AN ROINN OIDEACHAIS AGUS EOLAÍOCHTA

LEAVING CERTIFICATE

ACCOUNTING

DRAFT GUIDELINES FOR TEACHERS

LEAVING CERTIFICATE

Aims

1. The general aim of education is to contribute towards the development of all aspects of the individual, including aesthetic, creative, cultural, emotional, expressive, intellectual, moral, physical, political, social and spiritual development, for personal and home life, for working life, for living in the community and for leisure.

2. Leaving Certificate programmes are presented within this general aim, with a particular emphasis on the preparation of students for the requirements of further education or training, for employment and for their role as participative enterprising citizens.

3. All Leaving Certificate programmes aim to provide continuity and progression from the Junior Certificate programme, with an appropriate balance between personal and social (including moral and spiritual) development, vocational studies and preparation for further education and for adult and working life. The relative weighting given to these features may vary according to the particular programme being taken.

4. Programmes leading to the award of the Leaving Certificate are offered in three forms:
   (i) Leaving Certificate Programme
   (ii) Leaving Certificate Applied Programme
   (iii) Leaving Certificate Vocational Programme.

5. All Leaving Certificate programmes emphasise the importance of:
   - self-directed learning and independent thought
   - a spirit of inquiry, critical thinking, problem solving, self-reliance, initiative and enterprise
   - preparation for further education and for adult and working life.

6. The Leaving Certificate Programme (LCP) aims to:

- enable students to realise their full potential in terms of their personal, social, intellectual and vocational growth.
- prepare students for their role as active and participative citizens
- prepare students for progression onto further education, training or employment.

It provides students with a broad, balanced education while allowing for some specialisation. Syllabuses are provided in a wide range of subjects. All Leaving Certificate subjects are offered at Ordinary and Higher levels. In addition, Mathematics and Irish are also offered at Foundation level.

Student performance in the Leaving Certificate Programme can be used for purposes of selection into further education, employment, training and higher education.

7. The Leaving Certificate Applied Programme (LCAP) is a discrete two year programme, designed for those students who do not wish to proceed directly to third-level education or for those whose needs, aspirations and aptitudes are not adequately catered for by the other Leaving Certificate programmes.

LCAP is structured around three main elements which are interrelated and interdependent:-

- Vocational Preparation
- Vocational Education
- General Education

It is characterised by educational experiences of an active, practical and student centred nature.

8. The Leaving Certificate Vocational Programme (LCVP) aims, in particular, to:

- Foster in students a spirit of enterprise and initiative
- Develop students' interpersonal, vocational and technological skills.

LCVP students study a minimum of five Leaving Certificate subjects (at Higher, Ordinary or Foundation levels), including Irish and two subjects from specified vocational subject groupings. They are also required to take a recognised course in a Modern European language, other than Irish or English.

In addition students take three Link Modules which provide a curriculum coherence for the LCVP.

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FOREWORD

The Minister for Education has asked the National Council for Curriculum and Assessment to revise the subject syllabuses for the Leaving Certificate programme in the context of the national programme of curriculum reform currently in progress. This process of revision is being implemented on a phased basis. The first phase of syllabus revision consists of six subjects for implementation in schools in September 1995, and for examination in 1997 and subsequent years.

The revision of the Leaving Certificate is being conducted with particular reference to the need:

- To provide continuity and progression from the Junior Certificate programme;
- To cater for the diversity of aptitude and achievement among Leaving Certificate students through appropriate courses at both Ordinary and Higher levels and also at Foundation Level in the case of Irish and Mathematics;
- To address the vocational dimension inherent in the various Leaving Certificate subjects;

In association with the syllabuses, **Teacher Guidelines** have been developed, through the NCCA course committees, as an aid to teachers in the implementation of the new courses. These guidelines are intended as both a permanent resource for teachers and a resource for use in the in-career development programme for teachers, sponsored by the Department of Education.

These guidelines are not prescriptive. They provide suggestions for teachers in relation to teaching practice. Particular attention is paid to aspects of the new syllabus which may not be familiar to teachers, in terms of content or methodology.

The Guidelines are published jointly by the National Council for Curriculum and Assessment (NCCA) and the Department of Education.

In particular, the role of Christy Tyrell (NCCA Education Officer for Accounting) is acknowledged for his work in designing and drafting the Guidelines for Accounting.

INTRODUCTION

The syllabus in Accounting has been drawn up to cater for the entire range of student ability and achievement. It replaces the syllabus that has been in place since 1969. All the out-of-date material has been replaced by more modern topics.

The old syllabus was principally a financial one but the new syllabus, while retaining the relevant financial aspects, places greater emphasis on decision making and computer applications.

This new emphasis has assessment implications in the form of an assignment in computer applications. However, this assignment in not of immediate concern as it has been decided that, before its implementation, a feasibility study is to be carried out over the next two years.

On completion of the course it is desirable that the student will have a balanced overall view of accounting. While it is not expected that all students will become accountants, the skills and processes learned through accounting will be useful and relevant in other areas of life.

The aims of these guidelines are to:-

- Help the teacher understand the syllabus
- Indicate the depth of treatment of each topic
- Indicate how the syllabus will be assessed.

Teachers in the classroom may adopt whatever approach or combination of approaches to the syllabus they wish. However, no matter what approach is adopted the method of teaching should allow the student to learn by doing.

The approach and methods adopted in teaching the syllabus should enable and encourage both teachers and students to achieve the aims and objectives of the syllabus (cf. page 4 of the syllabus).

The NCCA Accounting Course Committee was conscious of:

- The need to provide the student with problem solving opportunities
- The desire to retain the computational aspects of the old syllabus
- The requirement of a common syllabus at two levels to fulfil the aims and objectives of the course.
- The need to structure a course that provides continuation from, and development of, the ordinary and higher levels offered in Business Studies at Junior Certificate.
- The level and age of post-Junior Certificate students in order to proceed to a suitable depth and challenge appropriate to both levels.
- The need to prepare students for further education as well as for the world of work and adult life.

The syllabus is designed with mixed ability students in mind as it is understood that in many schools ordinary and higher level students are taught in the same class.

2. AREAS OF EXISTING SYLLABUS OMITTED.

Joint Venture Accounts

Sinking Funds

Bills of Exchange

Consignment Accounts

Self Balancing Ledgers

Issue of Shares Accounts

Branch Accounts

Partnerships

Purchase and Sale of a business

3. NEW AREAS INCLUDED IN SYLLABUS

Information Technology and Computer Applications

The Conceptual Framework of Accounting

The Regulatory Framework of Accounting

Appreciation of Annual Reports of Limited Companies

Cash Flow Statements

Management Accounting

Farm Enterprise Accounts

Value Added Tax, Simple Company Taxation, PAYE and PRSI

4. ASSESSMENT GUIDELINES

The assessment of Accounting will be based on the assessment objectives as listed in the syllabus.

4.1 Assessment Modes:

- Terminal written examination
- Computer assignment

There will be a terminal written examination of three hours duration in both higher and ordinary level, consisting of one paper at each level.

The Department of Education has referred back to the NCCA for further consultation, the matter of the form of assessment for the computer assignment.

4.2. Type of Question

In order to examine the range of assessment objectives in the syllabus, a variety of question types will be used. There will be a choice of questions at both levels.

Papers at both levels will feature structured questions which will progress from computation to commentary. Computation style questions will be the norm progressing to commentaries on the results in some cases.

The examination will test	numerical skills
	computational skills
	interpretation skills
	analytical skills
	report writing skills
Weighting -	At ordinary level greater weighting will be given to comprehension and application

At higher level greater weighting will be given to more complex numerical skills and to analytical and evaluational responses

4.3 Differentiation between Ordinary and Higher Levels

Course Content: -	The paper at higher level will examine the area common to both levels and also those parts of the course designated higher level only. (HL) The paper at ordinary level will refer only to those areas of the syllabus common to both levels
Depth of Treatment: -	Higher level students will be required to demonstrate a greater depth of knowledge and understanding of the concepts and issues as well as a greater proficiency in skills, applications and analysis.

5. SYLLABUS STRUCTURE

5.1 THE CONCEPTUAL FRAMEWORK OF ACCOUNTING (Section 8.1)

For communication to be effective, any message must be understood by the recipient. In Accounting a better understanding of the accounting message is more easily achievable by the use of uniform accounting practices. In order that the message is uniformally understood Accounting has developed its own concepts, conventions and principles which are formally outlined in SSAP 2 issued in 1973.

The new syllabus formally recognised these and while they were not explicitly mentioned in the old syllabus nevertheless most teachers included them in their own teaching programmes.

Teachers may choose to introduce students to this area at the beginning of the programme or may incorporate the concepts as and when they arise in the course of the total Accounting programme.

The areas on which students will be examined are as follows:

- the nature and purpose of the conceptual framework in accounting
- the objectives of financial reporting
- the users of financial accounting information
- the desirable qualitative characteristics of accounting information, such as relevance, reliability, understandability and comparability.
- Accounting concepts, bases and policies
- the going concern concept
- the accruals concept
- the prudence concept
- the entity concept
- the money measurement concept
- the materiality concept
- the realisation principle
- double entry book-keeping principles
- the period of account convention

Assessment of this area will be a direct theoretical question based on the area outlined above or as part of other questions in the financial area.

5.2 THE REGULATORY FRAMEWORK OF ACCOUNTING (section 8.2) (H.L only)

This section is for higher level only. It refers to the nature and objectives of the regulation of financial reporting.

Students should have an understanding of the financial reporting environment applicable to companies. Regulation has taken a variety of forms and has come from different sources. The term regulation encompasses the activities of government, the European Union, the accountancy profession and the stock exchange. Regulation is defined as the imposition of constraints on the preparation, content and form of external financial reports and its primary objective is to ensure adequate disclosure of accounting information to external users of financial reports.

This is an entirely new section and there is no equivalent part in the old syllabus. It is not necessary to introduce students to these aspects at the start of the course – in fact there is a lot of merit in leaving them until well into second year when the students increased knowledge and maturity will assist in any discussion of the broad and current issues involved. It would be useful if students were familiar with this area before studying Cash Flow Statements and Appreciation of Annual Reports of Public Limited Companies.

Predominant regulatory bodies

❖ Regulation by government

- Statutory requirement to produce and publish final accounts
- Requirement to file accounts
- Classification of companies into small, medium and large
- Distinction between shareholders accounts and accounts for filing.

❖ Regulation by the European Union

- Programme of harmonisation of accounting
- Role of EU directives

❖ Regulation by the accountancy profession

- Origins of regulation by the accountancy profession
- Statements issued by the accountancy profession – statements of standard accounting practice and financial reporting standards
- Accounting standard setting mechanism in operation in Ireland since 1990

  - Relationship between the Irish and UK standard setting mechanism including an appreciation of the role of the Financial Reporting Council, the Accounting Standards Board, the Review Panel and the Urgent Issues Task Force.

- Regulation by the stock exchange
  - Obligation on listed companies to comply with the Listing Rules
  - An awareness of the existence of additional disclosure requirements of listed companies most significant of which is the requirement to produce interim reports. (A knowledge of the form and content of interim reports is not required)

True and Fair View

- Meaning of the term true and fair view
- Requirements for financial reports to show a true and fair view

Role of Auditor

- Definition of an audit
- Statutory requirements for an audit
- Responsibilities of the auditor
- Independence of the auditor
- Auditor's report (Although students will not be required to prepare an auditor's report, they should be familiar with the form and content of an unqualified report)
- The auditor and fraud
- Qualified audit reports (students are expected to be aware of the existence of qualified audit reports but are not required to be familiar with the different types of qualification)

Monitoring compliance with financial reporting regulations

- The procedures for enforcing accounting standards in Ireland
- The role of the auditor in ensuring compliance with financial reporting regulations

Assessment of this area will take the form of a direct theoretical question based on the areas outlined above or as part of other questions in the financial area.

5.3 DOUBLE ENTRY BOOKKEEPING (Section 8.3.1)

This section should be adequately covered in order to avoid difficulties which may arise at a later stage. A knowledge and understanding of the Double Entry system is an essential foundation for this course. It is especially necessary before introducing Control Accounts, Suspense Accounts, Final Accounts and Balance Sheet.

Students should be introduced to all of the following:

- Source Documents – Invoice, Debit Note and Credit Note
- Day Books (including Journal)
- Cash/Bank Accounts
- Posting to Ledger
- Extracting a Trial Balance
- Limitations of a Trial Balance
- Distinction between Capital and Revenue
- Effect of errors on Net Profit and Balance Sheet
- The basic rules of SSAP 5 VAT
- Pay As You Earn
- Pay Related Social Insurance
- Accruals
- Prepayments
- Bad Debts Provision
- Bad Debts Recovered
- Depreciation (straight lien and diminishing balance)
- Appreciation/Revaluation
- Purchase and sale of assets

Students will be assessed on their ability to:

- Understand Double Entry Bookkeeping
- Inperpret ledger account entries
- Apply Double Entry

As this is not a new area assessment of it will be based on the pattern and models already established at Leaving Certificate.

5.4 BANK RECONCILIATION STATEMENT (section 8.3.2)

This section is a type of control whereby the firms books are compared and verified with external records. Students should realise that knowing how to prepare a Bank Reconciliation Statement is not only a useful business tool but it is also helpful to anyone who holds a current account with a bank.

Students should have a good understanding of bank account, cheques journal and lodgement book before being introduced to the reconciliation process. The purpose of the Reconciliation Statement is to agree the balance of the Bank Statement with the balance arising from the firm's or individual's record of lodgements to and payments made from the Bank Account as well as to put into effect any changes necessary as a result of this process.

Students should physically compare the entries of the Bank Statement (debit column) against the payments in the cheques Journal (credit entries). All corresponding entries should be ticked off so that those causing a difference in the balancing figures can be easily identified. A similar comparison should be made between the entries on the credit column of the Bank Statement and the lodgements made to the Bank. Students need to understand that all unticked entries will cause a discrepancy. They should understand and be able to identify the following

- Outstanding cheques
- Lodgements or other items not credited by the Bank
- Items appearing on the Bank Statement that have not been recorded by the firm, e.g. interest, cheque book, bank charges, standing orders, direct debits, credit transfers, dishonoured cheques, direct payments into the Bank Account, dividends and/or interest received.

Apart from the above they should be alert to other causes of discrepancy arising from omissions, errors of addition, subtraction or incorrect entries.

Students' understanding can be aided by developing good working habits in preparing a Bank Reconciliation Statement such as:

1. Update the firm's Bank Account by entering (crediting) any unrecorded expenses in the Cheques Payment Book
2. record any receipts (debits) paid directly into the firm's Bank Account
3. adjust for any miscalculations.

4. prepare the actual Reconciliation Statement which will contain only those items not yet recorded by the Bank e.g.
   - unpresented cheques
   - lodgements not credited
   - any errors made by the Bank.

As this is not a new area, assessment of it will be based on the pattern and models already established at Leaving Certificate.

5.5 CONTROL ACCOUNTS (section 8.3.3)

The Control Accounts section of the syllabus is a process of verifying the operation of the double entry system. This section specifically deals with the checking and correction of the debtors and creditors ledgers.

This area was included in the old syllabus and is essentially the same in the new syllabus. It is best taught after extensive treatment of the double entry process. It is important that students have a good grasp of individual debtor’s and creditor’s accounts i.e. what entries they contain and where the information comes from (books of first entry).

Students should realise that a Control Account is nothing more than a TOTAL account i.e. Total Debtor’s Account. They should also realise that the entries in a Control Account are the same entries as would appear in an individual debtor’s account but the figures are the totals from the nominal ledger as they would affect debtor’s/creditors accounts. The purpose of this is to have an independent system of checking on the accuracy of the entries in the individual accounts in the Debtor’s Ledger. It is important that students understand that the entries in the Control Account are obtained from the totals of the nominal ledger and not from the sum of or an analysis of individual entries in debtor’s accounts.

The assessment of this area will be based on the pattern and models already established at Leaving Certificate.

5.6 SUSPENSE ACCOUNTS (section 8.3.4)

The Suspense Accounts section is concerned with recording the correction of errors in the General Journal and posting the entries to the ledger. Of special note is the effect of correcting errors on the Suspense Account, Profit and Loss Account and Balance Sheet. This important topic was included in the previous syllabus and is essentially the same in the new syllabus.

The study of this area should enable the student to:

- develop and reinforce the accounting skills used in the identification and subsequent correction of these errors
- appreciate the types of errors which can arise in a double entry account system and distinguish those errors which are revealed by a trial balance.
- appreciate the limitations of a trial balance
- realise the importance of the elimination of the suspense account
- appreciate the uses of a general journal and the importance of the narrative
- realise the effect that various errors can have on profit, net worth and capital employed.
- appreciate the relationship of the general journal to the ledger system.

Before introducing this topic students should already have a good understanding of the principles of double entry, trial balance and financial statements.

A detailed approach, used lots of examples, and a gradual build up to more difficult material is essential.

The following points should be borne in mind when teaching this topic.

- When the correct amount is entered on the wrong side of an account, some students may have difficulty in understanding the necessary of "doubling up" the amount when correcting the error. Several examples should be used to get this point across and to reinforce it.

- When attempting the "Statement of Corrected Net Profit (vertical format) " many students are unsure which amounts/accounts to add or deduct. It should be stressed to students that only revenue accounts affect the net profit and that, if the correction of a particular error involves debiting a revenue account by a certain amount, this amount is deducted in the statement and, of course, vice versa for a credit entry. This is a useful "rule of thumb" for this topic.

- It should be pointed out to students that entries affecting real/personal accounts will require adjustment to the Balance Sheet.
- It should be made clear to students that although the suspense account balance is incorporated in an asset or expense account it does not mean that the suspense balance is necessarily a debit item.

This topic requires lots of exercises and Leaving Certificate questions from the previous syllabus will prove useful in this regard. This area will be assessed along the lines of the old syllabus. Questions will be similar to those on recent Leaving Certificate Examinations papers with some additional theory aspects.

5.7 SOLE TRADER (Section 8.4)

The Sole Trader model is the most common form of business unit found in Ireland. It mainly consists of small business/farm units which perhaps some family involvement.

The sole trader has the same reasons for keeping accounts as other business units in terms of the identification of profit/loss figures for external use and management information for internal use.

This section has been part of the old syllabus but the topic will be new to those students who have completed the Junior Certificate Business Studies programme. This element of the programme is intended to form a sound basis for the study of final accounts of companies, clubs, farms, service firms.

Students will be assessed on their ability to:

- Understand the nature of the Sole Trader form of business
- Prepare final accounts and Balance Sheet
- Understand gross profit, net profit and net worth.
- Identify and treat drawings and capital.

5.8 COMPANY ACCOUNTING (Section 8.5.1 and 8.5.2)

Most students will have been introduced to the financial statements of a company at Junior Certificate Business Studies level.

In this section there is an introduction to the natural progression of a sole trader to the limited company model with a concentration on how the liability section of the Balance Sheet is expanded to cover Share Capital – both Ordinary and Preference, Reserves and Loan Capital. The rights of shareholders of various classes of shares are covered.

Both the nature and purpose of reserves are mentioned in this section and it is important for students to know that reserves in a balance sheet represent an acknowledgement of previous success and a prudence in building up strength for the challenges ahead.

While both reserves and provisions are credit balances there is a significant difference between them. A reserve is an appropriation of profit while a provision is made for a liability or some circumstance that may reduce the company's assets. A provision is normally made where the outcome is uncertain but some loss is expected.

Knowledge of the more common type of loan capital is also required for this section. Students will be introduced to the issue of Shares at par and at a premium payable in full. It is important to note here that the Issue of Shares in stages/instalments will **not** be required.

Students will be assessed on their ability to:

- outline the legal requirements to produce company accounts.
- prepare trading, profit and loss and appropriation accounts of limited companies for internal purposes.
- prepare balance sheets of limited companies and present them in vertical format for internal purposes
- see and understand the relationship between the various headings in financial statements.

In summary students will be required to prepare financial statements of limited companies using the same format as is required under the old syllabus. Preparation of these accounts to include accounting for adjustments including revaluations, dividends and taxation. Taxation is a real factor in final accounts. It is an important deduction before analysis of results. What is required here is an ability to compute from given data the taxation amount for the year and how this is treated in the financial statements.

Question one will be as before and may have a brief related theory element.

5.9 APPRECIATION OF ANNUAL REPORTS OF PLCs(section 8.5.3) (H.L only)

This section of the syllabus is for **Higher Level only**. It introduces students to the responsibilities of directors which regard to the production of financial statements of Limited Companies in a wider sense than the particular aspects covered for internal purposes. In general this section requires students to understand and explain the legal requirements of limited companies to produce company accounts.

The rights and duties of directors and auditors are introduced for the first time. Students will become familiar with the legal requirements of public limited companies to produce final accounts using the vertical operating format (format 1). They will also be introduced to the preparation of simple published accounts from given data/accounts.

It is recommended that students should understand and be able to prepare internal financial statements, cash flow statements (section 8.8) and ratio analysis (section 8.9) before commencing this section.

Students will be assessed on their ability to:

- demonstrate a knowledge of the legal requirements on PLCs to produce company accounts.
- demonstrate an appreciation of the functions and duties of the directors and auditors of the company. Students will be expected to list the contents of both the directors' and auditors' reports but will **not** be required to be familiar with the content of chairpersons' reports.
- understand the difference between accounts prepared for internal use and for publication.
- show an understanding of published company reports
- to prepare a simple published profit and loss account and a balance sheet from internal accounts or from a trial balance (format 1). Students should be aware of the main items disclosed in the notes to the published accounts and be able to prepare a limited number of notes.
- discuss and comment on the published annual reports of a public limited company and display a knowledge of the various influences which affect these documents and comment on them.

5.10 MANUFACTURING ACCOUNTS (section 8.6.1)

In understanding that the purpose of preparing a manufacturing account is to ascertain the cost of manufacturing a product and to compare this with the alternative of buying from outside, it is important to emphasise the importance of the unit cost of production.

As this is not a new area assessment of it will be based on the pattern and models already established at Leaving Certificate with added exercises on the accounts prepared.

Students will be assessed on their ability to:

- Prepare a manufacturing account from given data
- Arrive at a unit cost of production
- Make management decisions based on above.

5.11 STOCK (section 8.6.2)

The valuation of stock should be confined to the basic principles of the appropriate standard.

Incorrect valuation of stock affects gross and net profit and consequently tax liability, the opinion of the firm in financial circles and therefore the ability to borrow, public opinion and therefore share price. In carrying out ratio analysis on the firms annual accounts any calculation involving stock (or current assets) or net profit will be inaccurate.

The mark-up in the industry provides a valuable measure for any firm in it. A mark-up which is out of line with the norm is a cause for concern which should lead to an immediate investigation to locate the reason in order that remedial action can be taken. Stock turnover or the number of times a business trades its goods in the year determines the total volume of profit, so the higher the better. In general a high turnover tends to be combined with a low profit margin and a low turnover with high profit margin. In times of economic recession margins come under a lot of pressure as traders try to maintain cash-flow.

Students will be assessed on their ability to:

- Understand the importance of accurate valuation of stock and the implications of its incorrect valuation.

5.12 CLUB ACCOUNTS AND ACCOUNTS OF SERVICE FIRMS (section 8.6.3)

Upon completion of this section of the syllabus, students should feel competent to undertake the role of club treasurer in any local club or charitable organisation.

An understanding of capital and revenue, simple control accounts and the financial statements of a sole trader would be helpful before the student is introduced to this topic.

In the initial stages it is useful to look at the accounts of diverse organisations in the locality in order to familiarise students with the various types of income and expenditure and different levels of activity. Whatever the size of the organisation, the same skills are required of the treasurer. At a later stage one could return to these same accounts to analyse them in a more critical manner.

The role of the treasurer is usually written into the constitution of the organisation and is usually simply defined in terms of responsibility to the committee and members.

- For all monies received and payments made on behalf of the club
- To keep all such accounts as are necessary to provide full up-to-date information on the financial position of the club. If necessary the treasurer should be able to set up a suitable system so that source documentation will be available for record keeping.
- To prepare a Receipts and Payments account, an Income and Expenditure account and a Balance Sheet

It is important that the treasurer and other officers clearly understand the responsibility they hold for the financial liabilities of the club. The treasurer is the key person in maintaining the overall financial well-being of any club and should be ready to give informed advice on all financial matters, including short and long-term source of finance, both at committee and general meetings. While keeping a watching brief over all expenditure it is important that the treasurer bears in mind the purpose for which the club was established and not hinder its long-term development through an over cautious approach to expenditure.

A clear understanding of the different types of income and expenditure in a club is necessary. They may include subscriptions, life-subscriptions, grants, levies, lottery wins, initial entrance fees, gratuities and affiliation fees in addition to the more usual expenses and gains encountered by firms. Adjustments for prepayments and accruals should be included. Where club activities involve both receipts and payments it is desirable that the resulting net profit/loss be shown in the Income and Expenditure A/c. Where a club is carrying on a trading activity, such as a bar, a Trading account should be prepared and the profit/loss transferred to the Income & Expenditure A/c.

Firms such as hairdressers, tailors, contract-cleaners, caterers and other non-trading organisations sometimes keep similar accounts to clubs. They do not require a Trading account as they are not engaged in buying and selling goods. Their income comes from the changes made for services rendered. However, it should be noted that service firms are as likely to prepare Profit and Loss accounts as their objective is to earn a profit.

As this is not a new area assessment will be based on the pattern and models already established at Leaving Certificate Examination papers with some additional theory aspects.

5.13. DEPARTMENTAL ACCOUNTS (section 8.6.4)

Students should have studied and be familiar with the final accounts of a sole trader and perhaps a company before beginning this topic.

When teaching this topic the following approach may be effective:

- Explain in simple terms using familiar examples the benefits of doing a financial analysis of separate departments. Illustrate this be reference to examples of department stores.

- With the use of an overhead projector and handouts demonstrate the correct layout for departmental accounts.

- Reinforce again the purpose behind these accounts. Stress in particular that the layout of final accounts is the same except that the different columns are introduced for the different departments.
- Students appear to experience difficulties when deciding on the basis for apportioning costs. This area needs to be explained and reinforced using examples.

The assessment of this area will be along the lines of previous Leaving Certificate questions.Students will be assessed on their ability to:

- allocate expenses and gains in an acceptable manner
- prepare departmental final accounts
- treat interdepartment transfers (at cost only)
- analyse the accounts
- give advice on the performance of each department and propose management decisions based on the figures.

5.13 FARM ACCOUNTS (section 8.6.5)

Farming is a business and therefore all farmers should keep proper accounts. Farm Accounts are kept for the following reasons:

- to ascertain income tax liability
- for the purpose of acquiring Bank Loans
- to support an application for government and EU Grants
- to make management decisions.

For these purposes farm businesses should prepare the following accounts:

- Receipts and Payments Accounts
- Enterprise Analysis Accounts
- General Profit and Loss Accounts and Balance Sheet

Most farmers specialise in one or more types of enterprise e.g. dairy farming, beef farming, deer farming, tillage, sheep, pigs, poultry. It is therefore necessary in the preparation of Farm Accounts to maintain an analysed Cash Book, where receipts and payments are recorded under headings for each enterprise and subheadings within each enterprise.

Enterprise Analysis Accounts are trading, profit and loss account for a particular enterprise. The balance, the Gross Profit, is transferred to the General Trading Account. Apportionment of some expenses may be necessary e.g. general wages (this information would be given).

The figures used in the Enterprise Analysis Account are taken from the totals in the receipts and payments analysis columns. The enterprise analysis account may be prepared on the same lines as a Departmental Final Account with columns in the accounts for each enterprise as well as the overall profit or loss or the profit from each enterprise can be transferred to a general Trading Account. A Balance Sheet may then be prepared in the same way as that of a business.

For farmers whose operation is confined to one type of enterprise a Trading and Profit and Loss Account is prepared in the same manner as that of any business.

Students will be assessed on their ability to:

- prepare Receipts and Payment Accounts
- prepare Enterprise Analysis Accounts
- value stock as instructed in a question
- complete a Trading Profit and Loss Account and Balance Sheet
- analyse the accounts and assess the profitability of each enterprise in the light of the information disclosed in the accounts
- make management decisions based on the figures produced in the accounts

5.14 INCOMPLETE RECORDS (section 8.7)

Preparing accounts from incomplete records for taxation and other purposes constitutes a significant part of the work load for accountancy firms in private practice in Ireland. Because of this fact, this very relevant topic was included in the previous syllabus and is retained in the new syllabus. Most of the business using single entry or having incomplete records are in the sole trader category. Accordingly, questions on this topic will continue to be asked in the context of a sole trader business.

An understanding of control accounts, capital and revenue, drawings and the financial statements of a sole trader is desirable before introducing this section of the syllabus.

Within the new syllabus three approaches to preparing and presenting final accounts/profit statements from incomplete records are required.

These methods are described in the new syllabus as:

- Control Account Method
- Net Worth Method
- Mark-up, Margin and Ratio Method (**H.L. only**)

Ordinary Level students will be examined on the “net worth” and “control accounts” methods only as is currently the case. Questions involving mark up, margin and ratio analysis will be examined at Higher Level only.

The only additional requirement for this section of the syllabus will be an understanding of the uses and drawbacks of incomplete records in general and the process of obtaining and verifying the figures used.

This topic will be examined on the same basis as previously applied. There will be a short “theory” section in some questions covering the reasons why incomplete records arise.

5.16. CASH FLOW STATEMENTS (section 8.8)

Importance of cash flow statements

The accountancy profession requires companies to prepare a cash flow statement which allows users of accounts to assess the liquidity, viability and financial adaptability of the company. The cash flow statement shows the cash flows generated and absorbed by the company’s activities under standard headings which are required by Financial Reporting Standard 1 Cash Flow Statements.

Distinction between profit and cash

- Meaning of cash – cash is defined as cash on hand and deposits repayable on demand less bank overdrafts (a knowledge of cash equivalents is not required).
- An understanding of the difference between profit and cash
- Reasons why an increase in profit may not give rise to a similar increase in cash in the current period.

Distinction between items that do and do not involve the movement of cash

- Effect of these items on cash flows
- Treatment of these items in the cash flow statement

Main sources of cash inflows

- Profits
- Proceeds from the sale of fixed assets
- Introduction of capital
- Receipts of loans
- Investment income

Main sources of cash outflows

- Losses
- Purchases of fixed assets
- Repayments of loans
- Dividend payments
- Tax payments

Preparation of cash flow statements

- Simple cash flow statements for either companies or sole traders using the indirect method

- Identification of cash flows by examination of opening and closing balance sheets, profit and loss account information and other relevant additional information
- Preparation of ledger accounts (or other suitable workings) for taxations, dividends and fixed assets to derive the associated cash flows. Ledger accounts may also be necessary to derive the depreciation charge, profit or loss on disposal of fixed asset.
- Adjustment of operating profit/loss by items not involving the movement of cash and for changes in debtors, stocks and creditors to derive the cash flow from operating activity.
- Grouping of cash flows under the headings of FRS 1
    - Operating activities
    - Returns of investments and servicing of finance
    - Taxation
    - Investing activities
    - Financing

- Notes to the cash flow statement are not required but students are expected to show the adjustments made to operating profit to arrive at cash flows from operating activities

Interpretation of cash flow statements (**HL**)

- Understanding of the usefulness of a cash flow statement
- Preparation of reports analysing and commenting on a company's financial position as revealed by the cash flow statement.

Students will be assessed on their ability to:

- Show an understanding of the importance of cash flow statements/data
- Explain the difference between cash and profit
- Identify and treat items not involving the movement of cash
- Identify and classify the sources of cash inflows and cash outflows
- Prepare a simple cash flow statement using the indirect method
- Advise the management on the organisation's financial position using cash flow statements (**HL only**)

5.17 ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS (section 8.9)

This section of the syllabus is concerned with analysing and interpreting financial statements. This section has been part of the old syllabus.

The student will be required to study and understand the following area:

- Objective of Analysis and Interpretation of Financial Statements
- Purpose of the analysis and interpretation
- Definition, Calculation and Role of Accounting Ratios
- Users and their interest and information needs in Accounting Ratios
  - Investors and Financial Advisers
  - Loan Creditors
  - Management
  - Customers
  - Suppliers
  - Employers and Trade Unions
  - Government and their Agencies
  - Public
- Awareness of limitations of Ratio Analysis
  - Limited information value
  - Inconsistencies in measuring the figures used in ratio
  - Problems of window dressing
  - Implications of seasonal fluctuations
  - Deficiencies of historical cost measures used in ratios
- Profitability and Efficiency Ratios
  - return on capital employed
  - gross margin
  - net margin
  - expenses to sales
  - sales to fixed assets
  - sales to current assets
  - sales to net current assets
  - employment (profit per employee, sales per employee)
- Working Capital Ratios
  - stock turnover
  - debtors collection period
  - creditors collection period

- Liquidity/Solvency Ratios
  - current ratio
  - acid test/quick asset ratio
- Gearing Ratios
  - fixed interest capital to total capital
  - fixed interest capital to equity capital
  - interest cover
- Investment Ratios
  - earnings per share
  - dividend per share
  - price earnings ratio
  - dividend yield
  - dividend cover
  - dividend payout ratio
- Interpreting the Findings of Ratio Analysis
  - Comment on the profitability, efficiency, liquidity, viability, management of working capital and capital structure of the company
  - Identify problem areas (overtrading, over capitalisation) highlighting their causes and suggesting possible remedies.
- Presentation of Reports (**HL only**)
  - Inteperiod comparisons involving comparisons with the company's past performance and budgets
  - Intecompany comparisons involving comparisons with similar companies and industry averages

The assessment of the area will be based on the pattern and models already established at Leaving Certificate.

Students will be assessed on their ability to:

- Understand the role and limitations of ratio analysis
- Calculate ratios and percentages
- Comment on ratios
- Write reports (in report form) commenting on the financial strengths and weaknesses of a company's trading operations and on financial management of working capital and long term funds (**HL only**)

5.18 MANAGEMENT ACCOUNTING (section 8.10)

The two important functions of management are planning and control. Planning is the process of setting goals and developing ways to achieve them. It includes the important process of budgeting which is the relating of goals to the specific means for achieving them. Control is determined whether the goals are being met and, if not, what can be done.

Management Accounting is the term used throughout this section to include product costing and budgetary planning and control. Costing was covered in the old syllabus to some extent in Manufacturing and Departmental Accounts and in the valuation of unsold stock in Consignment Accounts.

In general, this section of the syllabus deals with manufacturing organisations. It is not concerned with contract, process or service costing. The syllabus concentrates on Job/Batch costing whereby products are made to order or for stock. There is an emphasis on Product Costing, Break-even and “what if?” analyses. The process of arriving at budgets/estimates and of comparing them with actual outcomes is included but “Standard Costs and Variances” are not part of the syllabus.

It would be helpful if students had a sound knowledge of final accounts before being introduced to Management Accounting. Some previous exposure to ratio analysis and cash flow statements is also desirable.

Prior work on such areas as manufacturing accounts, stock and departmental accounts which overlap with Cost/Management Accounting could provide an effective introduction to this section. In fact, several of the topics which are included in the Management Accounting section can easily be introduced in these earlier sections. For example, aspects of product costing can be dealt with effectively along with manufacturing accounts. Likewise, when doing departmental accounts it is a relatively easy step to think about how much the firm would need to purchase in a particular period if they were to satisfy a sales growth of, say, 10% and to build up their inventories in the next period by, say, 25% (assuming that gross margins were to remain constant or to change by a specified percentage).

Teachers may wish to take the opportunities earlier in the syllabus to adopt a managerial perspective and to introduce simple cost/management accounting computations before progressing into the management accounting module formally.

Indeed some may have the concepts and techniques which are embodied in it virtually completed before they arrive at it. In any event every opportunity should be taken in earlier sections of the syllabus to raise management issues/questions and conduct appropriate analyses.

The budgeting aspect of this section links very closely with several areas of financial accounting, such as control accounts, profit and loss accounts and balance sheets. The main difference is that budgets, which are a key weapon in planning and control, try to project what the future financial reports are likely to look like, whilst the traditional accounting model records the actual outcomes. In many cases the actual financial results arrived at in the normal way form the basis for the budgets of a future period.

The following is a summary of areas of study and depth of treatment of these areas within the section of the syllabus.

- The nature and scope of management accounting
- The relationship of management accounting to financial accounting
- The role of management accounting in an organisation
- Manufacturing and non-manufacturing costs
- Direct and indirect costs
- Product costs and period costs
- Fixed and variable costs
- Mixed step-fixed and step-variable costs (**HL only**)
- Controllable and uncontrollable costs (**HL only**)
- Product costing
  - direct materials (FIFO only to be used for calculations)
  - direct labour (on actual basis)
  - factory overhead
    - allocation
    - apportionment
    - absorption
    - a working knowledge of labour hours and machine hours bases

- cost –volume-profit analysis
  - concept of contribution
  - break-even point
  - margin of safety
  - break-even charts

  - limitations
  - sensitivity analysis (HL only)

    (in this section it is not intended to test multiple product mix)

- Nature, objectives and advantages of budgeting
- Role of line management in budget formulation and the identification of the principal budget factor
- Preparation of the master budget and supporting subsidiary purchases, direct labour, factory overhead, non-factory expense and closing stock budgets. Cash budgeting. Budgeted profit and loss account and balance sheet.
- Comparison of actual with budget
- Flexible budgeting, in role and operation and the recognition of the impact of fixed and variable costs (**HL only**).

Students will be assessed on their ability to:

- define management accounting and explain its relationship to financial accounting
- discuss the different types of cost behaviour patterns that can arise in an organisation
- compute break-even points, contribution margin and margin of safety, and to draw a break-even chart.
- compute the cost of a product
- prepare a master budget together with subsidiary budgets
- outline the importance of budgetary control in an organisation (**HL only**)

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