct and indirect material costs
  - (ii) methods of inventory control and valuation including First In First Out, Last In First Out and weighted average cost
  - (iii) relationship between the materials costing system and the inventory control system
- (b) Labour
  - (i) direct and indirect labour costs
  - (ii) methods of payment for and calculation of payments for labour
  - (iii) relationship between the labour costing system and the payroll accounting system
- (c) Overheads
  - (i) direct and indirect expenses
  - (ii) procedures and documentation relating to expenses

# Accounting for Costs

- (iii) relationship between the accounting system and the expenses costing system

## 4 Marginal costing and absorption costing

- (a) Marginal costing
- (b) Absorption costing
  - (i) bases of allocating and apportioning indirect costs (overheads) to responsibility centres
  - (ii) bases of absorption
  - (iii) over and under absorption of overheads
- (c) Marginal versus absorption costing for costing and reporting purposes

## 5 Product and service costs

- (a) Job and batch costing
  - (i) characteristics
  - (ii) direct and indirect costs
- (b) Process costing
  - (i) characteristics
  - (ii) normal losses and abnormal losses and gains
  - (iii) accounting for scrap
  - (iv) closing work in progress and equivalent units
  - (v) joint products and by-products
- (c) Service costing
  - (i) characteristics
  - (ii) cost units

## 6 Estimating costs and revenues

- (a) CVP analysis
  - (i) break-even analysis
  - (ii) margin of safety
  - (iii) target profit
  - (iv) contribution / sales ratio
  - (v) simple break-even chart and profit/volume graph
- (b) Decision-making
  - (i) concept of relevant costs
  - (ii) short-term decisions
  - (iii) optimal production plan given a scarce resource
- (c) Discounted cash flow techniques
  - (i) simple and compound interest
  - (ii) nominal and effective interest

- (iii) discounted cash flow
- (iv) annuities and perpetuities
- (v) payback period.

## EXCLUDED TOPICS

The following topics are specifically excluded from Paper 4:

- activity based costing
- process costing – opening work in progress
- process costing – losses and work in progress in same process
- multi-product cost / volume / profit analysis
- linear programming.

## KEY AREAS OF THE SYLLABUS

All areas of the syllabus are equally important.

## APPROACH TO EXAMINING THE SYLLABUS

Paper 4 is a two-hour paper. It can be taken as a written paper or a computer based examination. The questions in the computer based examination are objective test questions – multiple choice, number entry and multiple response. The written examination consists of two sections, structured as follows:

	<i>No. of marks</i>
Section A – 20 compulsory multiple choice questions of two marks each	40
Section B – four compulsory written questions of between 10 and 20 marks each	60
Total	<hr/> 100

## RELEVANT TEXTS

There are a number of sources from which you can obtain a series of materials written for the ACCA CAT examinations. These are listed below:

ACCA's official publishers:

### BPP Learning Media

Contact number: +44(0)20 8740 2222

Website: [www.bpp.com](http://www.bpp.com)

## Kaplan Publishing

Contact number: +44(0)118 989 0629

Website: [www.kaplanpublishing.co.uk](http://www.kaplanpublishing.co.uk)

Additional reading:

Accountancy Tuition Centre (ATC)

International

Contact: [ronnie.smith@atc-global.com](mailto:ronnie.smith@atc-global.com)

Website: [www.atc-global.com](http://www.atc-global.com)

Wider reading is also desirable, especially regular study of relevant articles in ACCA's *student accountant* magazine.

## STUDY SESSIONS

### 1 Management information

- (a) Discuss the purpose of management information: planning, control and decision-making
- (b) Describe the features of useful management information
- (c) Discuss the nature, source and importance of both financial and non-financial information for managers
- (d) Describe management responsibilities (for cost, profit and investment) and their effect on management information and performance measurement
- (e) Discuss the role of information technology in management information
- (f) Discuss the role of the accounting technician
- (g) Present management information in suitable formats according to purpose

### 2 Maintaining an appropriate cost accounting system

- (a) Explain the relationship between the cost/management accounting system and the financial accounting/management information systems (including interlocking and integrated bookkeeping systems)
- (b) Describe the process of accounting for input costs and relating them to work done
- (c) Identify the documentation required, and the flow of documentation, for different cost accounting transactions
- (d) Explain the use of codes in categorising and processing transactions, and the importance of correct coding

- (e) Explain and illustrate the concept of cost units
- (f) Describe the different methods of costing final outputs and their appropriateness to different types of business organisation
- (g) Describe methods of capturing, processing, storing and outputting cost and management accounting data by computer

### 3 Cost classification and cost behaviour

- (a) Describe the variety of cost classifications used for different purposes in a cost accounting system, including by responsibility, function, direct/indirect, behaviour
- (b) Explain and illustrate the nature of variable, fixed and mixed (semi-variable, stepped-fixed) costs
- (c) Use the high-low method to separate semi-variable costs
- (d) Use variable, fixed and semi-variable costs in cost analysis
- (e) Analyse the effect of changing activity levels on unit costs

### 4 Costing of materials

- (a) Describe the main types of material classification
- (b) Describe the procedures and documentation required to ensure the correct authorisation, coding, analysis and recording of direct and indirect material costs
- (c) Explain, illustrate and evaluate the FIFO, LIFO and weighted average methods used to price materials issued from inventory
- (d) Describe and illustrate the accounting for material costs
- (e) Calculate material input requirements, and control measures, where wastage occurs

### 5 Material stock control

- (a) Describe the procedures required to monitor inventory and to minimise discrepancies and losses
- (b) Explain and illustrate the costs of holding inventory and of being without inventory
- (c) Explain, illustrate and evaluate inventory control levels (minimum, maximum, re-order)
- (d) Calculate and interpret optimal order quantities
- (e) Discuss the relationship between the materials costing system and the inventory control system

# Accounting for Costs

## 6 Costing of labour

- (a) Explain, illustrate and evaluate labour remuneration methods
- (b) Describe the operation of a payroll accounting system
- (c) Distinguish between direct and indirect labour costs
- (d) Describe the procedures and documentation required to ensure the correct coding, analysis and recording of direct and indirect labour
- (e) Describe and illustrate the accounting for labour costs
- (f) Discuss the relationship between the labour costing system and the payroll accounting system
- (g) Explain the causes and costs of, and calculate, labour turnover
- (h) Describe and illustrate measures of labour efficiency and utilisation (efficiency, capacity utilisation, production volume and idle time ratios)

## 7 Costing of other expenses

- (a) Describe the nature of expenses by function
- (b) Describe the procedures and documentation required to ensure the correct authorisation, coding, analysis and recording of direct and indirect expenses
- (c) Describe capital and revenue expenditure and the relevant accounting treatment
- (d) Calculate and explain depreciation charges using straight-line, reducing balance and machine hour methods
- (e) Discuss the relationship between the expenses costing system and the expense accounting system

## 8 Overhead allocation and apportionment

- (a) Explain the rationale for absorption costing
- (b) Describe the nature of production and service cost centres and their significance for production overhead allocation, apportionment and absorption
- (c) Describe the process of allocating, apportioning and absorbing production overheads to establish product costs
- (d) Apportion overheads to cost centres using appropriate bases
- (e) Re-apportion service cost centre overheads to production cost centres using direct and step down methods

## 9 Overhead absorption

- (a) Justify, calculate and apply production cost centre overhead absorption rates using labour hour and machine hour methods
- (b) Explain the relative merits of actual and pre-determined absorption rates
- (c) Describe and illustrate the accounting for production overhead costs, including the analysis and interpretation of over/under absorption
- (d) Describe and apply methods of attributing non-production overheads to cost units
- (e) Calculate product costs using the absorption costing method

## 10 Absorption and marginal costing

- (a) Prepare profit statements using the absorption costing method
- (b) Explain and illustrate the concept of contribution
- (c) Prepare profit statements using the marginal costing method
- (d) Compare and contrast the use of absorption and marginal costing for period profit reporting and inventory valuation
- (e) Reconcile the profits reported by absorption and marginal costing
- (f) Discuss the usefulness of profit and contribution information respectively

## 11 Job and batch costing

- (a) Describe the characteristics of job and batch costing respectively
- (b) Identify situations where the use of job or batch costing is appropriate
- (c) Calculate unit costs using job and batch costing
- (d) Discuss the control of costs in job and batch costing
- (e) Apply cost plus pricing in job costing

## 12 Process costing - losses

- (a) Describe the characteristics of process costing
- (b) Identify situations where the use of process costing is appropriate
- (c) Calculate unit costs and prepare process accounts where

losses occur in process

- (d) Explain and illustrate the nature of normal and abnormal losses/gains
- (e) Calculate unit costs where losses are separated into normal and abnormal
- (f) Prepare process accounts where losses are separated into normal and abnormal
- (g) Account for scrap

### 13 Process costing - work-in-progress

- (a) Describe and illustrate the concept of equivalent units
- (b) Calculate unit costs where there is closing work-in-progress in a process
- (c) Allocate process costs between finished output and work-in-progress
- (d) Prepare process accounts where there is closing work-in-progress

### 14 Process costing - joint products and by-products

- (a) Distinguish between joint products and by-products
- (b) Explain the treatment of joint products and by-products at the point of separation
- (c) Apportion joint process costs using net realisable values and weight/volume of output respectively
- (d) Discuss the usefulness of product cost/profit data from a joint process
- (e) Evaluate the benefit of further processing

### 15 Service costing

- (a) Describe the characteristics of service costing
- (b) Describe the practical problems relating to the costing of services
- (c) Identify situations (cost centres and industries) where the use of service costing is appropriate
- (d) Illustrate suitable cost units that may be used for a variety of services
- (e) Calculate service unit costs in a variety of situations

### 16 Cost / volume / profit (CVP) analysis

- (a) Calculate contribution per unit and the contribution/sales ratio
- (b) Explain the concept of break-even and margin of safety
- (c) Use contribution per unit and contribution/sales ratio to calculate break-even point and margin of safety
- (d) Analyse the effect on break-even point and margin of safety of changes in selling price and costs
- (e) Use contribution per unit and contribution/sales ratio to calculate the sales required to achieve a target profit
- (f) Construct break-even and profit/volume charts for a single product or business

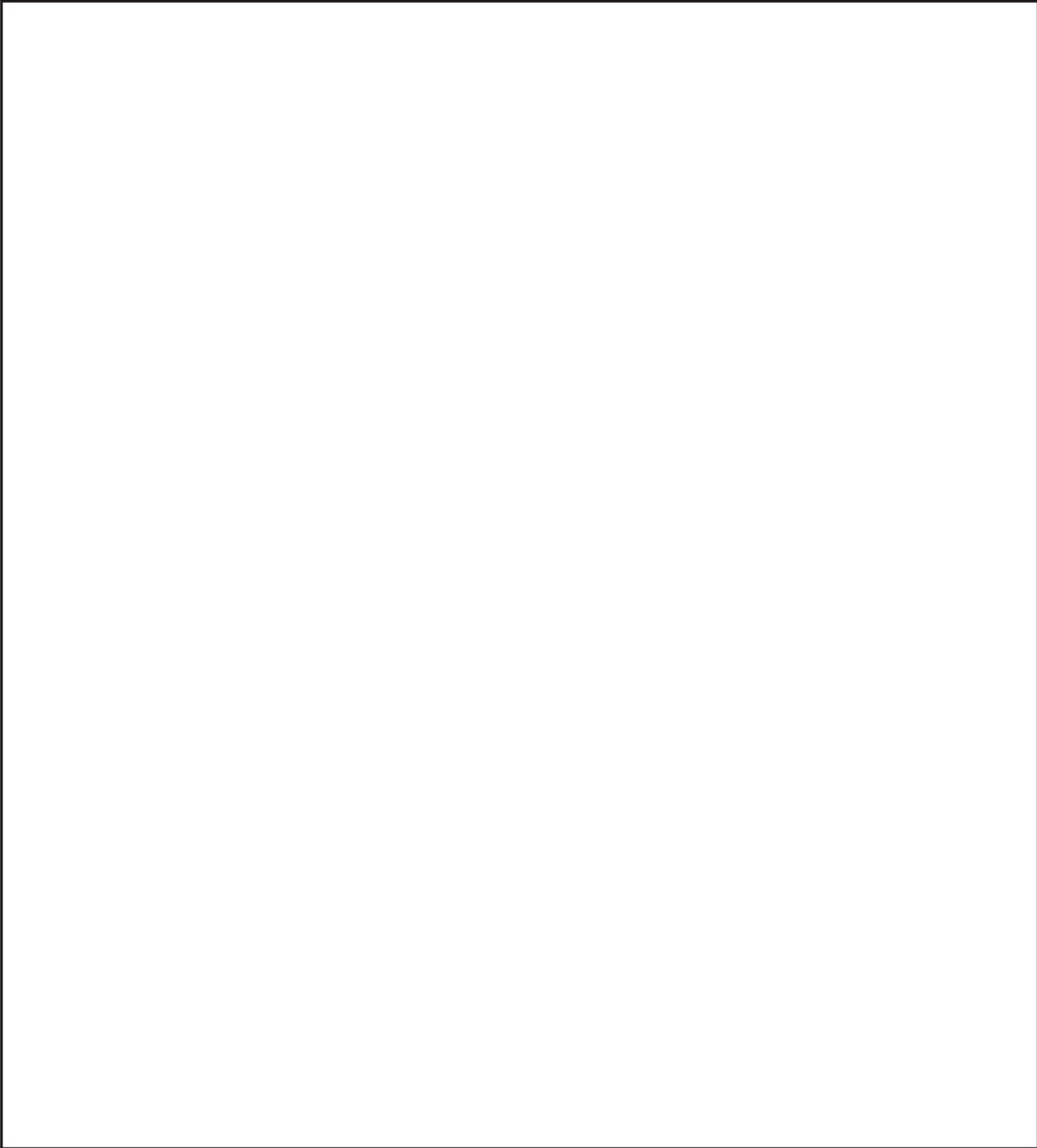
### 17 Decision-making

- (a) Explain the importance of the limiting factor concept
- (b) Identify the limiting factor in given situations
- (c) Formulate and determine the optimal production solution when there is a single resource constraint
- (d) Solve make/buy-in problems when there is a single resource constraint
- (e) Explain the concept of relevant costs
- (f) Apply the concept of relevant costs in business decisions

### 18 & 19 Discounted cash flow

- (a) Explain and illustrate the difference between simple and compound interest, and between nominal and effective interest rates
- (b) Explain and illustrate compounding and discounting
- (c) Explain the distinction between cash flow and profit and the relevance of cash flow to capital investment appraisal
- (d) Explain and illustrate the net present value (NPV) and internal rate of return (IRR) methods of discounted cash flow
- (e) Calculate present value using annuity and perpetuity formulae
- (f) Calculate payback (discounted and non-discounted)
- (g) Interpret the results of NPV, IRR and payback calculations of investment viability

### 20 Revision



JUNE & DECEMBER 2009 – STUDY GUIDE  
CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

Paper 5  
Managing People and  
Systems

# Introduction

This booklet contains the Study Guide for Paper 5: Managing People and Systems.

The Study Guide is designed to help you plan your studies and to provide more detailed interpretation of the syllabus for ACCA's Certified Accounting Technician examinations. It contains both the Syllabus and the Study Sessions for the paper, which you can follow when preparing for the examination.

The Syllabus outlines the content of the paper and how that content is examined. The Study Sessions take the syllabus and expand it into teaching or study sessions of similar length. These sessions indicate what the examiner expects of candidates for each part of the syllabus, and therefore gives you guidance in the skills you are expected to demonstrate in the examinations. The time to complete each session will vary according to your individual capabilities and the time you have available to study. Tuition providers offering face-to-face tuition are recommended to design courses with a minimum of two hours tuition per study session. However, repeated coverage of the material is vital to ensure your understanding and recall of the subject. Be sure to practice past examination questions to consolidate your knowledge and read your *student accountant* magazine regularly.

If you have any queries concerning the study guide, please direct them to:

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ACCA 29 Lincoln's Inn Fields London WC2A 3EE United Kingdom  
tel: +44 (0)20 7059 5833 fax: +44 (0)20 7059 5968  
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Additional information can be accessed on the ACCA website at:  
[www.accaglobal.com](http://www.accaglobal.com)

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January 2009

## **ABOUT ACCA**

ACCA is the largest and fastest-growing international accountancy body with 296,000 students and 115,000 members in 170 countries. We aim to offer first choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management. ACCA works to achieve and promote the highest professional, ethical and governance standards and advance the public interest.

# Managing People and Systems

## AIMS

To develop knowledge and understanding of the role of a manager in an effective, efficient, safe and secure accounting environment. This includes the coordination of work activities, the maintenance of an effective accounting system, people management, personal effectiveness, health and safety and security issues within the workplace.

## OBJECTIVES

On completion of this paper, candidates should be able to:

- develop an overview of the overall business organisation and its critical external relationships and identify the key external regulations and influences affecting accounting and business
- understand how accounting systems are affected by organisational structure and the overall management information system
- describe methods for resource planning and coordinating work
- explain the purpose, structure and organisation of the accounting function and its relationships with other organisational functions
- identify systems and procedures for effective functional management
- describe principles of management leadership, delegation, motivation and communication
- explain principles of effective working relationships and teamwork
- understand the need for effective performance appraisal, development and training to enhance personal and organisational effectiveness
- understand the importance of a safe and secure working environment.

## POSITION OF THE PAPER IN THE OVERALL SYLLABUS

No prior knowledge is required before commencing study for Paper 5. This paper provides the basic techniques required to fulfil the role of a manager in the accounting environment.

## SYLLABUS CONTENT

### 1 The business and accounting environment

- (a) Environmental influences on the organisation
  - (i) political, economic, social and technological
  - (ii) external regulations affecting accounting and business practice
  - (iii) external relationships (stakeholder interests)
- (b) The organisation
  - (i) the structure of business functions
  - (ii) sources of management information
  - (iii) the nature of policies, systems and procedures
  - (iv) types of business transactions
  - (v) methods of planning and control
    - business planning and control
    - information management and control
    - human resources planning and control
- (c) The accounting function
  - (i) purpose
  - (ii) structure
  - (iii) position within the organisation
  - (iv) types of accounting system
    - manual
    - computerised

### 2 Effective management of business and accounting systems

- (a) Monitoring business and accounting systems
  - (i) the role of internal auditors
  - (ii) the role of external auditors
  - (iii) the role of management
- (b) Recognising potential weaknesses in the accounting system
  - (i) weaknesses of controls
  - (ii) potential areas for error and fraud
- (c) Fraud
  - (i) common types of fraud
  - (ii) the implications of fraud
  - (iii) detecting fraud in the accounting system
  - (iv) preventing fraud

# Managing People and Systems

- (d) Internal controls
  - (i) the importance of internal controls
  - (ii) the control mechanisms in the accounting system
- (e) Management information and reporting systems
  - (i) features of a management information system
  - (ii) information flows within an accounting system
  - (iii) processing and storage of data and transactions

### 3 Management theory, principles and techniques

- (a) Managing people for effective working relationships
  - (i) principles of leadership, management supervision and delegation, including consideration of:
    - communication
    - resolving problems and queries
  - (ii) principles of authority
    - differing styles of management
    - taking corrective action
- (b) Individual and group behaviour
  - (i) organisational culture
  - (ii) contribution of individuals and groups to organisational success
- (c) Team management
  - (i) team formation
  - (ii) team development
  - (iii) team evaluation and rewards
- (d) Motivation
  - (i) key theories of motivation
  - (ii) the function of sanctions and rewards in motivation

### 4 Individual effectiveness at work

- (a) Planning and organising personal work
  - (i) understanding roles and responsibilities
    - effective work methods and practices in the organisation
    - reporting procedures
  - (ii) work planning and planning aids (diaries, schedules, action plans)
  - (iii) prioritising and time management, including unforeseen situations
- (b) Constructive relationships

- (i) methods of communication
- (ii) influencing, negotiating and coordinating
- (iii) procedures for dealing with disagreement and conflict arising from:
  - personality
  - working style
  - status
  - work demands
- (c) Improving individual performance
  - (i) personal performance and appraisal
    - setting objectives
    - assessing progress
  - (ii) identifying areas for individual learning

### 5 Health, safety and security in the working environment

- (a) The importance of health and safety
  - (i) health and safety in the working environment
    - legislation
    - regulations
    - record keeping
    - keeping up-to-date with requirements
  - (ii) common hazards and how to deal with them
  - (iii) using equipment and behaving safely at work
  - (iv) emergency procedures
    - illness
    - accidents
    - fires
    - security breaches
  - (v) recommending improvements to health and safety
- (b) Recognising security risks
  - (i) physical breaches of security
    - unauthorised physical intrusion
    - security of hardware and equipment
    - security of systems data and software
  - (ii) methods of reducing or avoiding security risks.

#### EXCLUDED TOPICS

The syllabus does not require knowledge of specific computing hardware systems or their specifications, or how software systems are designed, developed, tested and implemented.

# Managing People and Systems

## KEY AREAS OF THE SYLLABUS

All areas of the syllabus are equally important.

## APPROACH TO EXAMINING THE SYLLABUS

The paper is constructed in such a way that it provides a broad assessment of the main issues involved in managing systems and people. In general terms, the syllabus is divided into five sections.

- 1 The business and accounting environment
- 2 Effective management of business and accounting systems
- 3 Management theory, principles and techniques
- 4 Individual effectiveness at work
- 5 Health, safety and security in the working environment

Note that although the syllabus is sub-divided into five main parts, each part has a different number of teaching and learning sessions allocated to it. The number of sessions in each area reflects the number of learning outcomes identified within that area and this in turn determines the associated teaching and learning time required. For example, although health, safety and security in the working environment contains only two teaching and learning sessions it is still considered to be as important as any other area within the syllabus in terms of assessment. It should also be noted that although the syllabus follows this structure, the nature of the syllabus means that there will often be some overlap between the individual topics.

Structure of the examination:

The examination is a two-hour paper in two sections

Section A contains 12 two mark multiple choice questions . These comprise three questions from each of the first four main sections of the syllabus. Health, safety and security in the working environment will be examined exclusively in Section B.

Section B contains five questions, one from each of the first four main syllabus sections at 14 marks each, with the fifth question on health, safety and security attracting 20 marks.

As five multiple choice questions and a section B question are devoted to each of the five main syllabus sections, candidates therefore need to ensure that they have a broad knowledge of all aspects of the five key areas of the syllabus.

## RELEVANT TEXTS

There are a number of sources from which you can obtain a series of materials written for the ACCA CAT examinations. These are listed below:

ACCA's official publishers:

### BPP Learning Media

Contact number: +44(0)20 8740 2222

Website: [www.bpp.com](http://www.bpp.com)

### Kaplan Publishing

Contact number: +44(0)118 989 0629

Website: [www.kaplanpublishing.co.uk](http://www.kaplanpublishing.co.uk)

Additional reading:

Accountancy Tuition Centre (ATC)

International

Contact: [ronnie.smith@atc-global.com](mailto:ronnie.smith@atc-global.com)

Website: [www.atc-global.com](http://www.atc-global.com)

Candidates may also find the following texts useful:

Mullins, L., J. *Management and Organisational Behaviour* (7th edition, Prentice Hall:2004) ISBN: 0273651471

Child, J. *Organisation: A Guide to Problems and Practice* (2nd edition, Chapman: 1988)

Handy, Charles. *Understanding Organisations* (3rd edition, Penguin: 1997)

ISBN: 0140456038

Wider reading is also desirable, especially regular study of relevant articles in ACCA's *student accountant* magazine.

# Managing People and Systems

## STUDY SESSIONS

### THE BUSINESS AND ACCOUNTING ENVIRONMENT

#### 1 The organisation's environment and external relationships

- (a) Define an organisation and its environment
- (b) Identify the main stakeholders within and outside the organisation
- (c) Describe general political, economic, social and technological factors affecting the organisation and its stakeholders
- (d) Identify the authorities to whom businesses are accountable in financial terms
- (e) Identify what financial information businesses need to provide for government agencies
- (f) Describe the role of external auditors
- (g) Outline the role of accounting standards setting bodies
- (h) Outline the role of corporate governance with respect to accountability
- (i) Describe the overall role and purpose of employment, health and safety and data protection legislation within the business

#### 2 Organisational structure

- (a) Identify the purpose and objectives of an organisation
- (b) Recognise the stages needed to establish an organisation
- (c) Explain what influences the structure of an organisation, with reference to the work of Fayol
- (d) Describe the business as a system with clearly defined functional areas
  - (i) explain the role of production or direct service provision
  - (ii) explain the roles of sales and marketing
  - (iii) explain the role of accounting and finance
  - (iv) explain the role of human resource planning
- (e) Identify organisational levels and spans of control
- (f) Recognise how departments within an organisation are structured
  - (i) describe the hierarchical structure and functional divisionalisation
  - (ii) describe the matrix or task based structure of business

- (iii) explain geographical divisionalisation
- (iv) explain product or service divisionalisation

#### 3 Business and resource planning and co-ordination

- (a) Outline the purpose of an overall business plan
  - (i) identify the objectives of long-range planning
  - (ii) outline the role of short-range planning
- (b) Identify elements of resource planning and control
  - (i) describe the elements of the organisational plan
  - (ii) describe the elements of the human resource plan
- (c) Explain the need for co-ordination in the planning process

#### 4 General systems and clerical procedures in business

- (a) Explain the purpose of systems, policies and procedures in a general business context
- (b) Describe the principles of effective systems and procedures
- (c) Identify and explain general office procedures and systems using flowcharting techniques
- (d) Review the effectiveness of office procedures and identify weaknesses
- (e) Review the effectiveness of financial control procedures and identify potential weaknesses

#### 5 Accounting systems and procedures

- (a) Outline the function and purpose of the accounting system within an organisation
- (b) Identify key elements of the accounting system and procedures and how they are structured
- (c) Explain how the accounting department integrates and co-ordinates with other functional areas
- (d) Explain the difference between manual and computerised accounting systems

## EFFECTIVE MANAGEMENT OF BUSINESS AND ACCOUNTING SYSTEMS

### 6 Internal control and auditing

- (a) Explain the importance of internal controls in an organisation
- (b) Describe the responsibilities of management with respect to internal control
- (c) Describe the different roles of the internal and external auditors
- (d) Recognise the weaknesses of controls and the features of effective control procedures

### 7 Identifying and preventing fraud in an accounting system

- (a) Describe the three prerequisites for fraud, eg dishonesty, opportunity and motivation
- (b) Identify common types of fraud
- (c) Explain the implications of fraud for an organisation
- (d) Identify the scope for fraud using manual as against computer systems
- (e) Describe systems and procedures to discover and prevent fraud
- (f) Understand the role of the auditor in dealing with fraud
- (g) Identify the duty and responsibilities of management in the prevention and detection of fraud

### 8 Improving control procedures within the accounting system

- (a) Describe the payroll system and appropriate controls
- (b) Describe the main stages of the purchases cycle and appropriate controls
- (c) Describe the main stages of the sales cycle and appropriate controls
- (d) Describe the cash system and appropriate controls
- (e) Explain how controls are more effective if systems are integrated

### 9 Management information and reporting systems

- (a) Describe the main features of a management information system
- (b) Describe the information flows within the accounting system
- (c) Draft examples of relevant management reports from an accounting system

- (d) Understand how data and transactions are processed and stored within the accounting system

## MANAGEMENT THEORY, PRINCIPLES AND TECHNIQUES

### 10 Effective leadership, management and supervision

- (a) Describe the process of determining authority and responsibility with reference to Contingency Theory, and the work of Woodward, Burns and Stalker, Fayol, Mintzberg and Weber
- (b) Describe the skills, traits and characteristics of a leader, with reference to Blake and Mouton, Handy, Hersey, Blanchard and Likert
- (c) Explain the role of management, with reference to the work of Drucker, Kanter, Ouchi and Peters
- (d) Explain the role of the supervisor in achieving tasks, building the team and developing individuals
- (e) Describe the principles of effective delegation
- (f) Compare and contrast the terms 'leadership', 'management', 'supervision' and delegation

### 11 Individual and group behaviour

- (a) Explain the concept of organisational culture and discuss its limitations, with reference to the work of Anthony and Handy
- (b) Discuss the differences between individual and group behaviour
- (c) Outline the contribution of individuals and teams to organisational success
- (d) Identify work that benefits from either an individual or team approach
- (e) Recognise behaviour that facilitates and inhibits organisational success

### 12 Team Management

- (a) Define the purpose of a team
- (b) Outline the composition of successful teams, with reference to the work of Belbin, Peters and Waterman
- (c) Explain the stages in the development of a team using Tuckman's "Forming, Storming, Norming, Performing and Dorming"

# Managing People and Systems

- (d) Identify and explain key team building blocks and blockages, with reference to the work of Woodcock
- (e) Describe the main ways of rewarding a team
- (f) Identify appropriate methods to evaluate team performance

## 13 Motivation, concepts and models

- (a) Outline the key theories of motivation: Maslow, Herzberg, Handy, Equity Theory, Argyris, McLelland, Vroom, McGregor's Theories X and Y and Ouchi's Theory Z
- (b) Outline the difference between content and process theories of motivation
- (c) Describe ways in which management can motivate staff
- (d) Explain the importance of the reward system in the process of motivation
- (e) Explain the importance of feedback

## INDIVIDUAL EFFECTIVENESS

### 14 Work effectiveness

- (a) Explain the benefits of planning and organising personal work in the context of:
  - (i) understanding roles and responsibilities
  - (ii) using effective work methods and practices in the organisation
  - (iii) identifying appropriate reporting procedures
  - (iv) using work planning and planning aids (diaries, schedules, action plans)
  - (v) prioritising work and time management, including unforeseen situations

### 15 Effective communication and interpersonal skills

- (a) Recognise the importance of good communication, both formal and informal, in the workplace
- (b) Identify and describe the main methods and attributes of effective personal communication and the effects of poor communication
- (c) Distinguish between verbal and non-verbal forms of personal communication
- (d) Define the term 'interpersonal skills' in the context of effective management practice

- (e) Explain the importance of developing effective personal working relationships
- (f) Identify appropriate ways of gaining commitment from individual staff members
- (g) Describe appropriate methods for dealing with conflict in a work environment

### 16 Effective training and development

- (a) Distinguish between training and development
- (b) Explain the importance of training and development to the organisation and the individual
- (c) Explain the roles and responsibilities of a training manager
- (d) Explain the methods used to analyse training needs
- (e) Suggest ways in which training needs can be met
- (f) Compare and contrast the various methods used to develop individuals in the workplace
- (g) Describe methods of staff evaluation and follow-up

### 17 Appraisal of competence and individual development

- (a) Explain the process of competence assessment
- (b) Outline the purpose and benefits of the staff appraisal process
- (c) Describe the barriers to effective staff appraisal
- (d) Identify the management skills involved in the appraisal process
- (e) Describe the roles of the appraiser and appraisee in the appraisal process
- (f) Explain the preparation process for an appraisal interview, including location of interview and pre-interview correspondence
- (g) Recognise the importance of feedback from the appraisal interview
- (h) Explain the link between the appraisal process and effective employee development

### 18 The individual learning process

- (a) Explain the process of learning in the workplace
- (b) Describe the ways in which individuals learn
- (c) Explain the effect of individual differences on learning
- (d) Identify the barriers to learning
- (e) Describe the role of management in the learning process

- (f) Suggest appropriate ways in which the organisation can motivate individuals to learn

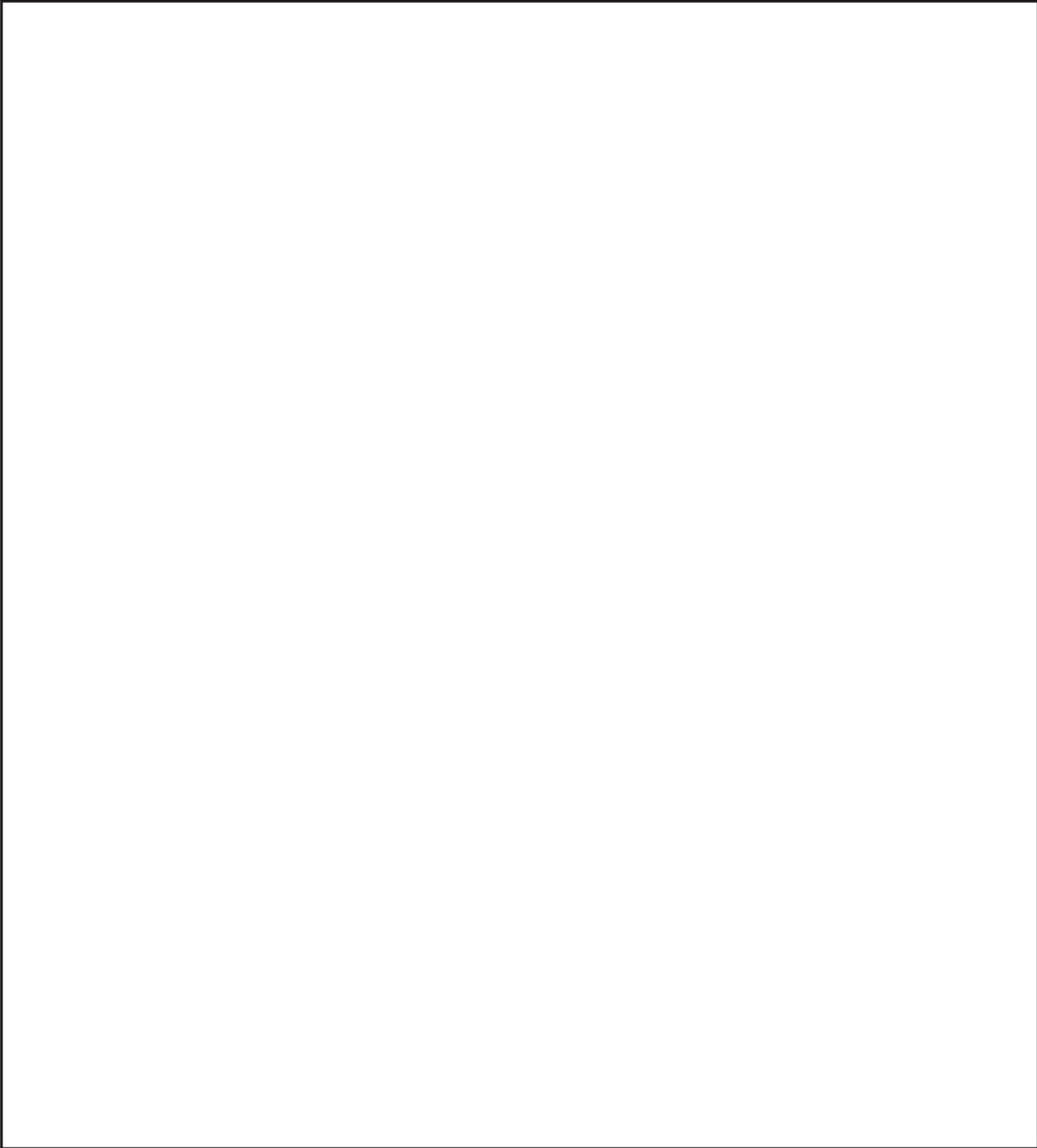
### HEALTH, SAFETY AND SECURITY IN THE WORKING ENVIRONMENT

#### **19 Health and safety in the workplace**

- (a) Outline the main provisions of relevant legislation on health and safety
- (b) Identify possible sources of danger to health and safety of individuals within the workplace
- (c) Suggest appropriate preventative and protective measures
- (d) Discuss the role of training in raising awareness of safety issues
- (e) Describe safe working conditions
- (f) Outline the role and responsibility of management in promoting health and safety

#### **20 Security in the workplace**

- (a) Describe possible sources of security breaches within the workplace
  - (i) identify means of physical intrusion
  - (ii) describe threats related to hardware and equipment security
  - (iii) explain hazards from internal and external software security breaches
- (b) Outline measures for preventing security breaches
  - (i) describe methods of preventing physical intrusion
  - (ii) explain measures of protecting hardware and equipment
  - (iii) identify strategies for reducing the risk of software security breaches



JUNE AND DECEMBER 2009 – STUDY GUIDE  
CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

**ACCA**

Paper 6 (INT)  
Drafting Financial  
Statements

# Introduction

This booklet contains the Study Guide for Paper 6 (INT): Drafting Financial Statements.

The Study Guide is designed to help you plan your studies and to provide more detailed interpretation of the syllabus for ACCA's Certified Accounting Technician examinations. It contains both the Syllabus and the Study Sessions for the paper, which you can follow when preparing for the examination.

The Syllabus outlines the content of the paper and how that content is examined. The Study Sessions take the syllabus and expand it into teaching or study sessions of similar length. These sessions indicate what the examiner expects of candidates for each part of the syllabus, and therefore gives you guidance in the skills you are expected to demonstrate in the examinations. The time to complete each session will vary according to your individual capabilities and the time you have available to study. Tuition providers offering face-to-face tuition are recommended to design courses with a minimum of two hours tuition per study session. However, repeated coverage of the material is vital to ensure your understanding and recall of the subject. Be sure to practice past examination questions to consolidate your knowledge and read your *student accountant* magazine regularly.

If you have any queries concerning the study guide, please direct them to:

Qualifications Department  
ACCA 29 Lincoln's Inn Fields London WC2A 3EE United Kingdom  
tel: +44 (0)20 7059 5833 fax: +44 (0)20 7059 5968  
e-mail: [info@accaglobal.com](mailto:info@accaglobal.com)

Additional information can be accessed on the ACCA website at:  
[www.accaglobal.com](http://www.accaglobal.com)

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# Drafting Financial Statements (INT)

## AIMS

To understand and apply the techniques used to prepare year-end financial statements of partnerships and companies which comply with International Accounting Standards, and to interpret financial statements and the relationships between their elements using ratio analysis.

## OBJECTIVES

On completion of this paper, candidates should be able to:

- draft partnership and company financial statements to comply with International Financial Reporting Standards / International Accounting Standards
- correctly identify and implement adjustments, referring any issues and unresolved discrepancies to an appropriate person
- understand the importance of an organisation's procedures and policies, including confidentiality procedures
- prepare and interpret a company statement of cash flows
- identify the general purpose of company financial statements
- identify the elements of company financial statements and the relationship between them
- interpret the relationship between the elements of financial statements using ratio analysis drawing valid conclusions and presenting interpretations and conclusions to the appropriate people.

## POSITION OF THE PAPER IN THE OVERALL SYLLABUS

A thorough knowledge of Paper 1, *Recording Financial Transactions* and Paper 3, *Maintaining Financial Records*, is required for Paper 6.

## SYLLABUS CONTENT

### 1 General framework

- (a) General purpose of financial statements, users and their needs
- (b) Financial statements
  - (i) income statement
  - (ii) statement of comprehensive income
  - (iii) statement of financial position
  - (iv) statement of changes of equity
  - (v) interaction of the statement of financial position

- and statement of comprehensive income
- (c) Elements of financial statements and their interaction
  - (i) assets
  - (ii) liabilities
  - (iii) equity, contributions from owners and distributions to owners
  - (iv) income
  - (v) expenses
- (d) Conceptual framework
  - (i) framework for the preparation and presentation of financial statements
  - (ii) accounting concepts, principles and policies
- (e) Regulatory framework
  - (i) standard-setting process
  - (ii) relevant International Financial Reporting Standards / International Accounting Standards
  - (iii) format of accounts and disclosure requirements
- (f) Notes to the financial statements.  
Only the following notes to the financial statements will be examinable:
  - non current assets
  - events after the reporting period
  - contingent liabilities and contingent assets
  - statement of changes in equity
  - research and development expenditure
- (g) Business organisation
  - (i) structure
  - (ii) procedures and policies

### 2 Preparing financial statements

- (a) Preparation of partnership and company financial statements from a trial balance, including adjustments where appropriate for:
  - (i) accruals and prepayments
  - (ii) income tax
  - (iii) dividends
  - (iv) depreciation
  - (v) irrecoverable debts and allowances for receivables
  - (vi) closing inventory
  - (vii) issue of share capital
  - (viii) revaluation of assets

# Drafting Financial Statements (INT)

- (ix) provisions
- (x) admission and retirement of partners
- (xi) dissolution of a partnership
- (b) Taxation
  - (i) presentation of income tax
- (c) Non current assets
  - (i) distinction between capital and revenue expenditure
  - (ii) accounting for the acquisition and disposal of assets
  - (iii) depreciation – definition, reasons for and methods, including straight line, reducing balance and sum of digits
  - (iv) research and development
  - (v) elementary treatment of goodwill
- (d) Current assets
  - (i) inventory
  - (ii) receivables, including accounting for irrecoverable debts and allowances for receivables
  - (iii) cash
- (e) Current liabilities and accruals
- (f) Shareholders' equity
- (g) Events after the reporting period
- (h) Contingencies
- (i) Presentation of financial statements

### 3 Statements of cash flows

- (a) Preparation of a single company statement of cash flows
- (b) Notes to the statement of cash flows
- (c) Interpretation of a statement of cash flows

### 4 Interpretation of financial statements

- (a) Ratio analysis
  - (i) profitability ratios
  - (ii) liquidity ratios
  - (iii) working capital efficiency ratios
  - (iv) investor performance ratios
  - (v) financial risk ratios
- (b) Identification of unusual issues or trends
- (c) Presentation of reports targeted at the user and drawing

appropriate conclusions

### 5 Consolidated accounts

- (a) Groups of companies – preparation of basic consolidated financial statements for a simple group
  - (i) consolidated statement of financial position
  - (ii) consolidated statement of comprehensive income and income statement
- (b) Overview of distinction between a subsidiary and an associate

### EXCLUDED TOPICS

The following topics are specifically excluded from Paper 6:

- detailed or computational questions on deferred tax or discounting of provisions
- group statements of cash flows
- joint ventures
- long-term contracts
- foreign currency, segmental reporting, impairment of assets, retirement benefits, derivatives and capital instruments.

### KEY AREAS OF THE SYLLABUS

The two main skills required for Paper 6, *Drafting Financial Statements* are:

- the ability to prepare basic financial statements and the underlying accounting records on which they are based
- an understanding of the principles on which accounting is based.

The key topic areas are as follows:

- preparation of financial statements for partnerships and companies
- basic group accounts – consolidated statement of financial position and comprehensive income statement for a simple group
- elements of financial statements and the interaction between the elements
- accounting conventions and concepts
- interpretation of financial statements
- statement of cash flows.

# Drafting Financial Statements (INT)

## APPROACH TO EXAMINING THE SYLLABUS

The examination is a three hour written paper. The exam consists of two compulsory sections structured as follows:

	Marks
Section A	
10 multiple choice questions of two marks each	20
Section B	
Question 1	30 to 40
Question 2	20 to 25
Question 3	<u>20 to 25</u>
Total	100

## ADDITIONAL INFORMATION

Accounting standards will not be examined until six months after they have been published. The cut off date for the June examination is 30 November preceding the June examination. The cut off date for the December examination is 31 May preceding the December examination.

## RELEVANT TEXTS

There are a number of sources from which you can obtain a series of materials written for ACCA CAT examinations.

ACCA's official publishers:

### BPP Learning Media

Contact number: +44(0)20 8740 2222

Website: [www.bpp.com](http://www.bpp.com)

### Kaplan Publishing

Contact number: +44(0)118 989 0629

Website: [www.kaplanpublishing.co.uk](http://www.kaplanpublishing.co.uk)

Candidates may also find the following texts useful, although they should be aware that these are based on UK accounting standards:

Wood, Frank and Sangster, Alan. *Business Accounting 2* (10th edition, FT Pitman Publishing, ISBN: 0-273-693107) (This covers more than is required for this syllabus, but has a useful approach to consolidation.)

Wider reading is also desirable, especially regular study of relevant articles in ACCA's *student accountant* magazine.

## STUDY SESSIONS

### 1 Framework of financial reporting

- Explain the need for, and objectives of, financial statements
- Identify the users of financial statements and their particular interests in the statements
- Discuss how the accounting systems of an organisation are affected by its organisational structure, its administrative systems and procedures and the nature of its business transactions
- Describe and explain the following elements of the financial statements and their interaction:
  - assets
  - liabilities
  - equity
  - income
  - expenses
  - contributions from owners
  - distributions to owners
- Recognition of elements for inclusion in financial statements

### 2 Conceptual framework

- Discuss the nature and purpose of a conceptual framework
- Explain the potential benefits and drawbacks of an agreed conceptual framework

## Drafting Financial Statements (INT)

- (c) Explain the role and general issues covered by the Framework for the Preparation and Presentation of Financial Statements
- (d) Identify and explain the qualitative characteristics of financial information
- (e) Define, discuss and apply accounting concepts, principles and policies
- (f) Discuss the shortcomings of historical cost accounting and how they might be overcome

### 3 The regulatory framework

- (a) Understand the structure and role of the:
  - (i) International Accounting Standards Committee Foundation (Trustees)
  - (ii) International Accounting Standards Boards (IASB)
  - (iii) Standards Advisory Council (SAC)
  - (iv) International Financial Reporting Interpretations Committee (IFRIC)
- (b) Explain the standard setting process
- (c) Explain the advantages and disadvantages of accounting standards

### 4 & 5 Non-current assets

- (a) Distinguish between capital and revenue expenditure
- (b) Explain, calculate and demonstrate the inclusion of the profit or loss on disposal of non-current assets in the income statement
- (c) Account for the revaluation of non-current assets
- (d) Account for gains and losses on the disposal of revalued assets
- (e) Account for depreciation – definition, reasons and methods, including straight line, reducing balance and sum of digits
- (f) Account for changes in the useful economic life or residual value of assets
- (g) Explain and demonstrate how non-current asset balances and movements are disclosed in the financial statements

### 6, 7 & 8 Partnership accounts

- (a) Identify the key features of a partnership
- (b) Outline the advantages and disadvantages of operating

as a partnership, compared with operating as a sole trader or company. Explain the accounting differences between partnerships and sole traders:

- (i) capital accounts
  - (ii) current accounts
  - (iii) division of profits
- (c) Outline the conventional methods of dividing profit and maintaining equity between partners
  - (d) Draft an appropriation account for a partnership
  - (e) Distinguish between partners' capital and current accounts
  - (f) Record the partners' share of profits and losses and their drawings in the ledger accounts
  - (g) Record introductions and withdrawals of capital in the ledger accounts
  - (h) Draft the income statement, appropriation account and the balance sheet for a partnership incorporating period end adjustments including:
    - (i) accruals and prepayments
    - (ii) depreciation
    - (iii) irrecoverable debts and allowances for receivables
    - (iv) closing inventory
  - (i) Explain why a revaluation is required after an admission, a change in the profit sharing ratio or a retirement
  - (j) Revalue a partnership and calculate goodwill
  - (k) Make appropriate entries in the ledger accounts
  - (l) Draft the partnership financial statements after a change in the partnership
  - (m) Draft the partnership financial statements after a uniting of two sole traders
  - (n) Account for the dissolution of a partnership
  - (o) Prepare final accounts from incomplete records

### 9,10 & 11 Company financial statements

- (a) Prepare the financial statements for a company, including adjustments for items including:
  - (i) income tax
  - (ii) dividends
  - (iii) depreciation
  - (iv) irrecoverable debts and allowances for receivables
  - (v) closing inventory

# Drafting Financial Statements (INT)

- (vi) share capital
- (vii) accruals and prepayments
- (viii) revaluation of assets
- (ix) provisions
- (b) Prepare a statement of changes in equity
- (c) Prepare the following notes to the financial statements:
  - (i) non-current assets
  - (ii) events after the reporting period
  - (iii) contingent liabilities and contingent assets
  - (iv) research and development expenditure
- (d) Derive missing figures from incomplete records

## 12 Accounts and disclosure requirements

- (a) Prepare the financial statements of companies in accordance with prescribed formats and relevant accounting standards
- (b) Discuss relevant accounting standards and be able to apply them

## 13 Taxation

- (a) Define current tax
- (b) Account for current tax on the profits of companies (a detailed knowledge of deferred tax is not required)
- (c) Present current tax in the published statements.

## 14 Goodwill and intangible assets

- (a) Define and calculate goodwill
- (b) Distinguish between purchased and internally generated goodwill
- (c) Explain and apply the accounting treatment for both types of goodwill
- (d) Explain and apply the requirements of International Accounting Standards for intangible assets

## 15 & 16 Share and loan notes

- (a) Distinguish between issued and authorised share capital and between called in and paid in share capital
- (b) Distinguish between ordinary and preference shares
- (c) Account for a share issue
- (d) Explain the share premium account

- (e) Define and account for a bonus issue
- (f) Define and account for a rights issue
- (g) Outline the advantages and disadvantages of a rights issue and a bonus issue
- (h) Distinguish between the market value and nominal value of a share
- (i) Explain why companies will be concerned with the value of their shares
- (j) Define and account for loan notes
- (k) Explain the advantages and disadvantages of raising finance by issuing loan notes rather than issuing shares

## 17 & 18 Events after the reporting period, contingent liabilities and contingent assets

- (a) Define an event after the reporting period
- (b) Distinguish between adjusting and non-adjusting events
- (c) Account for each category of event in the financial statements
- (d) Define a provision, contingent liability and contingent asset
- (e) Understand and apply the general recognition principle
- (f) Account for provisions, contingent liabilities and contingent assets

## 19, 20 & 21 Statement of cash flows

- (a) Explain the need for a statement of cash flows
- (b) Prepare a statement of cash flows including relevant notes for a single company in accordance with accounting standards
- (c) Appraise the usefulness of, and interpret the information in a statement of cash flows

## 22, 23, 24 & 25 Consolidated accounts

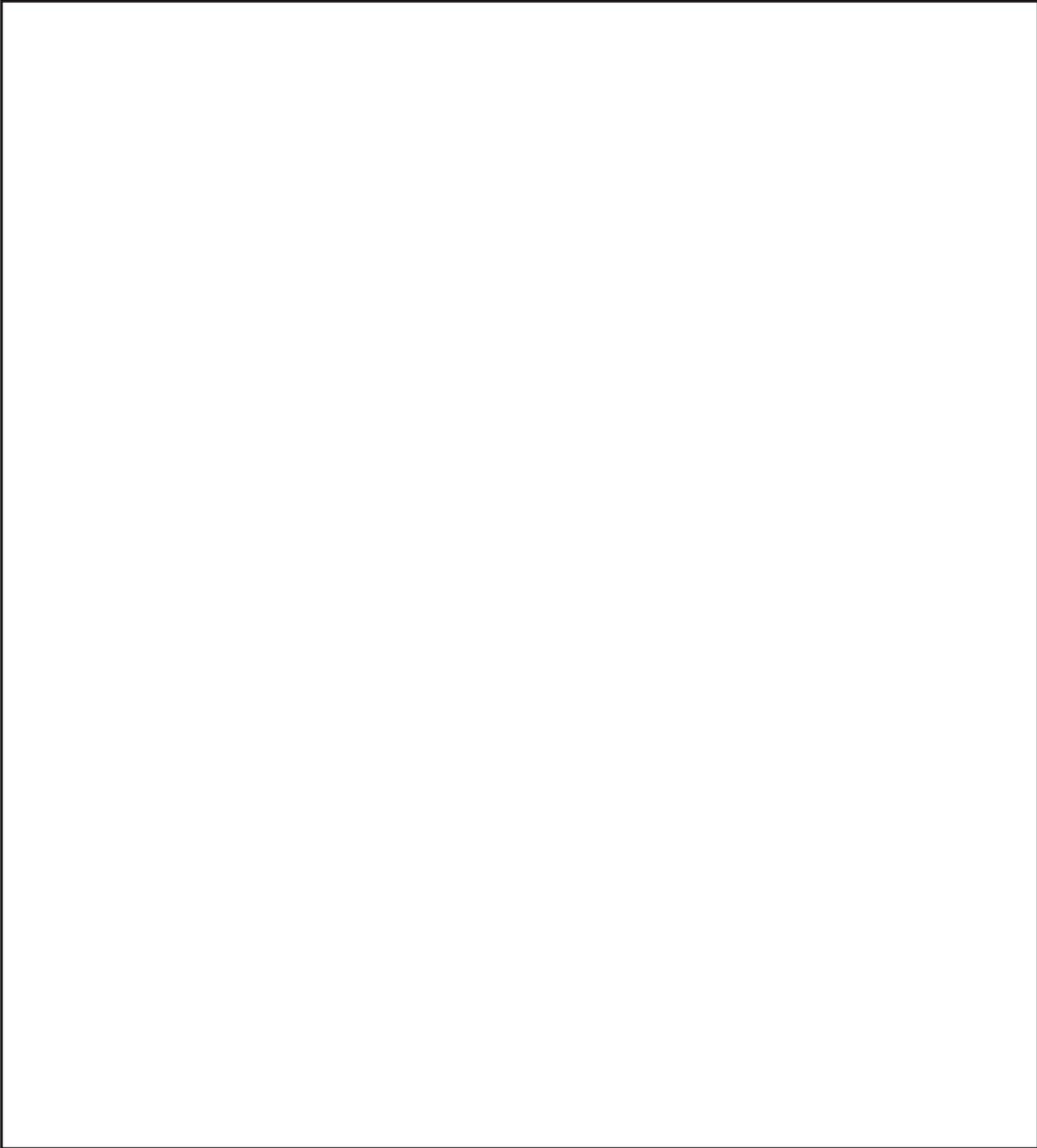
- (a) Describe and be able to identify the general characteristics of a parent company, investment, subsidiary and associated undertaking
- (b) Describe the concept of a group and the objective of consolidated financial statements
- (c) Describe the circumstances and reasoning for subsidiaries to be excluded from consolidated financial statements

- (d) Prepare consolidated income statements, statements of comprehensive income, and statements of financial position for a simple group including adjustments for pre and post acquisition profits, minority interests and consolidated goodwill
- (e) Explain why intra-group transactions should be eliminated on consolidation
- (f) Account for the effects (in the income statement and statement of financial position) of intra-group trading and other transactions including:
  - (i) Unrealised profits in inventory and non-current assets
  - (ii) Intra-group loans and interest and other intra-group charges

**26, 27, 28, 29 Interpretation of financial statements**

- (a) Calculate the main ratios used to appraise and interpret financial statements:
  - (i) profitability ratios
  - (ii) liquidity ratios
  - (iii) working capital efficiency ratios
  - (iv) investor performance ratios
  - (v) financial risk ratios
- (b) Analyse the interpret the ratios to give an assessment of a company's performance in comparison with:
  - (i) a company's previous period's financial statements
  - (ii) another similar company for the same period
  - (iii) industry average ratios
- (c) Identify and discuss the limitations of ratio analysis
- (d) Prepare a financial analysis report of a company in a suitable format

**30, 31 & 32 Revision**



JUNE & DECEMBER 2009 – STUDY GUIDE  
CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

Paper 7  
Planning, Control and  
Performance Management

# Introduction

This booklet contains the Study Guide for Paper 7: Planning, Control and Performance Management.

The Study Guide is designed to help you plan your studies and to provide more detailed interpretation of the syllabus for ACCA's Certified Accounting Technician examinations. It contains both the Syllabus and the Study Sessions for the paper, which you can follow when preparing for the examination.

The Syllabus outlines the content of the paper and how that content is examined. The Study Sessions take the syllabus and expand it into teaching or study sessions of similar length. These sessions indicate what the examiner expects of candidates for each part of the syllabus, and therefore gives you guidance in the skills you are expected to demonstrate in the examinations. The time to complete each session will vary according to your individual capabilities and the time you have available to study. Tuition providers offering face-to-face tuition are recommended to design courses with a minimum of two hours tuition per study session. However, repeated coverage of the material is vital to ensure your understanding and recall of the subject. Be sure to practice past examination questions to consolidate your knowledge and read your *student accountant* magazine regularly.

If you have any queries concerning the study guide, please direct them to:

Qualifications Department  
ACCA 29 Lincoln's Inn Fields London WC2A 3EE United Kingdom  
tel: +44 (0)20 7059 5833 fax: +44 (0)20 7059 5968  
e-mail: [info@accaglobal.com](mailto:info@accaglobal.com)

Additional information can be accessed on the ACCA website at:  
[www.accaglobal.com](http://www.accaglobal.com)

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January 2009

## **ABOUT ACCA**

ACCA is the largest and fastest-growing international accountancy body with 296,000 students and 115,000 members in 170 countries. We aim to offer first choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management. ACCA works to achieve and promote the highest professional, ethical and governance standards and advance the public interest.

# Planning, Control and Performance Management

## AIMS

To develop knowledge and understanding of the application of management accounting techniques to support the management processes of planning, decision-making, control and performance measurement.

## OBJECTIVES

On completion of this paper, candidates should be able to:

- identify valid, relevant data from internal and external sources
- present cost information using appropriate methods
- prepare forecasts of income and expenditure
- monitor and analyse actual costs against forecasts and trends
- compare actual costs with standard costs and analyse and explain any variances
- prepare draft budget proposals
- prepare and present reports comparing actual performance with planned performance for the organisation or for responsibility centres and analyse any variances for management control purposes
- prepare and monitor relevant performance indicators, interpret the results and recommend how to reduce costs and enhance value

## POSITION OF THE PAPER IN THE OVERALL SYLLABUS

A thorough knowledge of the costing elements of Paper 2, *Information for Management Control*, and all of Paper 4, *Accounting for Costs*, is required before commencing study for Paper 7.

## SYLLABUS CONTENT

### 1 Principles of cost accounting

- (a) Absorption costing
- (b) Marginal costing
- (c) Activity based costing

### 2 Collection of information

- (a) Internal information
  - (i) accounting information
  - (ii) wage and salary information
  - (iii) strategic plans
- (b) External information

- (i) on costs, prices, demand and availability of resources (from suppliers, providers of services, competitors, customers and markets), market research
  - (ii) government statistics, trade associations, financial press
  - (iii) uses and limitations of published statistics
  - (iv) impact of the general economic environment / general economic information
- (c) Sampling techniques
- (i) random, systematic, stratified, multistage, cluster, quota
  - (ii) choice of appropriate method, advantages and disadvantages

### 3 Analysis of information

- (a) Methods of presenting information
  - (i) written reports
  - (ii) graphs
  - (iii) diagrams
  - (iv) tables
- (b) Index numbers to allow for price and volume changes

### 4 Forecasting

- (a) Cost forecasting
  - (i) high-low method
  - (ii) linear regression analysis
- (b) Time series analysis
  - (i) moving averages to determine a trend
  - (ii) linear regression analysis to determine a trend
  - (iii) seasonal variations for both additive and multiplicative models
- (c) Advantages and disadvantages of forecasting techniques
- (d) Impact of product lifecycle
- (e) Usefulness of computer packages and forecasting

### 5 Variance analysis

- (a) Standard costing systems
- (b) Calculation of variances
  - (i) material price and usage
  - (ii) labour rate and efficiency

# Planning, Control and Performance Management

- (iii) variable overhead expenditure and efficiency
- (iv) fixed overhead expenditure, volume, capacity and efficiency
- (v) sales margin volume and sales price variances
- (c) Reconciliation between budgeted, standard and actual costs and profits
  - (i) absorption costing system
  - (ii) marginal costing system
- (d) Analysis of variances
  - (i) subdivision of variances
  - (ii) factors to consider before investigation
  - (iii) significance and identification of possible reasons for variances
  - (iv) recommended control actions

## 6 Budgetary planning

- (a) Different types of budget
  - (i) for demand
  - (ii) for income
  - (iii) for resource usage (materials, labour and overheads)
  - (iv) for cost of resources usage
  - (v) for capital
- (b) Functions of a system of budgetary planning and control
- (c) Budget development and review process
  - (i) link between planning cycles, budgets and forecasts
  - (ii) principal budget factors (demand, capacity and resource)
  - (iii) order of budget preparation
  - (iv) coordination of sub-budgets
  - (v) revisions for limiting factors
- (d) Alternative approaches to budgeting
  - (i) incremental
  - (ii) zero based
  - (iii) rolling
- (e) Usefulness of computer packages in budgeting

## 7 Budgetary control

- (a) Responsibility accounting
  - (i) link between the design of cost collection and reporting and the control structure of the organisation
  - (ii) controllable and uncontrollable costs
  - (iii) cost centres, revenue centres, profit centres, investment centres
- (b) Flexible budgets
  - (i) fixed versus flexible budgets
  - (ii) preparation of flexible budgets
  - (iii) impact of capacity variations
  - (iv) calculation and analysis of variances
  - (v) presentation of budgetary control reports for management
  - (vi) recommendation of appropriate control action
  - (vii) use of relevant computer packages
- (c) Budgets and behaviour of managers and other employees
  - (i) motivational factors
  - (ii) participation in the budgetary process
  - (iii) goal congruence and dysfunctional decision-making

## 8 Performance measurement

- (a) Use of performance indicators to measure:
  - (i) perspectives of the balanced scorecard
  - (ii) economy, effectiveness and efficiency
  - (iii) unit costs
  - (iv) resource utilisation
  - (v) profitability
  - (vi) quality of service
- (b) Control ratios
  - (i) efficiency
  - (ii) capacity
  - (iii) activity
- (c) Scenario planning ('what-if' analysis)
- (d) Cost reduction and value enhancement recommendations
  - (i) efficiencies
  - (ii) modifications to work processes
  - (iii) benchmarking
- (e) Pricing policies and procedures

# Planning, Control and Performance Management

## 9 Cost management

- (a) Life cycle costing
- (b) Target costing (including value engineering)
- (c) Activity based costing
- (d) Total Quality Management
  - (i) basic principles
  - (ii) costs of quality

### EXCLUDED TOPICS

The following topics are specifically excluded from Paper 7:

- derivation of random samples
- derivation of coefficients of linear regression equation using formulae.

### KEY AREAS OF THE SYLLABUS

The key topic areas are:

- forecasting
- budget preparation
- flexible budgets
- variance computation and interpretation
- performance indicators
- cost reduction and value enhancement.

### APPROACH TO EXAMINING THE SYLLABUS

The examination is a three-hour paper combining multiple choice questions and written questions as follows:

Section A:	10 multiple choice questions	20 marks
Section B:	4 written questions (20 marks each)	80 marks
Total:		100 marks

### RECOMMENDED TEXTS

There are a number of sources from which you can obtain a series of materials written for the ACCA CAT examinations.

ACCA's official publishers:

#### BPP Learning Media

Contact number: +44(0)20 8740 2222

Website: [www.bpp.com](http://www.bpp.com)

#### Kaplan Publishing

Contact number: +44(0)118 989 0629

Website: [www.kaplanpublishing.co.uk](http://www.kaplanpublishing.co.uk)

Candidates may also find the following texts useful:

Weetman, P. *Management Accounting – An Introduction* (Prentice Hall)

Dodge, R. *Foundations of Cost and Management Accounting* (International Thomson Business Press)  
ISBN: 041258820X

Lucey, T. *Costing* (DP Publications: 5th Edition) ISBN: 0826455107

Pizzey, A. *Cost and Management Accounting* (Paul Chapman: 3rd Edition)  
ISBN: 1853960497

Wider reading is also desirable, especially regular study of relevant articles in ACCA's *student accountant* magazine.

# Planning, Control and Performance Management

## STUDY SESSIONS

### 1 Accounting for management

- (a) Describe the management function within an organisation and how this may vary according to the nature of the business
- (b) Describe the objectives of management accounting information in relation to short-term and long-term planning, control and performance measurement
- (c) Describe the role of the management accountant in an organisation
- (d) Describe the features of useful management information
- (e) Explain the limitations of management information in providing guidance for managerial decision-making
- (f) Explain how cost accounting systems can be maintained and improved

### 2 Absorption costing

- (a) Demonstrate knowledge of the application of absorption costing in an organisation
- (b) Apply absorption costing principles in a job, contract, batch, service, or process costing context
- (c) Prepare management accounts and cost estimates using absorption costing principles
- (d) Evaluate the usefulness of absorption costing in specific situations

### 3 Marginal costing

- (a) Explain the use of marginal costing in an organisation
- (b) Apply marginal costing principles in a job, contract, batch, service, or process costing context
- (c) Explain cost behaviour
- (d) Prepare management accounts and cost estimates using marginal costing principles
- (e) Reconcile marginal costing and absorption costing profits
- (f) Evaluate the use of marginal costing in specific situations
- (g) Compare and contrast the use of absorption and marginal costing

### 4 Activity based costing

- (a) Explain the reasons for the development of activity based costing
- (b) Select appropriate cost pools and cost drivers
- (c) Calculate product costs using activity based costing
- (d) Apply activity based costing principles in a job, contract, batch, service, or process costing context
- (e) Evaluate the use of activity based costing in specific situations
- (f) Compare and contrast the use of absorption, marginal and activity based costing

### 5 Collection of information

- (a) Describe sources of information from within and outside the organisation
  - (i) describe sources of information from suppliers and customers
  - (ii) describe sources of information from suppliers and customers
  - (iii) discuss sampling techniques (random, systematic, stratified, multistage, cluster and quota)
  - (iv) choose an appropriate sampling method in a specific situation
  - (v) describe sources of information from government, trade associations and the financial press
  - (vi) describe benchmarking
  - (vii) discuss the advantages and disadvantages of benchmarking
  - (viii) select appropriate benchmarks at strategic, tactical and operational levels in a specific situation  
(Note: Derivation of random samples will not be examined)

### 6 Presentation of information and use of Indices

- (a) Presentation of information
  - (i) Prepare written reports representing management information in suitable formats according to purpose
  - (ii) Present information using tables, charts and graphs (bar charts, histograms, frequency

# Planning, Control and Performance Management

polygons)

(iii) Interpret information (including the above tables, charts and graphs) presented in management reports

(b) Indices

(i) Calculate price and quantity indices on Laspeyres' and Paasche bases

(ii) Discuss advantages and disadvantages of Laspeyres' and Paasche indices

(iii) Adjust raw data using appropriate indices

## 7 Forecasting

(a) Use the high-low method to estimate the fixed and variable elements of a cost

(b) Explain the advantages and disadvantages of the high-low method

(c) Construct scatter diagrams and lines of best fit

(d) Describe the use of linear regression analysis in the analysis of cost data

(e) Use linear regression coefficients to make forecasts of costs and revenues

(f) Adjust historical and forecast data for price movements

(g) Explain the advantages and disadvantages of linear regression analysis

(h) Describe the product life cycle and explain its importance in forecasting

## 8 Time series analysis

(a) Explain the principles of time series analysis (trend, seasonal variation and random elements)

(b) Calculate moving averages

(c) Determination of trend, including the use of regression analysis

(d) Use trend and seasonal variation (additive and multiplicative) to make budget forecasts

(e) Explain the advantages and disadvantages of time series analysis

(f) Describe the concept of the product lifecycle and its implications for sales forecasting

(Note: Derivation of regression coefficients will not be

examined)

## 9 Budgetary planning

(a) Link between planning cycles, budgets and forecasts

(i) describe the planning and control cycle in an organisation

(ii) explain how the design of the planning and control system will be affected by organisational structure, business objectives, the organisation's administrative procedures and the nature of the product/service market

(iii) compare short-term and long-term business plans and explain how they are related

(b) Principal budget factors (demand, capacity and resource)

(i) explain the importance of the principal budget factor in constructing a budget

(ii) describe principal budget factors (demand, capacity and resource)

(iii) identify the principal budget factor in a specific situation

## 10 Budgetary planning - preparation, co-ordination and revisions

(a) Order of budget preparation

(i) describe the order of budget construction relating to a specific limiting factor

(ii) prepare functional and departmental and master budgets in an appropriate order in a given situation

(b) Coordination of sub-budgets

(i) explain the budget preparation timetable

(ii) describe relevant documentation produced and the management accountant's role in its production

(iii) describe the involvement of staff at all levels in the organisation in the budget preparation process and the effect on employee motivation of the approach adopted

(iv) describe the sources of information required for budget preparation and their likely limitations

(c) Revisions for limiting factors

(i) explain how management might plan for variations in capacity levels

# Planning, Control and Performance Management

- (ii) prepare budgets under varying capacity levels

## 11 Budgetary planning- different types of budgets

- (a) Prepare sales budgets
- (b) Prepare functional budgets (production, raw materials usage and purchases, labour, fixed overheads)
- (c) Discuss the preparation of discretionary expense budgets
- (d) Prepare capital budgets
- (e) Prepare cash budgets
- (f) Prepare master budgets (profit and loss account and balance sheet)

## 12 Budgetary planning - alternative approaches and computer based models

- (a) Alternative approaches to budgeting
  - (i) describe the main features of zero-based budgeting
  - (ii) explain the advantages and limitations of zero-based budgets
  - (iii) compare the use of incremental and zero-based budgeting systems
  - (iv) describe when zero-based budgets are commonly used
  - (v) describe the main features of a rolling budget
- (b) Use of computer based models
  - (i) outline the role of spreadsheet models in budget construction
  - (ii) prepare simple spreadsheet formulae for budget construction
  - (iii) describe financial modelling software
  - (iv) describe "what if" analysis and scenario planning

## 13 Budgetary control - fixed and flexible budgets

- (a) Fixed versus flexible budgets
  - (i) explain the importance of flexible budgets in control
  - (ii) explain the disadvantages of fixed budgets in control
  - (iii) identify situations where fixed or flexible budgetary control would be appropriate
- (b) Preparation
  - (i) flex a budget to a given level of volume
  - (ii) prepare formulae appropriate for flexing a budget
- (c) Impact of capacity variations
  - (i) prepare flexed budgets at various output levels
  - (ii) estimate profit at various output levels

## 14 Budgetary control – calculation and analysis of budget variances

- (a) Calculate simple variances between flexed budget, fixed budgets and actual results for sales, costs and profits
  - (i) calculate sales price and sales margin volume variances
  - (ii) explain the meaning of budget variances
  - (iii) analyse the potential causes of budget variances

## 15 Budgetary control – reports, recommendations and relevant computer packages

- (a) Presentation of budgetary control reports for management
  - (i) prepare control reports suitable for presentation to management
  - (ii) discuss the relative significance of variances
- (b) Recommendation of appropriate control action
  - (i) explain potential actions to eliminate variances
  - (ii) discuss the advantages and disadvantages of particular actions
- (c) Use of relevant computer packages
  - (i) discuss the use of spreadsheets in flexing budgets
  - (ii) prepare spreadsheet formulae for budget flexing

## 16 Budgetary control - responsibility accounting, controllable and uncontrollable costs

- (a) Responsibility accounting
  - (i) define the concept of responsibility accounting
  - (ii) explain its significance in control
  - (iii) evaluate the responsibility of managers in a given situation
  - (iv) explain the problem of joint responsibility
  - (v) design reports appropriate to a given responsibility structure
  - (vi) identify costs to be collected for a given responsibility structure
- (b) Controllable and uncontrollable costs
  - (i) explain the concepts of controllable and uncontrollable costs
  - (ii) distinguish between controllable and uncontrollable costs in a given situation

# Planning, Control and Performance Management

## 17 Budgetary control – cost centres, revenue centres, profit centres and investment centres

- (a) Define cost centres, revenue centres, profit centres and investment centres
- (b) Discuss performance measures appropriate to each type of responsibility centre (budget variances, contribution measures, controllable profit, traceable profit, return on investment and residual income)
- (c) Calculate controllable profit, traceable profit, return on investment and residual income in a specific situation
- (d) Distinguish between managerial performance and business unit performance

## 18 Budgetary control – budgets and the behaviour of managers and other employees

- (a) Motivation
  - (i) define motivation
  - (ii) explain the importance of motivation in performance management
  - (iii) identify factors in a budgetary planning and control system that influence motivation
  - (iv) explain the impact of targets upon motivation
  - (v) evaluate managerial incentive schemes
- (b) Participation
  - (i) discuss the advantages and disadvantages of a participative approach to budgeting
  - (ii) explain top down, bottom up, and budget challenging approaches to budgeting
- (c) Goal congruence and dysfunctional decision-making
  - (i) define goal congruence and dysfunctional decision-making
  - (ii) explain the importance of goal congruent behaviour
  - (iii) discuss causes of dysfunctional decision-making
  - (iv) identify dysfunctional behaviour in a specific situation
  - (v) amend budgeting procedures to encourage goal congruent behaviour
  - (vi) describe ideal, attainable, current and basic standards

## 19 Standard costing systems

- (a) Explain the operation of a standard costing system
- (b) Discuss the advantages of standard costing and variance analysis
- (c) Evaluate the appropriateness of standard costing in a specific situation
- (d) Discuss the value of standard costing in a modern manufacturing and service environment
- (e) Define standard absorption and standard marginal costing
- (f) Discuss the advantages and limitations of standard marginal and standard absorption costing
- (g) Prepare standard cost cards (product specification) for standard marginal and standard absorption costing

## 20 Standard costing – calculation of variances

- (a) Calculate material price and usage variances (price variances to be based upon usage or purchases)
- (b) Calculate labour rate and efficiency variances
- (c) Calculate fixed overhead expenditure, volume, capacity and efficiency variances
- (d) Calculate variable overhead expenditure and efficiency variances
- (e) Calculate sales margin volume and sales price variances
- (f) Undertake entries in a standard cost bookkeeping situation

## 21 Standard costing – reconciliation of standard to actual cost

- (a) Prepare a reconciliation of standard to actual cost for an absorption costing system
- (b) Prepare a reconciliation of standard to actual cost for a marginal costing system
- (c) Prepare a reconciliation of budgeted to actual profit for an absorption costing system
- (d) Prepare a reconciliation of budgeted to actual profit for a marginal costing system
- (e) Prepare control reports suitable for presentation to management

# Planning, Control and Performance Management

## 22 Standard costing – analysis of variances

- (a) Subdivide variances to reflect responsibility structures
- (b) Calculate idle time variances
- (c) Analyse variances into controllable and non-controllable elements

## 23 Standard costing – variance investigation

- (a) Significance and identification of possible reasons for variances
  - (i) discuss the causes of variances in general
  - (ii) identify potential causes of variances in a specific situation
  - (iii) explain the potential interrelationships between variances
  - (iv) discuss the meaning and significance of variances
- (b) Factors to consider before investigation
  - (i) explain the significance of cost of investigation, cost of correction, benefit of correction, and probability of successful correction in variance investigation
  - (ii) calculate the expected benefit of variance investigation
  - (iii) discuss the role of control charts in variance investigation
- (c) Recommend control action
  - (i) explain potential courses of action to correct a variance
  - (ii) evaluate courses of action to correct a variance in specific circumstances

## 24 Performance measurement – overview

- (a) Performance hierarchy
  - (i) discuss the purpose of mission statements and their role in performance measurement
  - (ii) discuss the purpose of strategic and operational and tactical objectives and their role in performance measurement
- (b) External considerations
  - (i) discuss the impact of economic and market conditions on performance measurement
- (c) Discuss the impact of government regulation on performance measurement

## 25 Performance Measurement – scope

- (a) Discuss and calculate measures of financial performance – profitability, liquidity, activity and gearing
- (b) Discuss the importance of non-financial performance measures
- (c) Discuss the relationship between short-term and long-term performance
- (d) Discuss the measurement of performance in service industry situations
- (e) Discuss the measurement of performance in non-profit seeking and public sector organisations
- (f) Discuss measures that may be used to assess managerial performance and the practical problems involved
- (g) Discuss the role of benchmarking in performance measurement
- (h) Produce reports highlighting key areas for management attention and recommendations for improvement

## 26 Performance measurement – applications

- (a) Perspectives of the balanced scorecard
  - (i) discuss the advantages and limitations of the balanced scorecard
  - (ii) describe performance indicators for financial success, customer satisfaction, process efficiency and growth
  - (iii) discuss critical success factors and key performance indicators and their link to objectives and mission statements
  - (iv) establish critical success factors and key performance indicators in a specific situation
- (b) Economy, efficiency and effectiveness
  - (i) explain the concepts of economy, efficiency and effectiveness
  - (ii) describe performance indicators for economy, efficiency and effectiveness
  - (iii) establish performance indicators for economy, efficiency and effectiveness in a specific situation
  - (iv) discuss the meaning of each of the efficiency, capacity and activity ratios

# Planning, Control and Performance Management

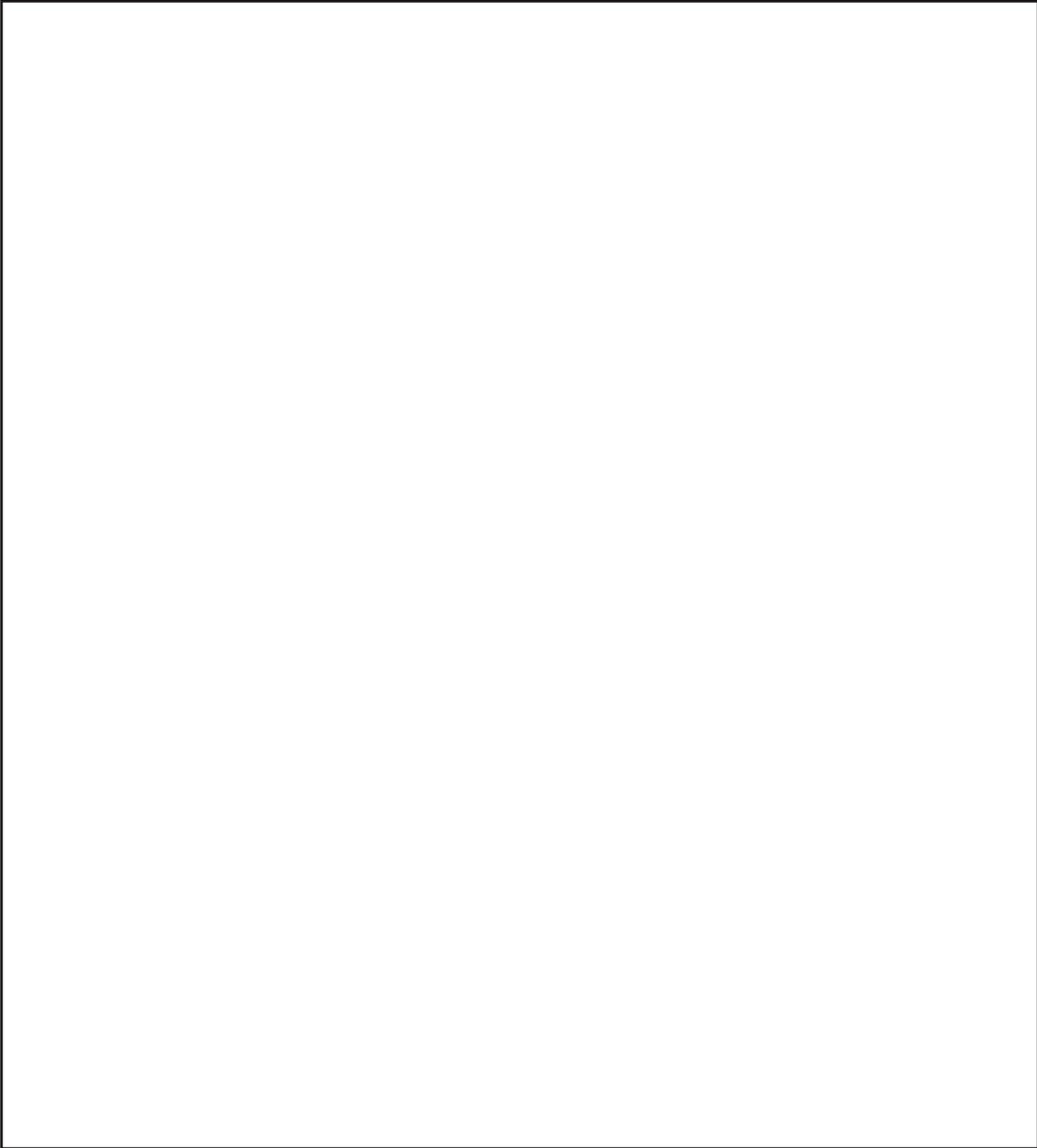
- (v) calculate the efficiency, capacity and activity ratios in a specific situation
- (c) Unit costs
  - (i) describe performance measures which would be suitable in job, batch, contract and process costing environments
- (d) Resource utilisation
  - (i) describe measures of performance utilisation in service and manufacturing environments
  - (ii) establish measures of resource utilisation in a specific situation
- (e) Profitability
  - (i) calculate return on investment and residual income
  - (ii) explain the advantages and limitations of return on investment and residual income
- (f) Quality of service
  - (i) distinguish performance measurement issues in service and manufacturing industries
  - (ii) describe performance measures appropriate for service industries
- (g) Establish performance measures for a service business in a specific situation
- (h) Costs of quality
  - (i) discuss the importance of quality in organisations
  - (ii) establish measures of quality in a specific situation

## 27 Pricing and demand

- (a) Describe the factors which may influence an organisation's pricing policy
- (b) Prepare and justify cost based approaches to pricing using absorption costing, marginal costing and opportunity costing approaches
- (c) Discuss the merits and limitations of cost based approaches to pricing
- (d) Describe the procedure for preparing cost estimates for fixed price quotations and tenders

## 28 Cost management

- (a) Total Quality Management
  - (i) explain in general terms the costs of quality (prevention, appraisal, internal failure and external failure)
  - (ii) establish measures of the cost of quality in specific situations
  - (iii) calculation of the costs and benefits of quality initiatives
- (b) Cost reduction and value enhancement recommendations
  - (i) compare cost control and cost reduction
  - (ii) describe and evaluate cost reduction methods
  - (iii) describe and evaluate value analysis
- (c) Life cycle costing
  - (i) describe life cycle costing
  - (ii) discuss the benefits of life cycle costing in a specific situation
- (d) Target costing
  - (i) describe target costing
  - (ii) discuss the link between target costing and pricing
  - (iii) discuss the role of value engineering in target costing



JUNE & DECEMBER 2009 – STUDY GUIDE  
CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

Paper 8 (INT)  
Implementing Audit  
Procedures

# Introduction

This booklet contains the Study Guide for Paper 8 (INT): Implementing Audit Procedures.

The Study Guide is designed to help you plan your studies and to provide more detailed interpretation of the syllabus for ACCA's Certified Accounting Technician examinations. It contains both the Syllabus and the Study Sessions for the paper, which you can follow when preparing for the examination.

The Syllabus outlines the content of the paper and how that content is examined. The Study Sessions take the syllabus and expand it into teaching or study sessions of similar length. These sessions indicate what the examiner expects of candidates for each part of the syllabus, and therefore gives you guidance in the skills you are expected to demonstrate in the examinations. The time to complete each session will vary according to your individual capabilities and the time you have available to study. Tuition providers offering face-to-face tuition are recommended to design courses with a minimum of two hours tuition per study session. However, repeated coverage of the material is vital to ensure your understanding and recall of the subject. Be sure to practice past examination questions to consolidate your knowledge and read your *student accountant* magazine regularly.

If you have any queries concerning the study guide, please direct them to:

Qualifications Department  
ACCA 29 Lincoln's Inn Fields London WC2A 3EE United Kingdom  
tel: +44 (0)20 7059 5833 fax: +44 (0)20 7059 5968  
e-mail: [info@accaglobal.com](mailto:info@accaglobal.com)

Additional information can be accessed on the ACCA website at:  
[www.accaglobal.com](http://www.accaglobal.com)

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January 2009

## **ABOUT ACCA**

ACCA is the largest and fastest-growing international accountancy body with 296,000 students and 115,000 members in 170 countries. We aim to offer first choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management. ACCA works to achieve and promote the highest professional, ethical and governance standards and advance the public interest.

# Implementing Audit Procedures (INT)

## AIMS

To develop knowledge and understanding of the audit process from the planning stage through to the reporting stage and the techniques used in the conduct of internal and external audits.

## OBJECTIVES

On completion of this paper, candidates should be able to:

- explain the rules of professional conduct relating to the ethics of integrity, objectivity, independence and confidentiality and undertake audit procedures accordingly
- identify control objectives and weaknesses for an accounting system under review
- assess audit risks, produce an audit plan and design appropriate audit procedures
- carry out appropriate audit procedures in accordance with an audit plan on the basis of a validly selected sample
- draw valid conclusions from the results of audit tests
- prepare draft reports relating to an audit assignment.

## POSITION OF THE PAPER IN THE OVERALL SYLLABUS

Paper 8 requires the knowledge and understanding from Paper 1, *Recording Financial Transactions* and Paper 3, *Maintaining Financial Records*, to provide a basic understanding of the nature and objectives of an audit and general audit practice. Candidates will also be expected to be familiar with Paper 6, *Drafting Financial Statements*.

## SYLLABUS CONTENT

### 1 The business environment

- (a) The nature of accounting records, audit and the audit report
- (b) Requirements for becoming an auditor
- (c) Duties of an auditor
- (d) Responsibilities of auditors
- (e) Fraud and error
  - (i) liability to clients
  - (ii) liability to third parties

### 2 The audit framework

- (a) External audit and internal audit
- (b) Regulatory framework of auditing
  - (i) auditing standards
  - (ii) requirements of professional bodies
- (c) The audit engagement process

### 3 Audit personnel

- (a) The audit team
- (b) Liaison with client staff
- (c) Liaison with third parties
  - (i) experts
  - (ii) internal audit

### 4 Audit planning

- (a) The nature of an audit plan and programme
- (b) Knowledge of the business
- (c) Risk
- (d) Materiality
- (e) Documentation
- (f) Audit planning meeting

### 5 Accounting systems and controls

- (a) The nature of accounting systems
- (b) General principles of control
- (c) Techniques to record accounting systems
  - (i) narrative notes
  - (ii) flowcharts
- (d) Techniques to evaluate accounting systems
  - (i) internal control questionnaires
  - (ii) internal control evaluation questionnaires
  - (iii) checklists
- (e) Major control cycles (manual and computerised)
  - (i) income (sales)
  - (ii) expenditure (purchases / inventory / non-current assets / payroll / expenses)
- (f) Tests of control
- (g) Reporting control weaknesses

# Implementing Audit Procedures (INT)

## 6 Audit evidence and sampling

- (a) Financial statement assertions
- (b) Audit evidence and procedures
- (c) Verification techniques – physical examination, reperformance, third party confirmation, documentary evidence, vouching and analytical review
- (d) Audit sampling
- (e) Types of testing – tests of control and substantive testing
- (f) Computer assisted audit techniques
- (g) Audit of statement of financial position items – existence, completeness, occurrence, valuation and allocation, classification, rights and obligations

## 7 Audit completion

- (a) Audit review
  - (i) events after the end of the reporting period
  - (ii) going concern
  - (iii) opening balances and comparatives
- (b) Analytical procedures
- (c) Recording significant and material errors
- (d) Review by senior audit staff
- (e) Report of audit points arising (report to partner)
- (f) Letter of representation

## 8 Audit report

- (a) The standard audit report
- (b) Qualifications in audit reports

### KEY AREAS OF THE SYLLABUS

The key topic areas are as follows:

- controls
- audit planning
- practical application of audit techniques
- preparing draft reports.

### APPROACH TO EXAMINING THE SYLLABUS

The examination is a three-hour written paper. The paper consists of two sections structured as follows:

	Marks
Section A - 10 compulsory multiple choice questions of 2 marks each	20
Section B Four compulsory questions Q1+2 (25 marks each) Q3+4 (15 marks each)	50 30
Total	100

### ADDITIONAL INFORMATION

Accounting and auditing standards will not be examined until six months after they have been published. The cut off date for the June examination is 30 November preceding the June examination. The cut off date for the December examination is 31 May preceding the December examination.

### RELEVANT TEXTS

There are a number of sources from which you can obtain a series of materials written for the ACCA CAT examinations. These are listed below:

ACCA's official publishers:

#### BPP Learning Media

Contact number: +44(0)20 8740 2222

Website: [www.bpp.com](http://www.bpp.com)

#### Kaplan Publishing

Contact number: +44(0)118 989 0629

Website: [www.kaplanpublishing.co.uk](http://www.kaplanpublishing.co.uk)

Additional reading:

Accountancy Tuition Centre (ATC)

International

Contact number: [ronnie.smith@atc-global.com](mailto:ronnie.smith@atc-global.com)

Website: [www.atc-global.com](http://www.atc-global.com)

# Implementing Audit Procedures (INT)

Wider reading is also desirable, especially regular study of relevant articles in ACCA's *student accountant* magazine.

## STUDY SESSIONS

### 1 The purpose and scope of an external audit and the audit framework

- (a) Explain the purpose and scope of an external audit
- (b) Outline the requirements governing the appointment and removal of auditors
- (c) Outline the duties and responsibilities of auditors
- (d) Explain the scope of International Standards on Auditing
- (e) Outline the fundamental principles of independent auditing

### 2 Rules of professional conduct and professional ethics

- (a) Discuss the fundamental principles of ACCA's Code of Ethics and Conduct
- (b) Discuss the detailed requirements of, and illustrate the application of professional ethics in the context of auditor independence, objectivity and integrity as set out in ACCA's Code of Ethics and Conduct
- (c) Describe the auditor's responsibility with regard to confidentiality as set out in ACCA's Code of Ethics and Conduct

### 3 Internal audit

- (a) Explain the purpose and scope of internal audit
- (b) Compare and contrast the roles of the internal audit function and the external audit function with regard to the detection of fraud and error
- (c) Identify the factors that external auditors should consider when evaluating the work of internal auditors

### 4 & 5 True and fair view, materiality, the auditors' report

- (a) Explain the concept of a true and fair view
- (b) Explain the concept of materiality and discuss the factors to be considered when making a judgement on whether an item is material
- (c) Provide and review an example of an auditors' report

with an unqualified opinion on the financial statements of an incorporated company

- (d) Discuss the basic elements of the auditors' report
- (e) Discuss the concept of 'reasonable assurance'

### 6 The audit engagement process

- (a) Explain the purpose and content of client acceptance procedures comprising client screening, professional clearance and independence checks
- (b) Explain the purpose of an audit engagement letter
- (c) Examine and discuss the contents of an audit engagement letter

### 7, 8 & 9 Planning the audit

- (a) Distinguish between a systems approach to an audit, a direct verification approach, a risk based approach and a balance sheet approach
- (b) Explain the concept of audit risk, focusing in particular on inherent risk and control risk
- (c) Explain how auditors use knowledge of the business, in audit planning
- (d) Identify sources from which auditors may obtain knowledge of the business
- (e) Explain the role of audit programmes and summarise the advantages/disadvantages of using standard programmes
- (f) Outline planning issues with regard to audit planning meetings, the timing of audit work, staffing, training of the audit team, the use of suitable experts, and liaison with client staff including internal auditors
- (g) Explain how auditors may plan to use computer assisted audit techniques
- (h) Illustrate the use of an audit planning memorandum

### 10 Documenting the audit

- (a) Discuss the reasons for maintaining audit working papers
- (b) Explain the purpose of the current file and the permanent file
- (c) Describe the contents of a current file and a permanent file
- (d) Outline the quality control procedures that should exist

## Implementing Audit Procedures (INT)

over the review of audit working papers and in the reporting of important audit points to the audit engagement partner

- (e) Illustrate how information technology can be used in the documentation of audit work

### 11 Internal control I

- (a) Explain the following terms:
  - (i) internal control system
  - (ii) control environment
  - (iii) control procedures
- (b) Describe the objectives of an internal control system
- (c) Discuss the different types of internal control
- (d) Describe and illustrate the inherent limitations of internal control systems
- (e) Discuss the importance of internal control to auditors

### 12,13 & 14 Internal control II

- (a) Describe and illustrate control procedures to meet specified objectives for each of the following functional areas:
  - (i) purchases and trade payables
  - (ii) sales and trade receivables
  - (iii) wages and salaries
  - (iv) tangible non-current assets
  - (v) inventory
  - (vi) bank receipts and payments
  - (vii) cash receipts and payments

### 15 Internal control III

- (a) Distinguish between application controls and general controls in computer-based systems and identify the objectives of each control type
- (b) Provide examples of specific general controls and application controls
- (c) Outline the typical control problems encountered in small computer-based systems

### 16 & 17 Internal control IV

- (a) Describe the techniques used by auditors to record and evaluate manual and computer-based accounting systems

- (b) Provide examples of, and explain the format and contents of internal control questionnaires (ICQ's) and internal control evaluation questionnaires (ICEQ's)
- (c) Explain the purpose of tests of control
- (d) Distinguish between tests of control and substantive procedures

### 18, 19 & 20 Audit testing of accounting systems controls

- (a) Explain the audit approach to testing accounting system controls over the following functional areas:
  - (i) purchases and trade payables
  - (ii) sales and trade receivables
  - (iii) wages and salaries
  - (iv) tangible non-current assets
  - (v) inventory
  - (vi) bank receipts and payments
  - (vii) cash receipts and payments
- (b) Explain the purpose of a management letter, indicating when it should be issued
- (c) Provide information on an accounting system in a functional area and prepare points for inclusion in a management letter, in the following format:
  - description of weakness
  - implication of weakness
  - recommendation(s) to address weakness

### 21 Audit sampling

- (a) Explain the relevance of sampling to the auditor
- (b) Outline selection methods, including random selection, systematic selection and haphazard selection
- (c) Outline the main factors affecting sample size

### 22 Audit evidence I

- (a) Explain the importance of evidential material in the audit process
- (b) Identify the factors that influence the reliability of audit evidence
- (c) Describe and give examples of procedures used by auditors to obtain audit evidence, including the use of analytical procedures and computer assisted audit techniques

## Implementing Audit Procedures (INT)

### 23 Audit evidence II

- (a) Explain the importance of financial statement assertions
- (b) For each area in the financial statements of an incorporated company, provide examples of the representations made by directors
- (d) Explain the rationale for designing audit programmes by reference to audit objectives
- (e) Outline the factors determining the nature, timing and extent of substantive procedures to be carried out on an audit

### 24 & 25 Audit evidence III

- (a) Design audit programmes to meet specific audit objectives with regard to the following statement of financial position items:
  - (i) tangible non-current assets.
  - (ii) investments
  - (iii) trade receivables
  - (iv) prepayments
  - (v) bank and cash
  - (vi) trade payables
  - (vii) accruals
  - (viii) provisions

### 26 & 27 Audit evidence IV

- (a) Explain why the audit of inventory is often an area of high audit risk
- (b) Describe the audit procedures that should be undertaken before, during and after attending an inventory count
- (c) Discuss the extent to which an auditor can rely on a system of perpetual inventory
- (d) Design an audit programme to meet specific audit objectives for the audit of inventory

### 28 & 29 Audit completion

- (a) Explain the purpose and nature of carrying out an overall review of the financial statements prior to expressing an audit opinion and outline the purpose and nature of:
  - (i) the application of analytical procedures

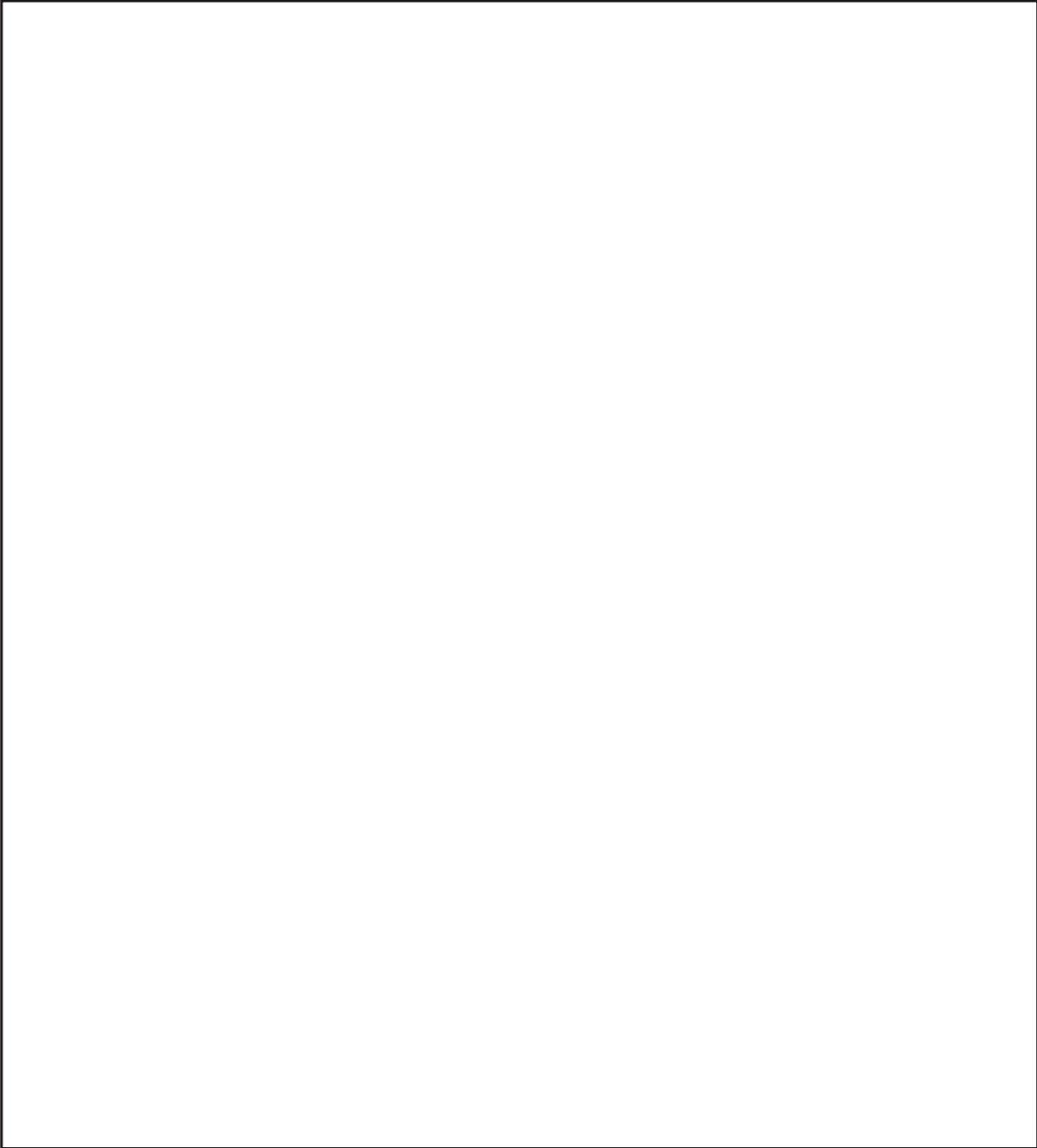
- (ii) a review of opening balances and comparatives
- (iii) a review of events after the end of the reporting period
- (iv) an evaluation of Going Concern
- (b) Explain the purpose of a letter of representation
- (c) Describe the contents of a letter of representation and provide examples of typical representations made in such a letter

### 30 Audit report

- (a) Revise the form and content of an auditors' report with an unqualified opinion on the financial statements of an incorporated company (see sessions 4 & 5)
- (b) Outline the circumstances in which an auditor should issue a report with:
  - (i) a qualified opinion
  - (ii) an adverse opinion
  - (iii) a disclaimer of opinion

### Summary of changes to the Study Guide

2a) - c)	Amended
7,8+9a)	Amended
24+25a)	Amended
28+29a) iii)	Amended



JUNE 2009 – STUDY GUIDE  
CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

Paper 9 (SGP)  
Preparing Taxation  
Computations

# Introduction

This booklet contains the Study Guide for the ACCA's Certified Accounting Technician Paper 9 (SGP): Preparing Taxation Computations.

The Study Guide is designed to help you plan your studies and to provide more detailed interpretation of the syllabus for ACCA's Certified Accounting Technician examinations. It contains both the Syllabus and the Study Sessions for the paper, which you can follow when preparing for the examination.

The Syllabus outlines the content of the paper and how that content is examined. The Study Sessions take the syllabus and expand it into teaching or study sessions of similar length. These sessions indicate what the examiner expects of candidates for each part of the syllabus, and therefore gives you guidance in the skills you are expected to demonstrate in the examinations. The time to complete each session will vary according to your individual capabilities and the time you have available to study. Tuition providers offering face-to-face tuition are recommended to design courses with a minimum of two hours tuition per study session. However, repeated coverage of the material is vital to ensure your understanding and recall of the subject. Be sure to practice past examination questions to consolidate your knowledge and read your *student accountant* magazine regularly.

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# Preparing Taxation Computations (SGP)

## AIMS

- To develop knowledge and understanding of Singapore tax law and practice;
- To develop the ability to prepare computations of tax liability for individuals, businesses (sole-proprietorships and partnerships) and companies resident in Singapore for income tax purposes;
- To develop knowledge and understanding of the principles relating to the application of goods and services tax (GST); and
- To develop knowledge and understanding of the manner in which dealings should be conducted with the Inland Revenue Authority of Singapore (IRAS)

## OBJECTIVES

On completion of this paper, candidates should be able to:

- Calculate an individual's income from employment
- Calculate income from savings and investments
- Calculate income from property (for individuals)
- Prepare adjusted profit/loss computations for trades and professions (sole-proprietorships and partnerships)
- Prepare capital allowance computations
- Prepare personal tax computations
- Prepare corporate income tax computations for individual companies
- Explain and apply the principles relating to good and services tax (GST)
- Identify due dates of submission of returns and for the payment of tax liabilities
- Conduct dealings with the Inland Revenue Authority of Singapore (IRAS) and with clients in an appropriate manner.

## POSITION OF THE PAPER IN THE OVERALL SYLLABUS

An understanding of the format of accounts used for sole proprietorships, partnerships and companies is assumed from Paper 3, *Maintaining Financial Records* and Paper 6, *Drafting Financial Statements*, but no prior knowledge of taxation is required.

## SYLLABUS CONTENT

### 1 Income from employment

- Basis of assessment
- Gains or profits from employment
- Benefits-in-kind
- Computing taxable emoluments from employment
- Allowable deductions

### 2 Income from property and investments (for individuals) - basic principles

- Computing income from property
  - (a) basis of assessment
  - (b) allowable deductions
- Computing income from other investments
  - (a) Dividends
  - (b) Interest from banks and financial institutions
  - (c) Tax exempt interest and dividends

### 3 Income from trades and professions

- Computing income from trades and professions
  - (a) basis of assessment
  - (b) allowable deductions
  - (c) non-deductible expenses including prohibited expenses under statute
  - (d) distinction between revenue and capital expenditure
- Relief for trade losses and the carry forward and carry back of unabsorbed trade losses

### 4 Capital Allowances

- Industrial Buildings Allowance
  - (a) definition of industrial buildings and structures
  - (b) qualifying trade
  - (c) qualifying expenditure
  - (d) computing industrial buiding allowances
- Wear and Tear Allowances - Plant and Machinery
  - (a) definition of plant and machinery
  - (b) qualifying expenditure
  - (c) plant and machinery acquired under hire-purchase
  - (d) computing wear and tear allowances

## Preparing Taxation Computations (SGP)

- Relief for carry forward and carry back of unabsorbed capital allowances

### 5 Personal tax computations

- Scope of personal income tax
- Basis of assessment
- Tax aspects of marriage, divorce and death
- Available personal reliefs
- Available reliefs for Central Provident Fund (CPF) contributions, Cash Top-Up of Retirement Account and Supplementary Retirement Scheme (SRS) contributions
- Available tax rebates
- Computing statutory, assessable and chargeable income
- Residence status for individuals
- Rates of tax for individuals

### 6 Taxation of sole-proprietorship and partnership businesses

- Basis of assessment
- General principles governing partnership commencement, changes and cessation

### 7 Corporate income tax computations

- Basis of assessment
- Residence of companies
- Profits chargeable to corporate income tax
- Calculation of tax payable
- Imputation system and transitional provisions for the purpose of paying dividends
- New regime - one tier corporate tax system
- Non-trade income and allowable deductions
- Relief and carry forward and carry back of trade losses and capital allowances

### 8 Income tax Administration

- Due dates for the filing of tax returns
- Assessments and due dates of payment of tax assessed
- Appeals
- Offences and penalties for non-compliance

### 9 Goods and services tax (GST)

- Scope of GST
- Basic principles
- Registration
- Administration

#### EXCLUDED TOPICS

##### (a) Income Tax

- Badges of trade
- Share incentive schemes
- Change in accounting dates
- Cessation provisions
- Foreign sourced income, non-residents, withholding tax and double taxation relief
- Anti-avoidance legislation, trusts, settlements and estates
- Companies in receivership and liquidation
- Company reorganisations
- Group relief for companies
- Shipping
- Operational headquarter companies
- Investment companies including unit trusts
- Financial institutions including banks, insurance and leasing companies
- Approved oil trading companies
- Approved international commodity trading companies
- Trustee companies
- Charitable institutions
- Clubs and associations

##### (b) Economic Expansion Incentives

#### KEY AREAS OF THE SYLLABUS

Paper 9 (SGP) develops tax topics to the level encountered from day to day in practice by giving emphasis to the knowledge and understanding required to complete annual income tax returns, computations and record keeping for the type of client for whom a technician is likely to have responsibility.

The key areas are as follows:

- Basic income tax computations
- Computing an individual's income tax payable
- Calculating an individual's income from employment

## Preparing Taxation Computations (SGP)

- Computing capital allowances
- Computation of adjusted profits/losses from trades and professions
- Computing profits chargeable to corporation tax
- Computing corporation tax payable

### APPROACH TO EXAMINING THE SYLLABUS

Paper 9 (SGP) is a three-hour written paper with 15 minutes reading time.

Questions may include both non-computational and computational elements. However, the examination will be predominantly computational and comprise of 2 parts. There will be no optional questions.

Part A comprises 10 multiple-choice questions(MCQ), each worth 2 marks. This will total 20 marks.

Part B will comprise 4 long form compulsory questions.

Question 1 will relate to computation of income tax payable by individuals and will be worth between 23 to 28 marks.

Questions 2 will relate to the taxation of companies and will be worth between 18 to 22 marks.

Questions 3 and 4 may include topics from any area of the syllabus not examined elsewhere in the paper. Each question will be worth between 13 to 18 marks. A total of 80 marks are available for this part.

Goods and services tax will not be examined as a whole question, but will be examined as a MCQ and/or as part of a question either linked to the business scenario contained in the remainder of that question or as a distinct and separate sub-part to a question.

### ADDITIONAL INFORMATION

ACCA reserves the right to examine anything contained within the study guide at any examination session. This includes knowledge, techniques, principles, theories, and concepts as specified.

For the financial accounting, audit and assurance, law and tax papers except where indicated otherwise, ACCA will publish *examinable documents* once a year to indicate exactly what regulations and legislation could potentially be assessed within identified examination sessions.

For paper based examinations regulation **issued** or legislation **passed** on or before 30th September annually, will be assessed from June 1st of the following year to May 31st of the year after. Therefore, paper based examinations in June 2009, December 2009 (and March 2010 where applicable) will be assessed on regulations issued and legislation passed on or before 30 September 2008.

Regulation issued or legislation passed in accordance with the above dates may be examinable even if the **effective** date is in the future.

The term issued or passed relates to when regulation or legislation has been formally approved.

The term effective relates to when regulation or legislation must be applied to an entity transactions and business practices.

Tax rates and allowance tables will be provided at the front of the examination paper.

Calculations should be made to the nearest month and the nearest \$.

Knowledge of section numbers will not be needed to understand questions in this paper, nor will students be expected to use them in their answers. If students wish to refer to section numbers in their answers, they may do so and will not be penalised if old, or even incorrect section numbers, are used.

The Study Sessions section provides more detailed guidance on the labus.

## Preparing Taxation Computations (SGP)

Singapore is one of the exceptions to this rule due to the timing of legislation. The annual cut-off date for Singapore will be 31 March, with effect from the December 2009 exam. Therefore, the cut off for the June 2009 exam will remain unchanged at 30 November 2008, and examinations in December 2009 and June 2010 will be assessed on regulations issued and legislation passed on or before 31 March 2009.

### RECOMMENDED TEXTS

There are a number of sources from which students can obtain materials written for the ACCA CAT examinations.

**Singapore tax legislation - Income Tax Act (Cap 134)**

**IRAS E-Tax Guides - [www.iras.gov.sg](http://www.iras.gov.sg)**

**ICPAS Taxation & Levies Practice Guidelines - [www.icpas.org.sg](http://www.icpas.org.sg)**

**Singapore Master Tax Guide - CCH Asia Ltd**

**Singapore Tax Workbook - CCH Asia Ltd**

### STUDY SESSIONS

#### 1 Introduction to the Singapore tax system

- (a) Identify the main sources of Singapore tax legislation
- (b) Identify the key reference sources for Singapore tax legislation (statute, case law, IRAS statements of practice and guidelines)
- (c) Describe the organisation of the Inland Revenue Authority of Singapore (IRAS)

#### 2 Income Tax Administration

- (a) Describe the duties and powers of the Comptroller of Income Tax
- (b) Identify the due dates for the filing of income tax returns
- (c) Identify the due dates of payment of tax assessed and explain the penalties imposed on overdue tax
- (d) Describe the process for objections and appeals
- (e) Describe the offences and penalties for non-compliance of the prescribed tax law

#### 3 Introduction to personal taxation I

- (a) Identify the Year of Assessment and basis period
- (b) Scope of personal income tax:
  - (i) Persons liable to tax
  - (ii) Income chargeable to tax
- (c) Residence for individuals

#### 4 Introduction to personal taxation II

- (a) Tax aspects of marriage, divorce and death
- (b) Outline the key elements of a personal income tax computation:
  - (i) Earned income
  - (ii) Other income from savings and investments
  - (iii) Statutory income
  - (iv) Allowable deductions
  - (v) Assessable income
  - (vi) Available personal reliefs
  - (vii) Available reliefs for Central Provident Fund (CPF) contributions including CPF CashTop-Up and Special Retirement Scheme (SRS) contributions
  - (viii) Chargeable income
  - (ix) Available tax rebates

# Preparing Taxation Computations (SGP)

- (c) Transfers of trade losses, capital allowances, donations and deficit of income from property, between spouses

## 5 Income from employment

- (a) Explain the charging section of employment income under tax statute - section 10 (1) (b) of the Income Tax Act
- (b) Define gains or profits from employment assessable to tax including:
  - (i) Salaries
  - (ii) Bonuses
  - (iii) Commissions
  - (iv) Other payments received from employment
  - (v) Benefits-in-kind
- (c) Define directors' remuneration
- (d) Identify allowable deductions

## 6 Income from property and investments

- (a) Define pension, charge and annuity
- (b) Define dividends, interest and discounts
- (c) Define rent, premiums and profits derived from property
- (d) Identify other gains or profits of an income nature including gains on the disposal of immovable property
- (e) Explain exempt and deemed income

## 7 Income from trades and professions

- (a) Explain the charging section of income from trades, business, professions and vocations under tax statute - section 10 (1) (a) of the Income Tax Act
- (b) Distinguish between income receipts and capital gains

## 8 Deductions from business income

- (a) State the allowable deductions - rules governing tax deductions under section 14 of the Income Tax Act
- (b) Distinguish between revenue and capital expenditure
- (c) Explain the non-deductible expenses, including prohibited expenses, under statute
- (d) Prepare claims of available deductions against business income
- (e) Explain the tax rules governing the deduction of donations

## 9 Capital allowances I

### Industrial Building Allowances

- (a) State the definition of industrial buildings and structures for industrial building allowance (IBA) purposes
- (b) Explain the principles of qualifying trades
- (c) Explain the principles of qualifying expenditure for industrial buildings
- (d) Prepare computations of initial and annual allowances for industrial buildings
  - (i) New building
  - (ii) Used/second-hand buildings

## 10 Capital allowances II

### (a) Wear and Tear Allowances

- (i) State the definition of plant and machinery for wear and tear allowances purposes
  - (ii) Identify the qualifying expenditure for plant and machinery for the purposes of a claim for wear and tear allowances
  - (iii) Prepare computations of initial, annual and accelerated allowances under sections 19 and 19A of the Income Tax Act
  - (iv) Explain the treatment of plant and machinery acquired under hire-purchase
- (b) Explain the circumstances giving rise to balancing allowances/charges and calculate balancing allowances/charges
- (c) Explain the elections under section 21 and 24 of the Income Tax Act and consider the factors relevant to deciding on such elections
- (d) Explain the relief for unabsorbed capital allowances and the carry forward and carry back of unabsorbed capital allowances

## 11 Sole-proprietorship and partnership businesses I

- (a) Explain the basis of assessment for sole-proprietorships
- (b) Explain the basis of assessment for partnerships
- (c) Explain the treatment of partnership non-trade income
- (d) Explain the treatment of losses
  - (i) how trading losses can be carried forward and

## Preparing Taxation Computations (SGP)

carried back

- (ii) the order of set-off against current and previous years trading losses

### 12 Sole-proprietorship and partnership businesses II

- (a) Show the allocation of partnership adjusted and divisible profits, donations and capital allowances among partners
- (b) Explain and demonstrate the rules for commencement, cessation and changes of partnerships

### 13 Corporate Income Tax I

- (a) Identify the scope of corporate income tax
- (b) Identify the residence of companies
- (c) Calculate the profits chargeable to corporate income tax
- (d) Explain the one-tier corporate tax system and the treatment of dividends under this system
- (e) Identify the basis period and the accounting period

### 14 Corporate Income Tax II

- (a) Identify the basis of assessment for all sources of income
  - (i) trade income under section 10 (1) (a)
  - (ii) non-trade income including dividends and interest
  - (iii) gains and losses on disposal of immovable property
- (b) Explain the available relief for unabsorbed losses and capital allowances
- (c) Identify the rate of corporate income tax
- (d) Identify partial tax exemptions
- (e) Identify the full tax exemption scheme for new companies
- (f) Calculate the corporate income tax liability

### 15 Goods and Services Tax (GST)

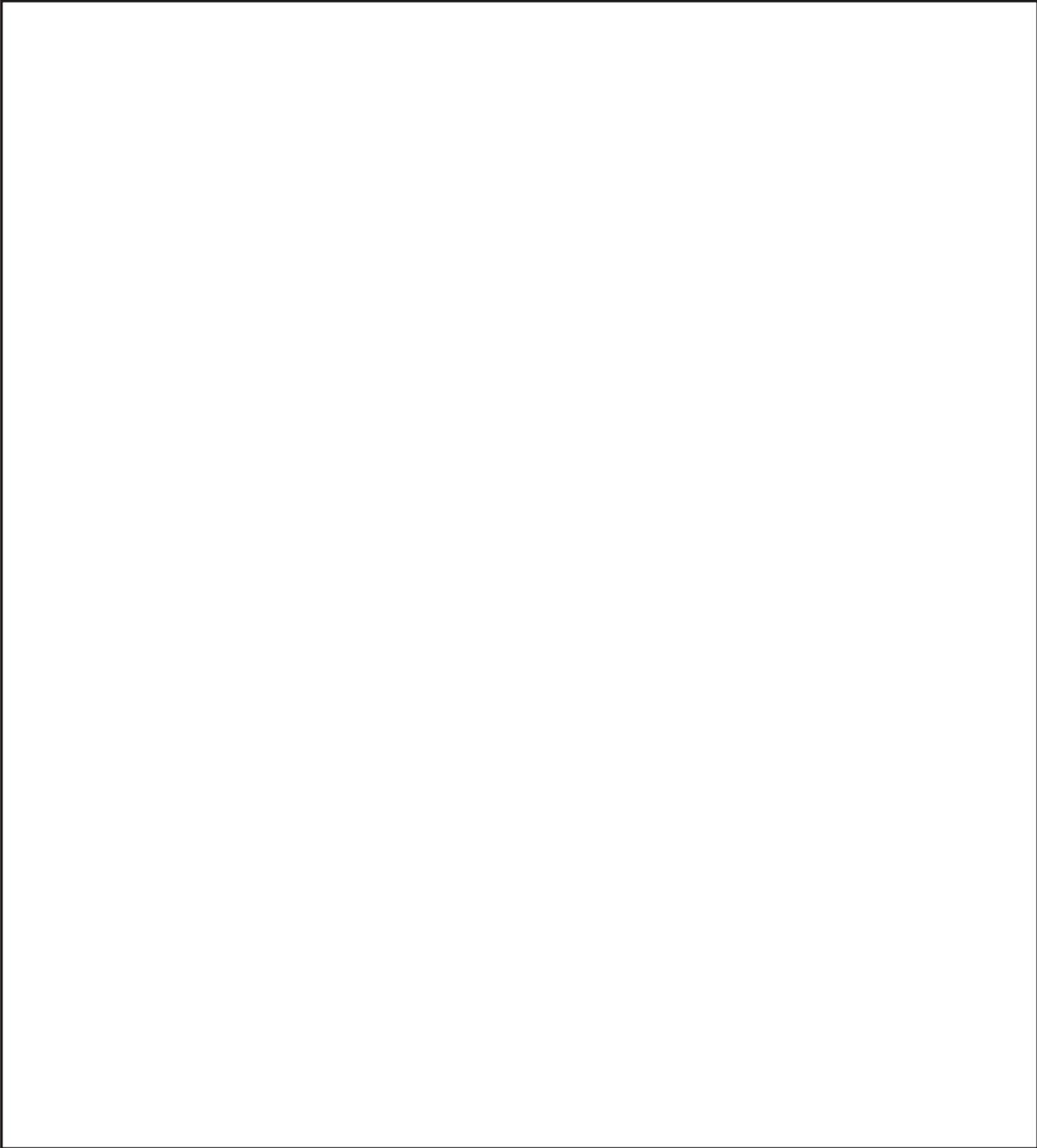
- (a) Explain the scope of GST
- (b) Explain the circumstances in which a person must register for GST and recognise the applicability of:
  - (i) compulsory registration
  - (ii) voluntary registration
  - (iii) exemption from registration
  - (iv) de-registration
- (c) Explain the time of supply rules

- (d) Explain the place of supply rules
- (e) Explain the principle that applies to the valuation of supplies and imports
- (f) Explain the types of supply
  - (i) standard
  - (ii) zero-rated
  - (iii) exempt
- (g) Explain how GST is accounted for and administered and the return periods
- (h) List the information that must be given on a GST invoice
  - (i) Explain the relief available for bad debts

### 16 Revision of personal income tax

### 17 Revision of sole-proprietorships and partnerships

### 18 Revision of corporate income tax.



JUNE 2009 – STUDY GUIDE  
CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

**ACCA**

Paper 9 (MYS)  
Preparing Taxation  
Computations

# Introduction

This booklet contains the Study Guide for the ACCA's Certified Accounting Technician Paper 9 (MYS): Preparing Taxation Computations.

The Study Guide is designed to help you plan your studies and to provide more detailed interpretation of the syllabus for ACCA's Certified Accounting Technician examinations. It contains both the Syllabus and the Study Sessions for the paper, which you can follow when preparing for the examination.

The Syllabus outlines the content of the paper and how that content is examined. The Study Sessions take the syllabus and expand it into teaching or study sessions of similar length. These sessions indicate what the examiner expects of candidates for each part of the syllabus, and therefore gives you guidance in the skills you are expected to demonstrate in the examinations. The time to complete each session will vary according to your individual capabilities and the time you have available to study. Tuition providers offering face-to-face tuition are recommended to design courses with a minimum of two hours tuition per study session. However, repeated coverage of the material is vital to ensure your understanding and recall of the subject. Be sure to practice past examination questions to consolidate your knowledge and read your *student accountant* magazine regularly.

If you have any queries concerning the study guide, please direct them to:

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[www.accaglobal.com](http://www.accaglobal.com)

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January 2009

## **ABOUT ACCA**

ACCA is the largest and fastest-growing international accountancy body with 260,000 students and 115,000 members in 170 countries. We aim to offer first choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management. ACCA works to achieve and promote the highest professional, ethical and governance standards and advance the public interest.

# Preparing Taxation Computations (MYS)

## AIMS

- To develop the ability to prepare computations of tax liability for an individual in respect of his income from employment, business and other income.
- To develop an understanding of statutory compliance requirements and the administrative aspects of tax compliance
- To develop the ability to prepare computations of tax liability for companies
- To develop knowledge and understanding of the principles relating to the application of sales tax and service tax
- To develop knowledge and understanding of the manner in which dealings should be conducted with the Inland Revenue Board.

## OBJECTIVES

On completion of this paper, candidates should be able to:

- Compute the adjusted income from business sources
- Calculate an individual's income from employment sources
- Compute adjusted income from property and investment sources
- Calculate capital allowances including balancing charge and balancing allowance
- Compute provisional adjusted income and divisible income from a partnership business source
- Prepare income tax computations
- Identify the due dates for submission of returns and the payment of tax liabilities
- Calculate and comply with withholding tax requirements
- Prepare computations of chargeable income and tax payable by companies under the imputation system
- Explain and apply the principles relating to sales tax and service tax
- Conduct dealings with the Inland Revenue Board and clients in a timely and competent manner.

## POSITION OF THE PAPER IN THE OVERALL SYLLABUS

An understanding of the format of accounts used for sole proprietorships, partnerships and companies is assumed from Paper 3, *Maintaining Financial Records* and Paper 6, *Drafting Financial Statements*, but no prior knowledge of taxation is required.

## SYLLABUS CONTENT

### 1 Introduction to the Malaysian tax system

- (a) Revenue law and practices
- (b) Scope of charge
- (c) Capital versus revenue
- (d) Classification of income
- (e) Tax residence
  - (i) Companies
  - (ii) Individuals - in detail
  - (iii) Significance of residence status
- (f) Basis of assessment
- (g) Rates of tax
- (h) Steps in computing chargeable income and tax payable, including the combined or separate assessment of husband and wife

### 2 Gross income from employment

- (a) Definition of employment, employer and employee
- (b) Types of employment income
  - (i) Salary - emoluments, allowances, bonus, gratuity etc
  - (ii) Benefits of kind
  - (iii) Living accommodation
  - (iv) Compensation and gratuity
  - (v) Withdrawals from unapproved funds
  - (vi) Contributions to approved provident funds (including EPF) by employer and employee
- (c) Rules for derivation of employment income
- (d) Exemptions
- (e) Allowable expenses

## Preparing Taxation Computations (MYS)

### 3 Gross income from business

- (a) Definition in section 2
- (b) Derivation of business income
  - (i) accrual concept
  - (ii) business expenses
  - (iii) capital allowances
  - (iv) relief for business losses.

### 4 Business expenses

- (a) Rules for deductions
- (b) Prohibited deductions
- (c) Special deductions
- (d) Common expenses
  - (i) Interest
  - (ii) Rent
  - (iii) Repairs and renewals
  - (iv) Legal and professional fees
  - (v) Bad and doubtful debts
- (e) Proprietor's remuneration and benefits.

### 5 Capital allowances - plant and machinery

- (a) Definition of plant
- (b) Qualifying plant expenditure
- (c) When plant expenditure is "incurred"
- (d) Initial allowance and annual allowance
- (e) Definition of disposal
- (f) Balancing allowance or balancing charge
- (g) Assets under hire purchase
- (h) Set-off and carry forward of capital allowances.

### 6 Industrial buildings

- (a) Industrial buildings
- (b) Qualifying building expenditure
  - (i) Constructed buildings
  - (ii) Purchased buildings (new and used)
- (c) Initial allowance and annual allowance
- (d) Disposals.

### 7 Other sources of income

- (a) Interest
- (b) Dividends
- (c) Rents and royalties

### 8 Personal reliefs & tax rebates

- (a) Types of personal reliefs
- (b) Tax rebates
- (c) Computation of chargeable income and tax payable for an individual
- (d) Self-assessment system for individuals
  - (i) tax installment payments
  - (ii) time limits
  - (iii) penalties

### 9 Partnerships

- (a) Meaning of "partnership"
- (b) Divisible income
- (c) Provisional adjusted income.

### 10 Taxation of companies

- (a) Computation of chargeable income
- (b) Relief for losses (excluding group relief)
- (c) Calculation of tax payable
- (d) Self-assessment system
  - (i) tax estimates and revision of tax estimates
  - (ii) tax payments
  - (iii) time limits
  - (iv) penalties

### 11 Withholding tax

- (a) Payments subject to withholding tax
- (b) Compliance requirements
- (c) Penalties for non-compliance.

### 12 Tax administration and compliance requirements

- (a) Notification of chargeability
- (b) Returns and assessments
- (c) Payment of tax
- (d) Appeals
- (e) Offences and penalties

# Preparing Taxation Computations (MYS)

- (f) Powers of the Director General
- (g) Responsibilities of employer and employee.

## 13 Sales tax and service tax

- (a) Scope
- (b) Basic principles of computation
- (c) Registration
- (d) Administration.

### EXCLUDED TOPICS

The following topics are specifically excluded from Paper 9 (MYS):

#### General

- Case law
- Mutual and illegal transactions
- Transitional provisions from the imputation system to the single-tier system

#### Types of entities

- Investment holding companies
- Clubs and societies
- Trusts and co-operatives

#### Basis of assessment

Determination of basis periods and change of accounting date

#### Types of employment income

Employee share options

#### Deductions and reliefs

- Double or further deductions
- Interest restriction
- Non-resident relief
  
- Double tax relief
- Group relief

#### Relief on capital expenditure

- Tax incentives
- Controlled sales
- Agriculture and forest allowance

- Approved agricultural projects
- Mining allowance and prospecting expenditure
- Relief on approved food production

### KEY AREAS OF THE SYLLABUS

The key topic areas are as follows:

- Computation of an individual's income from employment
- Computation of adjusted income from sole-proprietor businesses and partnerships
- Calculation of capital allowances
- Calculation of income from property and other investments
- Detailed computation of individual's chargeable income and tax payable, including the combined or separate assessment of husband and wife
- Computation of chargeable income of and tax payable by companies.

### APPROACH TO EXAMINING THE SYLLABUS

Paper 9 (MYS) is a three-hour written paper with 15 minutes reading time.

The examination will be mainly computational and will comprise 2 sections. There will be no optional questions.

Section A will comprise 10 multiple choice questions (MCQ) each worth 2 marks. This will total 20 marks.

Section B will comprise four long form compulsory questions adding up to a total of 80 marks.

Question 1 will always relate to a computation of income tax payable by an individual (or individuals) for a minimum of 23 and no more than 27 marks.

Questions 2 and 3 will relate to the taxation of businesses (incorporated or unincorporated). Each will carry between 18 to 22 marks.

Question 4 may include topics from any area of the syllabus not examined elsewhere in the paper. It will be worth between 13 to 18 marks.

## Preparing Taxation Computations (MYS)

Sales/service tax will not be examined as a whole question, only as part of a question either linked to the business scenario contained in the remainder of that question or as a distinct and separate subpart to a question.

### ADDITIONAL INFORMATION

For the financial accounting, audit and assurance, law and tax papers, ACCA will publish examinable documents once a year to indicate exactly what regulations and legislation could potentially be assessed within identified examination sessions.

Legislation must have been passed by 30th September in order to be become examinable in examination sessions being held in the following year. This means that all legislation having been passed by 30th September 2008 will be examinable in the June 2009 examination.

With effect from the December 2009 exam, the annual cut-off date will become 31 March. Therefore, the cut off for the December 2009 and June 2010 exams will be 31 March 2009 and this will apply annually going forward. Examinations in December 2009 and June 2010 will be assessed on regulations issued and legislation passed on or before 31 March 2009

Tax rates, personal reliefs, value of private use of motor vehicles and other benefits and rates of capital allowances will be provided at the front of the examination paper.

Calculations should be made to the nearest Ringgit.

Knowledge of certain specified section numbers is expected.

They are:

- Section 4 - classification of income
- Section 7 - residence of individuals
- Section 13 - employment income
- Section 33(1) - general rules of deductibility

Knowledge of section numbers will otherwise not be needed to understand questions in this paper nor will students be expected to use them in their answers. If students wish to refer to section

numbers in their answers they may do so and will not be penalised if old, or even incorrect section numbers, are used.

Working knowledge of the following Public Rulings issued by the Inland Revenue Board, Malaysia is expected:

4/2000 (Revised)	Keeping sufficient records (companies and co-operatives)
5/2000 (Revised)	Keeping sufficient records (individuals and partnerships)
7/2000	Providing reasonable facilities and assistance
8/2000	Wilful evasion of tax and related offences
1/2001	Ownership of plant and machinery for the purpose of claiming capital allowances
2/2001	Computation of initial and annual allowances in respect of plant and machinery
3/2001	Appeal against an assessment
1/2003	Tax treatment of leave passage
2/2004	Benefits in kind
1/2005	Computation of total income
2/2005	Computation of total income tax payable by a resident individual
3/2005	Living accommodation benefit provided for the employee by the employer
4/2005	Withholding tax on special classes of income
1/2006	Perquisites from employment
5/2006	Professional indemnity insurance
6/2006	Tax treatment of legal and professional expenses
1/2008	Special allowances for small value assets

### RECOMMENDED TEXTS

Choong Kwai Fatt **Malaysian Taxation - Principles and Practice** latest edition Inforworld

Alan Yeo Miow Cheng **Preparing Taxation Computations and Returns [Malaysia]**, latest edition YSB Management Sdn Bhd

### REFERENCE MATERIAL

**Malaysian Master Tax Manual**, latest edition

**Tax National**, Officia Journal of the Malaysian Institute of Taxation.

# Preparing Taxation Computations (MYS)

Wider reading is also recommended, especially regular study of relevant articles in ACCA's *student accountant* magazine.

## STUDY SESSIONS

### 1 Introduction to the Malaysian tax system

- Identify the sources of revenue law and practice
- State the scope of charge for various taxpayers
- Explain the concept of capital versus revenue
- Outline the classification of income under Section 4
- Explain the various concepts of basis of assessment: year of assessment, basis year, basis period, financial year and accounting year
- Relate the structure of tax rates to individuals and companies
- Briefly explain tax residence.

### 2 Introduction to the Malaysian tax system (continued)

- Explain and illustrate the four rules of tax residence for individuals under Section 7. Be able to provide worked examples for each rule
- Briefly explain the tax residence rule for companies - include only place of control and management exercised by the board of directors (case law is not required)
- Explain the significance of tax residence status
- Illustrate the steps in computing chargeable income and tax payable
- Prepare proforma computations to highlight treatment of capital allowances and business losses.

### 3 Income from employment 1

- Define employment, employer, employee
- Explain the difference between employment and self-employment
- Explain the different types of employment income under Section 13 (1)
  - Salary emolument, allowances, bonuses, gratuities etc
  - Benefits in kind; Inland Revenue Board Guidelines
  - Living accommodation - illustrate with worked examples
  - Compensation for loss of employment - illustrate

with worked examples

- Withdrawal from unapproved funds

- Explain the rules for derivation of employment income under section 13(2)

### 4 Income from employment 2

- Explain the treatment of gratuities and compensation- illustrate with worked examples
- List the exemptions
- Identify the allowable expenses
- Explain the treatment of respective contributions to approved provident funds (including EPF) by employer and employee.

### 5 Income from employment 3

- Recapitulate and summarise re employment income
- Calculate adjusted income from employment

### 6 Gross and adjusted income from business

- Define a 'business'
- Explain aspects of the derivation of business income
  - accrual concept
  - business expenses
  - Capital allowances and
  - relief for business losses
- Explain the general rules for deductions under section 33(1) - to be able to illustrate each type of deduction with an example.

### 7 Business expenses (continued)

- Explain the prohibited deductions in section 39
- Be aware of the list of special deductions in section 34.

### 8 Adjusted income from business

- Explain and illustrate the treatment of common expenses
  - Interest
  - Rent
  - Repairs and renewals
  - Legal and professional fees
  - Bad and doubtful debts
  - Proprietor's remuneration and benefits
- Prepare computations of adjusted income from business.

# Preparing Taxation Computations (MYS)

## 9 Capital allowances - plant and machinery 1

- Define plant
- Determine components of qualifying plant expenditure
- Establish when plant expenditure is "incurred"
- Explain the conditions for claiming initial allowance and annual allowance
- Treatment of small value assets
- Define disposal

## 10 Capital allowances - plant and machinery 2

- Calculate balancing allowances or balancing charge
- Show calculations for assets acquired under hire purchase
- State the treatment of unutilised capital allowances carried forward

## 11 Industrial buildings

- Define and give examples of industrial buildings
- Determine the components of qualifying building expenditure
- Calculate initial and annual allowances on:
  - Constructed buildings
  - Purchased buildings (new and used)
- Explain the treatment of industrial buildings on disposal

## 12 Other sources of income

- Explain the treatment of interest income including withholding tax and exemptions
- Explain the treatment of franked dividends and one-tier dividend; net dividends, gross dividends and imputation credits
- Calculate rental income and premiums - including consideration of whether expenses are allowable
- Explain the treatment of royalties including exemption

## 13 Aggregate income and total income

- Compute aggregate income
- Compute total income

- Illustrate the treatment of a current year business loss
- Explain approved donations and the requirements for deduction.

- Explain and illustrate combined assessment of husband and wife

## 14 Personal reliefs & tax rebates

- Explain the types of personal reliefs
- Explain the tax rebates
- Explain the self-assessment system for individuals:
  - tax installment payments
  - time limits
  - penalties

## 15 Exemptions

State and explain the comprehensive list of exemptions available for tax purposes (some of these may have been mentioned in earlier sessions).

## 16 Computation of chargeable income and tax payable for an individual

Calculate chargeable income and tax payable by an individual

## 17 Partnerships

- Explain the meaning of "partnership"
- Determine divisible income
- Ascertain provisional adjusted income
- Allocate capital allowances.

## 18 Taxation of companies

- Understand the main features of self-assessment system for companies
  - Timely provision of tax estimates and revised estimates
  - Payment of tax by installments and balance of tax
  - Timely submission of tax returns (Form C and Form R)

## Preparing Taxation Computations (MYS)

- Time limits
- Offences and penalties related to the above aspects of self assessment of companies
- Put up computation of chargeable income and tax payable by a company

### 19 Withholding tax

- Identify the payments subject to withholding tax
- Explain the requisite conditions
- State the rates of withholding tax
- Explain the compliance requirements
- State the penalties for non-compliance, being able to demonstrate this with worked examples

### 20 Tax administration and compliance requirements 1

- Explain the organisational structure of the Inland Revenue Board
- Identify the types of assessments
- Explain the responsibility of the taxpayer to:
  - notify chargeability
  - file annual returns
  - pay tax
  - notify change of address
  - maintain sufficient records

### 21 Tax administration and compliance requirements 2

- Explain the right of appeals and the passage of appeals through the courts
- Explain the statutory time bar
- Identify and explain the offences and penalties
- Explain the powers of the Director General
- Explain the responsibilities of an employer

### 22 Sales Tax and Service Tax

- Explain the scope of Sales Tax and Service Tax
- Explain the basic principles of the computations of Sales Tax and Service Tax
- Illustrate the need for registration
- Explain aspects of the administration of the tax:
  - Filing of returns
  - Penalties

### 23 Revision of computations of tax payable for individuals and spouses

### 24 Revision of tax residence, capital allowances and withholding tax

### 25 Revision of aspects of tax administration

### 26 Revision of Sales Tax and Service Tax, and general winding-up

#### List of amendments

- Under "Excluded topic - General", a new line has been added: *Transitional provisions from the imputation system to the single tier system*
- Under "Additional information", the 6-month rule is deleted. A new paragraph regarding 30 September 2008 being the cut-off time for the June 2009 examination has been inserted.
- Under "Study session 18 - Taxation of dividends", the last line regarding the distribution of dividend and imputation credit has been deleted.