

PRINCIPLES OF ACCOUNTS

OBJECTIVE

The objective of the examination is to test candidates' understanding of the basic principles and methods of accounting and their application to practical situations.

THE EXAMINATION

The examination will consist of one paper of 2½ hours' duration. There will be two sections: A and B. Section A (short questions/problems) will carry 42% of the marks and there will be a choice of 3 out of 4 questions. Section B (problems) will carry 58% of the marks and there will be a choice of 2 out of 3 questions.

THE SYLLABUS

The examination will cover the following areas:

<i>Syllabus Content</i>	<i>Explanatory Notes</i>
1. Introduction to double-entry book-keeping and basic book-keeping procedure	(a) The principles of double-entry book-keeping (b) Distinction between capital and revenue expenditures (c) Differentiation between fixed assets and current assets, capital and liabilities
2. Books of original entries: functions and posting to ledger	(a) Purchases day book (b) Sales day book (c) Returns outwards day book (d) Returns inwards day book (e) Cash book (f) The Journal: uses of the journal (basic concepts) <ul style="list-style-type: none"> — purchases and sales of fixed assets on credit — correction of errors

*Syllabus Content**Explanatory Notes*

- opening entries
 - closing entries
 - other transfers/adjustments
 - (g) Petty cash book and the imprest system
3. The ledger and the classification of accounts
- (a) Personal ledger
 - (i) Sales ledger – debtors accounts
 - (ii) Purchases ledger – creditors accounts
 - (b) General ledger
 - (i) Real accounts
 - (ii) Nominal accounts
4. Trial balance
- (a) Functions
 - (b) Balancing off accounts and the preparation of trial balance
5. Preparation of final accounts from a trial balance of a sole trader
- (a) Trading account
 - (b) Profit and loss account
 - (c) Balance sheet
(special attention being given to the method and order of presentation)
6. Balancing day adjustments relating to preparation of final accounts
- (a) Depreciation
 - (i) Causes
 - wear and tear
 - obsolescence
 - inadequacy
 - passage of time

*Syllabus Content**Explanatory Notes*

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| | <ul style="list-style-type: none"> — depletion (ii) Simple methods of calculating depreciation <ul style="list-style-type: none"> — straight-line — reducing-balance — revaluation (iii) Accounting methods <ul style="list-style-type: none"> — depreciation account method — depreciation provision account method (iv) Simple treatment of disposal of fixed assets (b) Prepayments and accruals for revenue and expenses (c) Provisions for bad debts and discounts allowed |
| 7. Correction of errors | <ul style="list-style-type: none"> (a) Classes of errors and their corrections in journal and ledger <ul style="list-style-type: none"> (i) errors not affecting the agreement of the trial balance (ii) errors affecting the trial balance and the suspense account (b) The effect of errors on reported profits |
| 8. Bank reconciliation statement | <ul style="list-style-type: none"> (a) Functions (b) Preparation with cash book adjustments |
| 9. Incomplete records (single entry) | <ul style="list-style-type: none"> (a) Calculation of profits or losses from statements of affairs (b) Preparation of final accounts from incomplete records (c) Calculation of stock-in-trade at time of fire (d) Calculation of stock after financial year end
(Stock valuation methods are not required) |

*Syllabus Content**Explanatory Notes*

10. Income and expenditure accounts/
Receipts and payments accounts

- (a) Functions of these two accounts
- (b) Preparation of an income and expenditure account including separate fund-raising activities
- (c) Production of a balance sheet and the calculation of accumulated fund

11. Control accounts and sectional balancing of ledgers

- (a) Functions
- (b) Sales ledger control account
- (c) Purchases ledger control account

12. Manufacturing accounts

- (a) Analysis of cost: prime cost and factory overheads, cost of production
- (b) Treatment of work-in-progress (Treatment of profits or losses on manufactured goods as compared with their market value is not required)
- (c) Preparation of the manufacturing, trading and profit and loss account and the related balance sheet

13. Partnership accounts

- (a) Preparation of final accounts
- (b) Elementary treatment of goodwill
 - with a goodwill account
 - without a goodwill account
 (Calculation of goodwill is not required)
- (c) Revaluation of assets
- (d) Admission of new partners
- (e) Retirement or death of existing partners
- (f) Dissolution of partnership: solvency and insolvency

*Syllabus Content**Explanatory Notes*

14. Company accounts

(excluding application of Garner vs Murray rule and piecemeal realisation method)

- (a) Classification of capital
 - authorised/registered capital
 - issued capital
 - called-up capital
 - paid-up capital
- (b) Types of shares and debentures
 - ordinary shares
 - preference shares
 - debentures
- (c) Raising of capital
 - issue at par, at a discount or at a premium
 - method of payment: payment in full

(forfeiture of shares and their reissue are not required)
- (d) Preparation of final accounts including the appropriation and distribution of profits and reserves (excluding taxation and statutory requirements)

15. Simple interpretation of financial statements and accounting ratios (their meaning and calculation)

The use of ratios to account for the profitability, liquidity, and management efficiency of a firm. These include:

- (a) gross profit ratio
- (b) net profit ratio
- (c) working capital/current ratio
- (d) quick/liquidity ratio
- (e) stock turnover rate

*Syllabus Content**Explanatory Notes*

16. Basic concepts of accounting: meaning and application

- (f) credit period allowed to trade debtors
- (g) credit period received from trade creditors
- (h) return on capital employed

These include conventions and doctrines such as:

- (a) conservatism
- (b) going concern
- (c) entity
- (d) historical cost
- (e) accrual
- (f) matching
- (g) realisation
- (h) materiality
- (i) quantifiability and stable monetary measures
- (j) consistency