

IM SYLLABUS (2017)

ACCOUNTING

IM 01

SYLLABUS

Introduction

The syllabus seeks to develop sound financial literacy, and the presentation and evaluative skills required in financial and cost and management accounting.

The Examination

One three (3) hour paper consisting of three sections shall be set.

- **Section A** consists of **one COMPULSORY** question assessing financial accounting. Candidates are requested to produce a set of final accounts from a given trial balance or from single entry records. This question may assess sole traders, companies, manufacturing concerns and also non-profit making organisations. This question carries 24% of the marks.
- **Section B** consists of **four questions** out of which candidates are expected to **answer two**. Each question carries 18% of the marks. This section assesses all Financial Accounting topics, including the topics referred to in Section A above. This section carries 36% of the marks.
- **Section C** consists of **three questions** out of which candidates are expected to **answer two**. Each question carries 20% of the marks. This section assesses all Cost and Management Accounting topics and carries 40% of the mark.

Approximately 20% of the marks of the paper shall be allocated to short theoretical extension questions. Questions of an entirely essay-type nature shall **NOT** be set.

Noiseless and non-programmable calculators will be permitted. **CANDIDATES ARE ADVISED TO SHOW THEIR WORKINGS.**

FINANCIAL ACCOUNTING	Notes for Guidance – Section A & Section B
Introduction	<ul style="list-style-type: none"> • The purpose of accounting; • The purpose of preparing the Income Statement and the Statement of Financial Position. • Users of accounting information and their information needs. • Accounting Concepts: Accruals, Going Concern, Materiality, Prudence, Consistency, Cost, Dual Aspect, and Business Entity Concepts.
Knowledge of the following:	<ul style="list-style-type: none"> • accruals and prepayments of expenses and revenues; • irrecoverable debts, allowance for trade receivables (both specific and general), bad debt recovery. • cash and trade discounts • books of prime entry.
Depreciation and disposal of assets	<ul style="list-style-type: none"> • Causes of depreciation, purpose of depreciation and underlying accounting concepts. • Methods of depreciation: the straight line, the reducing balancing and the revaluation methods. • Disposal of non-current assets including part-exchange.
Control Accounts	<ul style="list-style-type: none"> • Trade receivables control accounts; • Trade payables control accounts. <p><i>Reconciliation of payables and receivables schedules with control accounts balances, and the benefits and purposes of control accounts are NOT examinable.</i></p>
Types of Errors and their Correction	<ul style="list-style-type: none"> • Recognition and correction of errors affecting and not affecting Trial Balance Agreement, the use of the suspense account; • Adjusting profit; • Adjusting the Trial Balance; • Adjusting the Statement of Financial Position.
Incomplete records	<p>The preparation of final accounts from incomplete records which may include:</p> <ul style="list-style-type: none"> • the calculation of capital; • calculation of purchases and sales; • Mark-up and Margin. <p><i>Insurance claim calculations are NOT examinable.</i></p>
Non-profit making organisations	<p>The preparation of final accounts including:</p> <ul style="list-style-type: none"> • the calculation of accumulated fund; • treatment of ordinary subscriptions; • subscriptions written off; • surplus/deficit arising from trading and other activities; • the difference between the Income and Expenditure Account and the Receipts and Payments account. <p><i>The following items are NOT examinable: life memberships, government grants, joining fees and donations of a capital nature.</i></p>

Manufacturing Accounts	Final Accounts of manufacturing businesses excluding transfer pricing.
Company Accounting	<ul style="list-style-type: none"> • A basic understanding of the Memorandum of Association and Articles of Association required for company formation. • The difference between limited and unlimited liability. • The difference between a public and a private company. • Understanding the different terminology pertaining to capital structure: <ul style="list-style-type: none"> • Equity; • Authorised and issued share capital; • Ordinary shares and debentures; • Capital and revenue reserves, including retained earnings, general reserve and share premium. • The final accounts of a limited liability company for Internal use only including : <ul style="list-style-type: none"> The Income Statement The Statement of Changes in Equity The Statement of Financial Position <p><i>The following items are NOT examinable: preference shares and redeemable preference shares, the issue, purchase back/redemption of shares and debentures, the capital redemption reserve, the revaluation reserve and final accounts of companies for publication.</i></p>
Interpretation of Financial Statements	<p>Interpretation by means of ratio analysis assisting the appraisal of liquidity and profitability.</p> <p>(Refer to Appendix for the list of ratios.)</p>
COST AND MANAGEMENT ACCOUNTING	Notes for Guidance – Section C
Introduction	<ul style="list-style-type: none"> • The purpose of management accounting. • The difference between financial and management accounting.
Cost behaviour	<ul style="list-style-type: none"> • Types of costs: fixed costs, variable costs, direct costs and indirect costs. • Cost classification by function: production and non-production costs.
Inventory (stock) valuation	<ul style="list-style-type: none"> • Valuing inventory using the FIFO and AVCO perpetual methods of valuation. • An understanding of why different inventory valuation methods produce different calculations of profit. • Inventory control: calculation and significance of economic order quantity, minimum and maximum inventory levels and the reorder level. <p><i>The calculation of the LIFO method of valuing inventory is NOT examinable</i></p>
The cost of Labour	Methods of remuneration: time rate and overtime, piece rate,

	<p>guaranteed piecework, (excluding differential piecework) and bonus on time saved, involving individual schemes ONLY. <i>Labour turnover and labour recovery rates are NOT examinable.</i></p>
Overheads	<ul style="list-style-type: none"> • The characteristics and treatment of overhead expense allocation, apportionment and absorption of overheads. • Secondary Apportionment of service departments. • Calculation of overhead recovery rates using the: direct labour hour rate, machine hour rate, direct labour cost percentage rate and the cost per unit rate. <p><i>The following items are NOT examinable: service departments rendering reciprocal services, the blanket rate, and the calculation of over and under-absorption of overheads.</i></p>
Job Costing	<ul style="list-style-type: none"> • Characteristics of job costing; • Estimating the cost of jobs.
Marginal and Absorption	<ul style="list-style-type: none"> • The concept of contribution; • Comparison of marginal costing and absorption costing statements; • Calculation of: the margin of safety, the contribution/sales ratio, the break-even point; • The traditional break-even chart; • Limitations of break-even analysis. <p><i>Reconciliation between profits emerging from absorption costing and marginal costing methods are NOT examinable.</i></p>

Suggested Textbooks

Randall, H.

Accounting: A Level and AS Level ISBN: 978052153993; Cambridge University Press.

Wood, F.

A Level Accounting ISBN 0273 602608 (Pitman)

APPENDIX - Suggested Accounting Ratios

Gross Profit margin	=	$\frac{\text{Gross Profit}}{\text{Net Sales}}$	x	100
Mark up	=	$\frac{\text{Gross Profit}}{\text{Cost of Sales}}$	x	100
Net Profit margin	=	$\frac{\text{PBIT}}{\text{Net Sales}}$	x	100
Or	=	$\frac{\text{Net Profit}}{\text{Net Sales}}$	x	100
ROCE	=	$\frac{\text{PBIT}}{\text{Capital Employed}}$	x	100
Utilisation of capital employed	=	$\frac{\text{Net Sales}}{\text{Capital Employed}}$	x	100
Current ratio (Working Capital ratio)	=	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$		
Quick (Acid Test) ratio	=	$\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$		
Inventory Turnover	=	$\frac{\text{Cost of Sales}}{\text{Average Inventory}}$		
Collection period of receivables	=	$\frac{\text{Trade Receivables}}{\text{Credit Sales}}$	x	365
Payment period of payables	=	$\frac{\text{Trade Payables}}{\text{Credit Purchases*}}$	x	365

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

N.B.

Capital Employed = Issued Ordinary Shares + Reserves + Non-Current Liabilities
Alternative acceptable methods of calculating the above ratios are acceptable.