



# Accounting

Victorian Certificate of Education Study Design

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Latoya BARTON  
*The sunset* (detail)  
from a series of twenty-four  
9.0 x 9.0 cm each, oil on board



Tarkan ERTURK  
*Visage* (detail)  
201.0 x 170.0 cm  
synthetic polymer paint, on cotton duck



Liana RASCHILLA  
*Teapot* from the *Crazy Alice* set  
19.0 x 22.0 x 22.0 cm  
earthenware, clear glaze, lustres



Nigel BROWN  
*Untitled physics* (detail)  
90.0 x 440.0 x 70.0 cm  
composition board, steel, loudspeakers,  
CD player, amplifier, glass



Kate WOOLLEY  
*Sarah* (detail)  
76.0 x 101.5 cm, oil on canvas



Chris ELLIS  
*Tranquility* (detail)  
35.0 x 22.5 cm  
gelatin silver photograph



Christian HART  
*Within without* (detail)  
digital film, 6 minutes



Kristian LUCAS  
*Me, myself, I and you* (detail)  
56.0 x 102.0 cm  
oil on canvas



Merryn ALLEN  
*Japanese illusions* (detail)  
centre back: 74.0 cm, waist (flat): 42.0 cm  
polyester cotton



Ping (Irene) VINCENT  
*Boxes* (detail)  
colour photograph



James ATKINS  
*Light cascades* (detail)  
three works, 32.0 x 32.0 x 5.0 cm each  
glass, fluorescent light, metal



Tim JOINER  
*14 seconds* (detail)  
digital film, 1.30 minutes



Lucy McNAMARA  
*Precariously* (detail)  
156.0 x 61.0 x 61.0 cm  
painted wood, oil paint, egg shells, glue, stainless steel wire

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Accounting

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## **IMPORTANT INFORMATION**

### **Accreditation period**

Units 1–4: 2007–2011

The accreditation period commences on 1 January 2007.

### **Other sources of information**

The *VCAA Bulletin* is the only official source of changes to regulations and accredited studies. The *VCAA Bulletin*, including supplements, also regularly includes advice on VCE studies. It is the responsibility of each VCE teacher to refer to each issue of the *VCAA Bulletin*. The *VCAA Bulletin* is sent in hard copy to all VCE providers. It is available on the Victorian Curriculum and Assessment Authority's website at [www.vcaa.vic.edu.au](http://www.vcaa.vic.edu.au)

To assist teachers in assessing school-assessed coursework in Units 3 and 4, the Victorian Curriculum and Assessment Authority publishes an assessment handbook that includes advice on the assessment tasks and performance descriptors for assessment.

The current year's *VCE and VCAL Administrative Handbook* contains essential information on assessment and other procedures.

### **VCE providers**

Throughout this study design the term 'school' is intended to include both schools and other VCE providers.

### **Photocopying**

VCE schools only may photocopy parts of this study design for use by teachers.

# Introduction

## **RATIONALE**

Accounting is the process of recording, reporting, analysing and interpreting financial data and information which is then communicated to internal and external users of the information. It plays an integral role in the successful operation and management of a small business.

The preparation and presentation of financial statements is governed by Australian Accounting Standards and guided by the Framework for the Preparation and Presentation of Financial Statements (AASB Framework).

VCE Accounting focuses on the financial recording, reporting and decision-making processes of a small business. Students will study both theoretical and practical aspects of accounting. Financial data and information will be collected, recorded and reported using both manual and information and communications technology (ICT) methods.

Many students will go on to further studies in business and finance, and other students will go on to become small business owners. The study of Accounting will enable them to develop their financial knowledge and skills.

## **AIMS**

This study is designed to enable students to:

- acquire knowledge and skills to record and report financial data and information in a manner that is appropriate for the needs of the user;
- develop an understanding of the role of accounting in the management and operation of a small business;
- develop skills in the use of information and communications technology in an accounting system;
- acquire accounting skills to successfully operate a small business;
- develop the capacity to identify, analyse and interpret financial data and information;
- use financial and non-financial information to improve the decision-making processes of a small business owner.

## STRUCTURE

The study is made up of four units.

Unit 1: Establishing and operating a service business

Unit 2: Accounting for a trading business

Unit 3: Recording and reporting for a trading business

Unit 4: Control and analysis of business performance

Each unit deals with specific content and is designed to enable students to achieve a set of outcomes. Each outcome is described in terms of key knowledge and skills.

## ENTRY

There are no prerequisites for entry to Units 1, 2 and 3. Students must undertake Unit 3 prior to undertaking Unit 4. Units 1 to 4 are designed to a standard equivalent to the final two years of secondary education. All VCE studies are benchmarked against comparable national and international curriculum.

## DURATION

Each unit involves at least 50 hours of scheduled classroom instruction.

## CHANGES TO THE STUDY DESIGN

During its period of accreditation minor changes to the study will be notified in the *VCAA Bulletin*. The *VCAA Bulletin* is the only source of changes to regulations and accredited studies and it is the responsibility of each VCE teacher to monitor changes or advice about VCE studies published in the *VCAA Bulletin*.

## MONITORING FOR QUALITY

As part of ongoing monitoring and quality assurance, the Victorian Curriculum and Assessment Authority will periodically undertake an audit of Accounting to ensure the study is being taught and assessed as accredited. The details of the audit procedures and requirements are published annually in the *VCE and VCAL Administrative Handbook*. Schools will be notified during the teaching year of schools and studies to be audited and the required material for submission.

## SAFETY

It is the responsibility of the school to ensure that duty of care is exercised in relation to the health and safety of all students undertaking the study.

## USE OF INFORMATION AND COMMUNICATIONS TECHNOLOGY

In designing courses for this study teachers should incorporate information and communications technology (ICT) where appropriate and applicable to the teaching and learning activities.

ICT is now an essential part of the operation of a small business. Computers are used at the inputting, processing and outputting stages of the accounting process. Students need to be aware of the use of spreadsheets, current accounting software packages, the Internet, word processing, data show and multimedia presentations.

Each unit of VCE Accounting includes outcomes that require the use of ICT by the student. As a guide, students would require a minimum of 15 hours scheduled class time to be allocated to teaching and learning activities involving ICT to be able to achieve the outcomes of the units.

Knowledge and use of spreadsheets is important for students and should be integrated throughout Units 1 to 4 where relevant. Spreadsheets can be used in a variety of ways to undertake numeric calculations, present information in various formats and to assist in the decision-making process.

Further advice and specific examples of ICT applications are provided in the Advice for Teachers section. An overview of the use of ICT across the four units follows:

### Unit 1 – Establishing and operating a service business

Spreadsheets, the Internet and single entry accounting packages may be used in this unit for the recording of transactions, preparation of financial reports, cash control systems and procedures, taxation, price setting, cash budgeting and investment and superannuation.

### Unit 2 – Accounting for a trading business

An accounting software package must be used in Outcome 2, Area of Study 2: ICT in accounting. Spreadsheets and other applications may be used in Outcomes 1 and 3.

### Unit 3 – Recording and reporting for a trading business

Spreadsheets and accounting packages may be used in Outcomes 1 and 2.

### Unit 4 – Control and analysis of business performance

Spreadsheets should be used in this unit in Area of Study 2: Financial planning and decision-making. The spreadsheets can be used in calculations, presentation of information and in the analysis of business performance with the calculation of indicators.

## KEY COMPETENCIES AND EMPLOYABILITY SKILLS

This study offers a number of opportunities for students to develop key competencies and employability skills. The Advice for Teachers section provides specific examples of how students can demonstrate key competencies during learning activities and assessment tasks.

## LEGISLATIVE COMPLIANCE

When collecting and using information, the provisions of privacy and copyright legislation, such as the Victorian *Information Privacy Act 2000* and *Health Records Act 2001*, and the federal *Privacy Act 1988* and *Copyright Act 1968* must be met.

**FRAMEWORK FOR THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS  
(AASB FRAMEWORK)**

In January 2005 Australia adopted 'The Framework for the Preparation and Presentation of Financial Statements' Australian Accounting Standards Board (AASB) Framework which is the Australian equivalent to the International Accounting Standards Board (IASB) Conceptual Framework (international standards). This framework provides guidance to the definitions of the elements of financial statements.

For the purposes of this study, the terms 'Profit and Loss Statement', 'Profit and Loss Summary Account' and 'Balance Sheet' will be used.

A full explanation of the AASB Framework and its definitions are included in the Advice to Teachers section of this study design.



# Assessment and reporting

## **SATISFACTORY COMPLETION**

The award of satisfactory completion for a unit is based on a decision that the student has demonstrated achievement of the set of outcomes specified for the unit. This decision will be based on the teacher's assessment of the student's performance on assessment tasks designated for the unit. Designated assessment tasks are provided in the details for each unit. The Victorian Curriculum and Assessment Authority publishes an assessment handbook that includes advice on the assessment tasks and performance descriptors for assessment for Units 3 and 4.

Teachers must develop courses that provide opportunities for students to demonstrate achievement of outcomes. Examples of learning activities are provided in the Advice for Teachers section.

Schools will report a result for each unit to the Victorian Curriculum and Assessment Authority as S (Satisfactory) or N (Not Satisfactory).

Completion of a unit will be reported on the Statement of Results issued by the Victorian Curriculum and Assessment Authority as S (Satisfactory) or N (Not Satisfactory). Schools may report additional information on levels of achievement.

## **AUTHENTICATION**

Work related to the outcomes will be accepted only if the teacher can attest that, to the best of their knowledge, all unacknowledged work is the student's own. Teachers need to refer to the current year's *VCE and VCAL Administrative Handbook* for authentication procedures.

## **LEVELS OF ACHIEVEMENT**

### **Units 1 and 2**

Procedures for the assessment of levels of achievement in Units 1 and 2 are a matter for school decision. Assessment of levels of achievement for these units will not be reported to the Victorian Curriculum and Assessment Authority. Schools may choose to report levels of achievement using grades, descriptive statements or other indicators.

### Units 3 and 4

The Victorian Curriculum and Assessment Authority will supervise the assessment of all students undertaking Units 3 and 4.

In the study of Accounting the student's level of achievement will be determined by school-assessed coursework, a mid-year examination and an end-of-year examination. The Victorian Curriculum and Assessment Authority will report the student's level of performance on each assessment component as a grade from A+ to E or UG (ungraded). To receive a study score, students must achieve two or more graded assessments and receive S for both Units 3 and 4. The study score is reported on a scale of 0–50. It is a measure of how well the student performed in relation to all others who took the study. Teachers should refer to the current year's *VCE and VCAL Administrative Handbook* for details on graded assessment and calculation of the study score. Percentage contributions to the study score in Accounting are as follows:

- Unit 3 school-assessed coursework: 17 per cent
- Unit 4 school-assessed coursework: 17 per cent
- Mid-year examination: 33 per cent
- End-of-year examination: 33 per cent

Details of the assessment program are described in the sections on Units 3 and 4 in this study design.

# Unit 1: Establishing and operating a service business

This unit focuses on the establishment of a small business and the accounting and financial management of the business. Students are introduced to the processes of gathering, recording, reporting and analysing financial data and information used by internal and external users. Recording and reporting is restricted to the cash basis.

Students examine the role of accounting in the decision-making process using single entry recording of financial data and information for the owner of a service business.

Where appropriate, the accounting procedures developed in each area of study should incorporate the application of accounting principles and the qualitative characteristics of accounting information.

## AREA OF STUDY 1

### Going into business

A potential small business owner needs to make many decisions before commencing the operations of the business. The decisions made at this stage will often influence the success or failure of the business. In this area of study students investigate features of successful and unsuccessful businesses, sources of finance and how pre-operational decisions are made.

### Outcome 1

On completion of this unit the student should be able to describe the resources and explain and apply the knowledge and skills necessary to set up a small business.

To achieve this outcome the student will draw on knowledge and related skills outlined in area of study 1.

### *Key knowledge*

This knowledge includes

- types of small business, such as service, trading and manufacturing;
- forms of business ownership, including sole trader, partnership and companies;
- reasons for establishing a small business;
- factors that lead to the success or failure of a small business;

- the role of professionals, such as accountants, business advisors and professional organisations in providing advice to achieve business success;
- internal and external sources of finance, including features, advantages and disadvantages.

### *Key skills*

These skills include the ability to

- research information about small business from a range of sources;
- use relevant terms accurately in relation to small business;
- apply theoretical knowledge to simulated situations;
- apply problem-solving techniques in relation to the establishment of a small business;
- present and communicate information using a variety of methods.

## **AREA OF STUDY 2**

### **Recording and reporting accounting data and information**

In this area of study students investigate the role of accounting in the generation of financial data and information for the owner of a service business. The focus is on the recording and reporting of financial data and information using a single entry recording system. Students are required to use both manual and ICT methods in the recording and reporting process.

### **Outcome 2**

On completion of this unit the student should be able to identify, record, report and explain the financial data and information for the owner of a service business, using a combination of manual and ICT methods.

To achieve this outcome the student will draw on knowledge and related skills outlined in area of study 2.

### *Key knowledge*

This knowledge includes

- accounting principles:
  - entity
  - reporting period
  - monetary unit
  - conservatism
  - historical cost
  - going concern
  - consistency;
- qualitative characteristics of accounting information:
  - relevance
  - reliability
  - comparability
  - understandability;
- definition of the accounting elements: assets, liabilities, owner's equity, revenue and expenses;
- the accounting equation;

- classification of current and non-current items in the balance sheet;
- the two-fold effect of transactions on the balance sheet;
- source and business documents for a service business: cash receipts, cheque butts, memos, bank statements, tax invoices, Business Activity Statements;
- techniques for the recording of cash receipts and payments from source documents, including the recording of the Goods and Services Tax (GST) where the amount of the GST is identified;
- special journals: cash receipts and cash payments;
- internal control procedures, including cash control and the bank reconciliation process;
- accounting reports:
  - Statement of Receipts and Payments
  - Profit and Loss Statement
  - Balance Sheet;
- small business and taxation, including substantiation and record keeping, GST, Pay as You Go (PAYG) and Capital Gains tax.

#### *Key skills*

These skills include the ability to

- identify, classify, record and analyse financial data and information;
- apply theoretical knowledge to simulated situations;
- prepare and analyse financial reports;
- analyse problems, and plan and make financial decisions;
- present and communicate information using a variety of methods.

### **AREA OF STUDY 3**

#### **Financial decision-making**

The owner of a small business must make many decisions every day. These decisions affect the business's operations, and ultimately its chances of success or failure. Such decisions should be made on the basis of information generated by the accounting system. In this area of study students apply the accounting skills they have learned in order to evaluate the financial and non-financial information of a service business.

#### **Outcome 3**

On completion of this unit the student should be able to apply accounting skills to evaluate financial and non-financial information in order to make informed decisions for a small business.

To achieve this outcome the student will draw on knowledge and related skills outlined in areas of study 1, 2 and 3.

#### *Key knowledge*

This knowledge includes

- price setting strategies:
  - methods of determining selling price
  - cost, volume, profit analysis
  - techniques for the preparation of quotes;

- cash budgeting:
  - benefits of cash budgeting
  - techniques for the preparation of cash budgets
  - budget variance reports;
- investment and superannuation:
  - alternative investment opportunities
  - legal obligations of the small business to its employees in regards to superannuation
  - types of superannuation.

### *Key skills*

These skills include the ability to

- use correct terms in relation to financial decision-making;
- select, classify, analyse and interpret financial data and information;
- apply theoretical knowledge to simulated situations;
- solve problems, plan and make financial decisions;
- communicate ideas and information using a variety of presentation methods;
- evaluate the effect of financial decisions on the business.

## **ASSESSMENT**

The award of satisfactory completion for a unit is based on a decision that the student has demonstrated achievement of the set of outcomes specified for the unit. This decision will be based on the teacher's assessment of the student's overall performance on assessment tasks designated for the unit.

The key knowledge and skills listed for each outcome should be used as a guide to course design and the development of learning activities. The key knowledge and skills do not constitute a checklist and such an approach is not necessary or desirable for determining the achievement of outcomes. The elements of key knowledge and skills should not be assessed separately.

Assessment tasks must be a part of the regular teaching and learning program and must not unduly add to the workload associated with that program. They must be completed mainly in class and within a limited timeframe. Teachers should select a variety of assessment tasks for their assessment program to reflect the key knowledge and skills being assessed and to provide for different learning styles.

For this unit students are required to demonstrate achievement of three outcomes. As a set these outcomes encompass all areas of study.

Demonstration of achievement of Outcomes 1, 2 and 3 must be based on the student's performance on a selection of assessment tasks. Where teachers allow students to choose between tasks they must ensure that the tasks they set are of comparable scope and demand. Assessment tasks for this unit are:

- folio of exercises (manual and ICT-based);
- test/s;
- assignment/s;
- case study/ies;
- classroom presentation;
- reports (written, oral and multimedia).

Students must use ICT in at least two of the selected assessment tasks.

## Unit 2: Accounting for a trading business

This unit focuses on accounting for a single activity sole trader. Using the accrual approach, students use a single entry recording system for the recording and reporting of cash and credit transactions stock. They use financial and non-financial information to evaluate the performance of a business. Using these evaluations, students suggest strategies to the owner on how to improve the performance of the business.

Where appropriate, the accounting procedures developed in each area of study should incorporate the application of accounting principles and the qualitative characteristics of accounting information.

### AREA OF STUDY 1

#### Recording and reporting accounting data and information

A small business operator needs to input and process financial data to provide information for decision-making on the management and performance of the business. In this area of study students record and report the financial data and information of a single activity sole trader using the single entry system of recording. Both manual and ICT methods of recording and reporting are used.

#### Outcome 1

On completion of this unit the student should be able to record and report financial data and information for a sole trader.

To achieve this outcome the student will draw on knowledge and related skills outlined in area of study 1.

#### *Key knowledge*

This knowledge includes

- accounting principles:
  - entity
  - reporting period
  - monetary unit
  - conservatism
  - historical cost
  - going concern
  - consistency;

- qualitative characteristics of accounting information:
  - relevance
  - reliability
  - comparability
  - understandability;
- distinction between service and trading businesses;
- source and business documents for a trading business: cash receipts, cheque butts, sales and purchases invoices, bank statements, memos, statements of account, Business Activity Statements;
- special journals: cash receipts, cash payments, purchases and sales (the amount of GST is identified);
- perpetual inventory system recording on stockcards using the First In, First Out (FIFO) method;
- physical stocktakes and their impact on accounting records and reports, including stock losses and gains;
- balance day adjustments: depreciation using the straight-line method, stock loss and gain, prepaid expenses (asset approach) and accrued expenses;
- accounting reports:
  - Cash Flow Statement
  - Profit and Loss Statement (gross profit, adjusted gross profit and net profit)
  - Balance Sheet;
- distinction between cash and profit;
- the two-fold effect of transactions on the accounting reports.

### *Key skills*

These skills include the ability to

- identify, classify, record and analyse financial data and information;
- apply theoretical knowledge to simulated situations;
- use correct accounting terminology;
- prepare financial reports;
- analyse problems, plan and make financial decisions;
- present and communicate information using a variety of methods.

## **AREA OF STUDY 2**

### **ICT in accounting**

ICT is an essential tool in the operation of a small business. This area of study enables students to develop an understanding of the role of ICT in the accounting process. Students use an accounting software package to record and report financial data and information for a single activity sole trader, and demonstrate their understanding of the importance of ICT in the accounting process.

### **Outcome 2**

On completion of this unit the student should be able to record and report financial data and information using an accounting software package for a single activity sole trader, and explain and evaluate the role of ICT in the accounting process.

To achieve this outcome the student will draw on knowledge and related skills outlined in areas of study 1 and 2.



### *Key knowledge*

This knowledge includes

- benefits and costs of computerised accounting systems;
- a comparison with manual systems;
- chart of accounts;
- techniques of recording transactions from source documents or a transaction list, including the recording of Goods and Services Tax (GST) where the amount of GST is identified;
- accounting reports:
  - Profit and Loss Statement
  - Balance Sheet.

### *Key skills*

These skills include the ability to

- identify, classify, record and report financial data and information using an accounting software package;
- apply theoretical knowledge to simulated situations;
- present accounting information in a format suitable for users;
- evaluate the role of ICT in the accounting process.

## **AREA OF STUDY 3**

### **Evaluation of business performance**

The performance of a business should be measured and evaluated regularly. Using financial and non-financial information in this process will assist the owner in planning and decision-making for the future. This area of study focuses on an evaluation of a particular area/s of the business such as stock or debtors, with students then suggesting strategies that will improve business performance.

### **Outcome 3**

On completion of this unit the student should be able to select and use financial and non-financial information to evaluate a business and suggest strategies that will improve business performance.

To achieve this outcome the student will draw on knowledge and related skills outlined in areas of study 1, 2 and 3.

### *Key knowledge*

This knowledge includes

- the use of financial and non-financial information in evaluating performance;
- the role of key performance indicators;
- strategies to improve business performance in a selected area/s.

### *Key skills*

These skills include the ability to

- evaluate financial and non-financial information;
- communicate ideas and information using a variety of presentation methods;
- understand and use correct terms in relation to the evaluation of the performance of a business.

## ASSESSMENT

The award of satisfactory completion for a unit is based on a decision that the student has demonstrated achievement of the set of outcomes specified for the unit. This decision will be based on the teacher's assessment of the student's overall performance on assessment tasks designated for the unit.

The key knowledge and skills listed for each outcome should be used as a guide to course design and the development of learning activities. The key knowledge and skills do not constitute a checklist and such an approach is not necessary or desirable for determining the achievement of outcomes. The elements of key knowledge and skills should not be assessed separately.

Assessment tasks must be a part of the regular teaching and learning program and must not unduly add to the workload associated with that program. They must be completed mainly in class and within a limited timeframe. Teachers should select a variety of assessment tasks for their assessment program to reflect the key knowledge and skills being assessed and to provide for different learning styles.

For this unit students are required to demonstrate achievement of three outcomes. As a set these outcomes encompass all areas of study.

Demonstration of achievement of Outcomes 1, 2 and 3 must be based on the student's performance on a selection of assessment tasks. Where teachers allow students to choose between tasks they must ensure that the tasks they set are of comparable scope and demand. Assessment tasks for this unit are:

- exercise/s using an accounting computer software package;
- folio of exercises (manual and ICT-based);
- test/s;
- assignment/s;
- case study/ies;
- classroom presentation;
- reports (written, oral and multimedia).

Students must use ICT in at least two of the selected assessment tasks.

# Unit 3: Recording and reporting for a trading business

This unit focuses on financial accounting for a single activity trading business as operated by a sole trader and emphasises the role of accounting as an information system. Students are introduced to the double entry system of recording using the accrual basis of accounting. The perpetual method of stock recording with the First In, First Out (FIFO) method is used.

Where appropriate, the accounting procedures developed in each area of study should incorporate the application of accounting principles and the qualitative characteristics of accounting information.

## AREA OF STUDY 1

### Recording of financial data

This area of study focuses on the identification and recording of accounting data for a single activity sole trader. Students learn the techniques and undertake the recording of data in a format that will enhance the decision-making process of the business. They also investigate the impact of the recording process on the business.

### Outcome 1

On completion of this unit the student should be able to record financial data into appropriate accounting records using a double entry accrual-based system for a single activity sole trader, and explain related aspects of this accounting system.

To achieve this outcome the student will draw on knowledge and related skills outlined in area of study 1.

#### *Key knowledge*

This knowledge includes

- accounting principles:
  - entity
  - reporting period
  - monetary unit
  - conservatism

- historical cost
- going concern
- consistency;
- qualitative characteristics of accounting information:
  - relevance
  - reliability
  - comparability
  - understandability;
- elements of financial reports: assets, liabilities, owner's equity, revenue and expenses;
- the two-fold effect of transactions on the accounting equation;
- source and business documents for a trading business, including cash receipts, cheque butts, sales and purchases invoices, statements of account, memos;
- stock cards using the First In, First Out (FIFO) method for cash and credit purchases and sales of stock, advertising use, drawings;
- GST Clearing Account;
- special journals (the amount of GST will be identified for each relevant transaction):
  - sales
  - purchases
  - cash receipts (with discount expense calculated on balance owing – GST not applicable)
  - cash payments (with discount revenue calculated on balance owing – GST not applicable);
- the use of the general journal to record infrequent non-cash transactions (GST not applicable):
  - establishing a double entry system
  - correction of errors
  - contribution of non-current assets by the owner
  - withdrawals of stock by the owner
  - bad debts;
- general ledger using T-form accounts; general journal entries, special journal totals and individual transactions from the 'Sundries' column in cash journals are posted to the general ledger at the end of the reporting period;
- control accounts for debtors, creditors and stock;
- subsidiary ledgers and schedules for debtors and creditors (individual transactions are posted to the subsidiary ledger accounts on the date the transaction occurs);
- pre-adjustment trial balance.

### *Key skills*

These skills include the ability to

- identify, classify and record financial data and information;
- use correct accounting terminology;
- demonstrate an understanding of the concepts and principles underlying the recording and presentation of accounting data and information;
- apply theoretical knowledge to simulated situations.

## AREA OF STUDY 2

### Balance day adjustments and reporting of accounting information

The preparation of financial reports at the end of the reporting period provides information for future planning and decision-making by the owner of a small business. Students are introduced to the accounting processes required at balance day and the techniques of preparing final reports for a single activity sole trader. An investigation of various aspects of the accounting system is also undertaken by students.

### Outcome 2

On completion of this unit the student should be able to record balance day adjustments, prepare financial reports and explain related aspects of the accounting system.

To achieve this outcome the student will draw on knowledge and related skills outlined in areas of study 1 and 2.

#### *Key knowledge*

This knowledge includes

- balance day adjustments:
  - depreciation (straight-line method)
  - stock loss or gain as revealed by a physical stocktake
  - prepaid expenses (asset approach, GST to be recorded at time of payment)
  - accrued expenses (GST to be recorded at time of payment);
- treatment of accrued expenses in subsequent period;
- closing entries for revenue and expenses in the general journal and in the general ledger;
- the preparation of the Profit and Loss Summary account with transfer of profit or loss to Capital account;
- transfer of Drawings to Capital account;
- post-adjustment trial balance;
- accounting reports:
  - classified Cash Flow Statement (using transaction approach)
  - classified Profit and Loss Statement (gross profit, adjusted gross profit and net profit)
  - classified Balance Sheet;
- the effect of transactions on the accounting reports and the accounting equation;
- the distinction between cash and profit.

#### *Key skills*

These skills include the ability to

- identify, classify and record financial data and information;
- use correct accounting terminology;
- demonstrate an understanding of the concepts and principles underlying the recording, reporting and presentation of accounting data and information;
- apply theoretical knowledge to simulated situations;
- prepare financial reports;
- present and communicate information in a suitable form using a variety of methods.

## ASSESSMENT

The award of satisfactory completion for a unit is based on a decision that the student has demonstrated achievement of the set of outcomes specified for the unit. This decision will be based on the teacher's assessment of the student's overall performance on assessment tasks designated for the unit. The Victorian Curriculum and Assessment Authority publishes an assessment handbook that includes advice on the assessment tasks and performance descriptors for assessment.

The key knowledge and skills listed for each outcome should be used as a guide to course design and the development of learning activities. The key knowledge and skills do not constitute a checklist and such an approach is not necessary or desirable for determining the achievement of outcomes. The elements of key knowledge and skills should not be assessed separately.

### Assessment of levels of achievement

The student's level of achievement in Unit 3 will be determined by school-assessed coursework and a mid-year examination.

#### *Contribution to final assessment*

School-assessed coursework for Unit 3 will contribute 17 per cent to the study score.

The level of achievement for Unit 3 is also assessed by a mid-year examination, which will contribute 33 per cent to the study score.

#### **School-assessed coursework**

Teachers will provide to the Victorian Curriculum and Assessment Authority a score representing an assessment of the student's level of achievement.

The score must be based on the teacher's rating of performance of each student on the tasks set out in the following table and in accordance with an assessment handbook published by the Victorian Curriculum and Assessment Authority. The assessment handbook also includes advice on the assessment tasks and performance descriptors for assessment.

Assessment tasks must be a part of the regular teaching and learning program and must not unduly add to the workload associated with that program. They must be completed mainly in class and within a limited timeframe. Where optional assessment tasks are used, teachers must ensure that they are comparable in scope and demand. Teachers should select a variety of assessment tasks for their program to reflect the key knowledge and skills being assessed and to provide for different learning styles.

Outcomes	Marks allocated*	Assessment tasks
<b>Outcome 1</b> Record financial data into appropriate accounting records using a double entry accrual-based system for a single activity sole trader, and explain related aspects of this accounting system.	50	The student's performance on each outcome should be assessed using one or more of the following tasks: <ul style="list-style-type: none"> <li>structured questions</li> <li>a folio of exercises (manual and ICT)</li> <li>a case study (manual and/or ICT)</li> <li>a test (manual and/or ICT)</li> <li>a report (written, oral or multimedia).</li> </ul>
<b>Outcome 2</b> Record balance day adjustments, prepare financial reports and explain related aspects of the accounting system.	50	At least 30 marks must be allocated to ICT-based assessment.
<b>Total marks</b>	<b>100</b>	

\*School-assessed coursework for Unit 3 contributes 17 per cent to the study score.

**Mid-year examination****Description**

All outcomes in Unit 3 will be examined.

All of the key knowledge and skills that underpin the outcomes is examinable.

Students will be required to apply the knowledge and skills of the accounting processes undertaken in Unit 3. Students will not be required to use information and communications technology (ICT) in the examination.

All questions are compulsory.

The examination will be set by a panel appointed by the Victorian Curriculum and Assessment Authority.

**Format**

The examination will consist of two questions.

Students will complete the examination using a structured answer booklet.

**Conditions**

The examination will be completed under the following conditions:

- Duration: one and a half hours.
- Date: mid-year, on a date to be published annually by the Victorian Curriculum and Assessment Authority.
- Victorian Curriculum and Assessment Authority examination rules will apply. Details of these rules are published annually in the *VCE and VCAL Administrative Handbook*.
- The examination will be marked by a panel appointed by the Victorian Curriculum and Assessment Authority.

**Contribution to final assessment**

The examination will contribute 33 per cent to the study score.

# Unit 4: Control and analysis of business performance

This unit provides an extension of the recording and reporting processes from Unit 3 and the use of financial and non-financial information in assisting management in the decision-making process. The unit covers the accrual recording and reporting system for a single activity trading business using the perpetual inventory recording system. Students learn about the role and importance of budgeting for the business and undertake the practical completion of budgets for cash, financial performance and financial position. In this unit students evaluate the information prepared and analyse the results in order to suggest strategies to the owner.

Where appropriate, the accounting procedures developed in each area of study should incorporate the application of accounting principles and the qualitative characteristics of accounting information.

## **AREA OF STUDY 1**

### **Extension of recording and reporting**

The collecting, measuring, processing and communication of accounting data and information is an important process for a sole trader. Students undertake this process using a double entry accrual-based recording and reporting system. The perpetual inventory method with First In, First Out (FIFO) will be used. This area of study allows students to build on the knowledge developed in Unit 3 of the accounting system.

### **Outcome 1**

On completion of this unit the student should be able to record and report financial data and information using a double entry accrual-based system for a single activity sole trader, and explain related aspects of this accounting system.

To achieve this outcome the student will draw on knowledge and related skills outlined in area of study 1.



### *Key knowledge*

This knowledge includes

- accounting principles:
  - entity
  - reporting period
  - monetary unit
  - conservatism
  - historical cost
  - going concern
  - consistency;
- qualitative characteristics of accounting information:
  - relevance
  - reliability
  - comparability
  - understandability;
- the accounting system as developed in Unit 3;
- source and business documents as outlined in Unit 3, plus credit notes for sales returns by trade debtors and purchase returns to trade creditors;
- returns of stock (in the general journal):
  - sales returns from trade debtors (GST to be identified)
  - purchase returns to trade creditors (GST to be identified);
- balance day adjustments:
  - prepaid revenue (liability approach)
  - accrued revenue;
- treatment of accrued revenue in subsequent period;
- stock valuation:
  - the distinction between product and period costs
  - lower of cost and net realisable value, including stock write down;
- the purchase of non-current depreciable assets on credit (using Sundry Creditor account, GST to be identified);
- disposal (for cash or trade-in) of non-current depreciable assets, recording and reporting the profit or loss on disposal (GST not applicable);
- the recording of transactions into journals (special and general), general and subsidiary ledgers and stock cards;
- the effect of transactions on the accounting equation and accounting reports.

### *Key skills*

These skills include the ability to

- identify, classify, record and analyse financial data and information;
- use correct accounting terminology;
- demonstrate understanding of the concepts and principles underlying the recording, reporting and presentation of accounting data and information;
- apply theoretical knowledge to simulated situations;
- prepare financial reports;
- present and communicate information in a suitable form using a variety of methods.

## AREA OF STUDY 2

### Financial planning and decision-making

The owner of a small business must be able to plan and control the future activities of the business. The preparation of budgeted accounting reports provides information for the owner in this decision-making process. This area of study focuses on the preparation of budgeted accounting reports by students, and the analysis of financial and non-financial information for a single activity sole trader. Students evaluate this information and suggest strategies to the owner on how to improve the performance of the business.

### Outcome 2

On completion of this unit the student should be able to prepare and analyse budgets, evaluate a business using financial and non-financial information and suggest strategies to improve the profitability and liquidity of the business.

To achieve this outcome the student will draw on knowledge and related skills outlined in areas of study 1 and 2.

#### *Key knowledge*

This knowledge includes

- budgeted accounting reports (including reconstruction of accounts):
  - Cash Flow Statement
  - Profit and Loss Statement
  - Balance Sheet;
- variance reports for cash and profit;
- measures for evaluating profitability, liquidity and efficiency:
  - indicators
  - variances
  - trends
  - benchmarks;
- the use of non-financial information;
- strategies to improve profitability and liquidity;
- strategies for the management of stock, debtors and creditors.

#### *Key skills*

These skills include the ability to

- use appropriate accounting terminology;
- demonstrate understanding of the concepts and principles underlying the recording, reporting and presentation of accounting data and information;
- apply theoretical knowledge to simulated situations;
- prepare budgeted financial reports;
- analyse and interpret financial reports and other information to evaluate a business and suggest strategies;
- communicate ideas and information using a variety of presentation methods.

## ASSESSMENT

The award of satisfactory completion for a unit is based on a decision that the student has demonstrated achievement of the set of outcomes specified for the unit. This decision will be based on the teacher's assessment of the student's overall performance on assessment tasks designated for the unit. The Victorian Curriculum and Assessment Authority publishes an assessment handbook that includes advice on the assessment tasks and performance descriptors for assessment.

The key knowledge and skills listed for each outcome should be used as a guide to course design and the development of learning activities. The key knowledge and skills do not constitute a checklist and such an approach is not necessary or desirable for determining the achievement of outcomes. The elements of key knowledge and skills should not be assessed separately.

### Assessment of levels of achievement

The student's level of achievement for Unit 4 will be determined by school-assessed coursework and an end-of-year examination.

#### *Contribution to final assessment*

School-assessed coursework for Unit 4 will contribute 17 per cent to the study score.

The level of achievement for Unit 4 is also assessed by an end-of-year examination, which will contribute 33 per cent to the study score.

### **School-assessed coursework**

Teachers will provide to the Victorian Curriculum and Assessment Authority a score representing an assessment of the student's level of achievement.

The score must be based on the teacher's rating of performance of each student on the tasks set out in the following table and in accordance with an assessment handbook published by the Victorian Curriculum and Assessment Authority. The assessment handbook also includes advice on the assessment tasks and performance descriptors for assessment.

Assessment tasks must be a part of the regular teaching and learning program and must not unduly add to the workload associated with that program. They must be completed mainly in class and within a limited timeframe. Where optional assessment tasks are used, teachers must ensure that they are comparable in scope and demand. Teachers should select a variety of assessment tasks for their program to reflect the key knowledge and skills being assessed and to provide for different learning styles.

Outcomes	Marks allocated*	Assessment tasks
<p><b>Outcome 1</b> Record and report financial data and information using a double entry accrual-based system for a single activity sole trader, and explain related aspects of this accounting system.</p>	60	<p>The student's performance on each outcome should be assessed using one or more of the following tasks:</p> <ul style="list-style-type: none"> <li>structured questions</li> <li>a folio of exercises (manual and ICT)</li> <li>a case study (manual and/or ICT)</li> <li>a test (manual and/or ICT)</li> <li>a written report.</li> </ul>
<p><b>Outcome 2</b> Prepare and analyse budgets, evaluate a business using financial and non-financial information and suggest strategies to improve the profitability and liquidity of the business.</p>	40	<p>At least 30 marks must be allocated to ICT-based assessment.</p>
<b>Total marks</b>	<b>100</b>	

\*School-assessed coursework for Unit 4 contributes 17 per cent to the study score.

**End-of-year examination****Description**

All outcomes in Unit 4 will be examined.

All of the key knowledge and skills that underpin the outcomes is examinable.

Students will be required to apply the knowledge and skills of the accounting processes undertaken in Units 3 and 4. Students will not be required to calculate ratios used for analysis in the examination. Students will not be required to use information and communications technology (ICT) in the examination.

All questions are compulsory.

The examination will be set by a panel appointed by the Victorian Curriculum and Assessment Authority.

**Format**

The examination will consist of two questions.

Students will complete the examination using a structured answer booklet.

**Conditions**

The examination will be completed under the following conditions:

- Duration: one and a half hours.
- Date: end-of-year, on a date to be published annually by the Victorian Curriculum and Assessment Authority.
- Victorian Curriculum and Assessment Authority examination rules will apply. Details of these rules are published annually in the *VCE and VCAL Administrative Handbook*.
- The examination will be marked by a panel appointed by the Victorian Curriculum and Assessment Authority.

**Contribution to final assessment**

The examination will contribute 33 per cent to the study score.

# Advice for teachers

## **DEVELOPING A COURSE**

A course outlines the nature and sequence of teaching and learning necessary for students to demonstrate achievement of the set of outcomes for a unit. The areas of study broadly describe the learning context and the knowledge required for the demonstration of each outcome. Outcomes are introduced by summary statements and are followed by the key knowledge and skills which relate to the outcomes.

Teachers must develop courses that include appropriate learning activities to enable students to develop the knowledge and skills identified in the outcome statements in each unit.

For Units 1 and 2, teachers must select assessment tasks from the list provided. Tasks should provide a variety and the mix of tasks should reflect the fact that different types of tasks suit different knowledge and skills, and different learning styles. Tasks do not have to be lengthy to make a decision about student demonstration of achievement of an outcome.

In Units 3 and 4, assessment is more structured. For some outcomes, or aspects of an outcome, the assessment tasks are prescribed. The contribution that each outcome makes to the total score for school-assessed coursework is also stipulated.

### **Unit 1**

Unit 1 deals with the establishment and operation of a service business. The recording and reporting of financial data and information uses the cash basis. The unit could be divided up into approximately 2–3 weeks for Outcome 1, 8 weeks for Outcome 2 and 5–6 weeks for Outcome 3.

Teachers can design their own course selecting a variety of assessment tasks provided in the study design to suit their students and the skills and knowledge being assessed. Accounting is theoretical and practical. Students should be able to record transactions correctly, as well as apply theory to problem solving and decision making.

### **Unit 2**

Unit 2 introduces trading businesses and credit transactions. Students are introduced to the accrual approach, using a single entry recording system for the recording and reporting of cash and credit transactions, the use of accounting software packages and using financial and non-financial information to evaluate the performance of a business.

The unit could be divided up into approximately 8 weeks for Outcome 1, 4 weeks for Outcome 2 and 4 weeks for Outcome 3.

### Units 3 and 4

Units 3 and 4 are designed to be taken as a sequence. Unit 3 focuses on financial accounting for a single activity trading business as operated by a sole trader, while Unit 4 extends the recording and reporting skills of students and focuses on decision-making processes for the sole trader.

In Unit 3 students are introduced to the double entry system of recording using the accrual basis of accounting. The perpetual method of stock recording with the First In, First Out (FIFO) method is used. The unit could be divided up into approximately 10 weeks for Outcome 1 and 6 weeks for Outcome 2.

Unit 4 provides an extension of the recording and reporting processes from Unit 3, and the use of financial and non-financial information in assisting management in the decision-making process, particularly budgeting for cash, financial performance and financial position. Students evaluate the information prepared and analyse the results in order to suggest strategies to the owner. The unit could be divided up into approximately 9 weeks for Outcome 1 and 6 weeks for Outcome 2.

### USE OF INFORMATION AND COMMUNICATIONS TECHNOLOGY

In designing courses and developing learning activities for Accounting, teachers should make use of applications of information and communications technology and learning technologies, such as computer-based learning, multimedia and the World Wide Web, where appropriate and applicable to teaching and learning activities.


### KEY COMPETENCIES AND EMPLOYABILITY SKILLS

Students undertaking the following types of assessment, in addition to demonstrating their understanding and mastery of the content of the study, typically demonstrate the following key competencies and employability skills.

Assessment task	Key competencies and employability skills
<b>Folio of exercises</b>	Planning and organisation, use of information and communications technology
<b>Test</b>	Problem-solving, planning and organisation, (written) communication
<b>Written report</b>	Planning and organisation, (written) communication, analysing information
<b>Multimedia report</b>	Use of information and communications technology self-management, planning and organisation
<b>Structured questions</b>	Problem solving, planning and organisation
<b>Classroom presentation</b>	Communication of ideas and information, use of information and communications technology, self-management
<b>Case study</b>	Planning and organisation, (written) communication, problem solving

In completing work for this study, students may also demonstrate other key competencies and employability skills, such as working with others and in teams, and using mathematical ideas and techniques.

## LEARNING ACTIVITIES

Examples of learning activities for each unit are provided in the following sections. Examples highlighted by a shaded box are explained in detail in accompanying boxes. The examples that make use of information and communications technology are identified by this icon .


### Unit 1: Establishing and operating a service business

#### AREA OF STUDY 1: Going into business


##### Outcome 1

Describe the resources and explain and apply the knowledge and skills necessary to set up a small business.

##### Examples of learning activities

 design a poster which presents the advantages and disadvantages of starting a business from scratch, buying an existing business and purchasing a franchise

prepare a report based on an interview with a small business owner covering legal structure, methods of record keeping, use of professional advisors, qualities necessary to succeed in business and future plans

 research a number of sources of finance and prepare a PowerPoint presentation which highlights the advantages and disadvantages of each type, and the best use for each type

collect and summarise a range of newspaper articles describing the success and failure rates of small businesses

invite a small business owner to speak to the class about his/her experiences

##### Detailed example

##### REPORT: INVESTIGATION OF A SMALL BUSINESS

###### Task

Students will investigate how a small business owner can increase the chances of success. They prepare a written report which focuses on the methods of record keeping, the use of professional advisors and the qualities necessary to succeed in business.

###### Outline

This investigation will be done mainly outside of class time to enable students to interview owners and collect material. The written report should be prepared during class time, based on the collected material.

###### Report

The report must be presented in an appropriate format and should include the name of the business and a brief description of the nature of the business, outlining what the business does to make a profit.

Sections of the report could include:

- the stages of the accounting information system
- the input stage – the documents used to record the transactions of the business
- the processing stage – where the details are recorded into the business records
- the output stage – the actual reports prepared by the business
- the legal structure selected by the business
- professional advisors used by the business
- plans the owner has for the future
- qualities the owner needs to be a success
- improvements the owner of the business could make to the business.

## AREA OF STUDY 2: Recording and reporting accounting data and information

### Outcome 2

Identify, record, report and explain the financial data and information for the owner of a service business, using a combination of manual and ICT methods.

### Examples of learning activities

collect a range of business documents and identify the data contained in each, explaining how it will be used in the accounting system

given a list of transactions, design appropriate documents and record the transactions



review a website and prepare an evaluation of its usefulness to small business

prepare a checklist of internal control methods a small business could use to safeguard its assets



design a flow chart which shows the path from financial transactions to financial reports



use spreadsheets to produce templates of a Cash Receipts Journal



use spreadsheets to produce templates of a Cash Payments Journal



use spreadsheets to produce templates of financial reports



complete a Business Activity Statement from data supplied



using the Internet, investigate the recording requirements of the GST and its impact on small business

### Detailed example

#### WEBSITE REVIEW

This task requires students to access a website and to evaluate its usefulness, accessibility and value to a user. Students should determine whether or not the site provides accurate and useful information in an efficient and reliable manner.

The review should include:

#### 1. Organisation/Company/Entity name

This should contain a clear and accurate indication of the organisation/company/entity that is responsible for controlling the site.

#### 2. Website rating

You are to rate the site in terms of:

- Accessibility – is the site set up in a way that a business owner looking for information can understand?

- Usefulness – does the site provide information relevant to owning and operating a small business?
- Ease of use – how easily can you move around the site to gain information the owner needs?
- Reliability – do you consider the information contained on the site to be reliable and informed?

#### 3. Rating

Give the website a rating between 5 and 1 stars as an indication of how useful you think it will be to small business owners.

To obtain 5 stars it must be an excellent site that will help a user gain reliable and informed knowledge. It gives easy access to information, can be easily negotiated and has an interesting and user friendly

continued



**Detailed example (continued)**

To be only given 1 star means the site only meets a few of the criteria and has information that may not add to the knowledge or understanding of the user.

**4. Website overview**

This part of the evaluation requires you to write up a brief overview of the material that is presented and accessible on the site. You should have spent some time moving around the site before attempting to complete this overview. This overview should give the reader a broad picture of the type of information they should expect to find if they access the site.

**5. Specific highlights/useful information**

For this section of the overview you are to include points of interest and highlights that you think the small business owner may gain from the site. These could include:

- references to other sources that should be accessed for further information
- useful statistical information
- how the site presents information that might assist in decision making.

**6. Useful links contained within the site**

This section should identify links to other sites or references to other organisations that are included in this site.

It is anticipated that you will spend between 40 and 60 minutes using the site before you attempt to complete the Website Review.

**AREA OF STUDY 3: Financial decision-making****Outcome 3**

Apply accounting skills to evaluate financial and non-financial information in order to make informed decisions for a small business.

**Examples of learning activities**

prepare a list of price setting methods

outline the process required for preparing quotes



design a spreadsheet to undertake cost, volume, profit analysis, linked to charts and graphs which display the results

prepare a list of items which would be included AND excluded from a Cash Budget



working in small groups, prepare a report which compares the various types of investment and superannuation available to a small business owner

undertake a case study of a small business involving cost, volume, profit analysis

**Detailed example****CASE STUDY: PRICE SETTING STRATEGIES****Background Information**

Peta Plumber is considering starting her own business installing water tanks. Her preliminary investigations have revealed the following:

- It would be reasonable to charge \$800 for the installation of a water tank.
- It will cost Peta around \$200 for each water tank, plus another \$50 for the pipes and fittings necessary to complete the installation.
- Public liability insurance will cost approximately \$1200 for the year.
- Peta will use newspaper advertisements at a cost of \$4500 per year.
- She will need a van and feels it will be best to lease one at an annual cost of \$8,000.
- The average travelling expense for each installation is likely to be around \$35.
- Peta will need to have some type of workshop/storage area and has discovered a person willing to let her use a large garage area for an annual rent of \$6,000.
- Other fixed costs are likely to total around \$9,000 for the year.

**Required**

1. Calculate the variable cost per water tank and total fixed costs for the year.
2. Calculate the number of water tanks Peta will need to install if she is to break-even over the year.

3. Calculate the number of water tanks Peta will need to install if she requires a profit of \$50,000 per year.

4. (a) On the basis of the initial information given, how much profit would Peta make in the first year if she was able to install 300 water tanks?

- (b) Based on this profit projection, would you advise Peta to start the business?

List three factors you would consider in reaching a conclusion.

5. Assume Peta is trying to think of ways to increase the number of clients she could attract. Two possibilities are:

- (a) to enlarge her service area by being prepared to travel twice the present distance to install a water tank (in this case you should assume her travelling expenses increase from \$35 to an average of \$60 per water tank).

OR

- (b) to engage in more aggressive marketing by increasing her advertising commitment to \$9,000 for the year.

Show how each of the alternatives affect the number of installations Peta would need to do in order to break-even. What other factors should be considered when deciding which is the most appropriate alternative?

## Unit 2: Accounting for a trading business

### AREA OF STUDY 1: Recording and reporting data and information

#### Outcome 1

Record and report financial data and information for a sole trader.

#### Examples of learning activities

collect a range of business documents and identify the data each contains, explaining how it will be used in the accounting system


given a list of transactions, design appropriate documents and record the transactions


prepare a list of strategies to minimise stock losses


prepare a poster which explains the difference between cash and profit

 design stock records using a spreadsheet

create a glossary of appropriate accounting terms

 use spreadsheets to produce a template for a Cash Flow Statement

 use spreadsheets to produce a template for a Profit and Loss Statement

 use spreadsheets to produce a template for a Balance Sheet

#### Detailed example

##### DOCUMENT COLLECTION AND DESIGN

Students collect a variety of documents used by a range of small trading businesses. The collection could include a number of the following:

Receipts, Sales and Purchases Invoices, Credit Notes, Cheque Butts, Delivery Dockets, EFTPOS slips, Cash Register slips, Bank Statements, Credit Card Vouchers, Petty Cash Vouchers and Memos.

Student can also design their own documents.

The documents will be presented in a folio with the following information given for each document:

- Name of the document.
- Date of the transaction.
- The recipient of the original document.
- Amount of the transaction.
- The document number.
- The recipient of the duplicate of the document.
- Description of the transaction which has occurred.
- The name of the journal in which the 'Issuer' would record this document.
- The name of the journal in which the 'Receiver' would record this document.
- An improvement to the design of this document.

## AREA OF STUDY 2: ICT in accounting

### Outcome 2

Record and report financial data and information using an accounting software package for a single activity sole trader, and explain and evaluate the role of ICT in the accounting process.

### Examples of learning activities



prepare a PowerPoint presentation explaining the advantages and disadvantages of using an accounting software package compared to a manual recording and reporting system



prepare a suitable Chart of Accounts using an accounting package from a list of transactions



using an accounting package, edit the financial reports of a small business which have been incorrectly classified



record financial transactions using an accounting software package

### Detailed example

#### RECORD FINANCIAL TRANSACTIONS FOR A BUSINESS USING AN ACCOUNTING SOFTWARE PACKAGE

Students may be required to set up a new business from scratch or could be given a file with an existing business with a Chart of Accounts.

Students will be given 20 appropriate transactions from a list and/or original documents (including an adjustment for stock loss or gain) to record. The transactions will be recorded using an accounting software package and reports prepared.

1. Design or edit the Chart of Accounts.

2. Enter opening balances as required.

3. Record the transactions using document templates as provided by the accounting software package.

4. Adjust the stock on hand.

5. Prepare a Cash Flow Statement.

6. Prepare a Profit and Loss Statement.

7. Prepare a Balance Sheet.

### AREA OF STUDY 3: Evaluation of business performance

#### Outcome 3

Select and use financial and non-financial information to evaluate a business and suggest strategies that will improve business performance.

#### Examples of learning activities



analyse the performance of a business over a two-year period and prepare a report suggesting strategies to improve the business performance

complete a series of exercises which use financial and non-financial information to evaluate business performance

prepare a checklist of non-financial data and/or information which is relevant to the evaluation of business performance

#### Detailed example

##### EVALUATION OF A BUSINESS PERFORMANCE

Using financial reports and graphs, prepare a report for a small business covering the following areas: Profitability and Liquidity.

For each area, comment on significant trends and identify factors which may explain the reasons for such trends.

In each area, suggest at least two pieces of non-financial information that would assist in preparing your report.

Offer advice to the owner on strategies to improve the profitability and liquidity of the business.

## Unit 3: Recording and reporting for a trading business

### AREA OF STUDY 1: Recording of financial data

#### Outcome 1

Record financial data into appropriate accounting records using a double entry accrual-based system for a single activity sole trader, and explain related aspects of this accounting system.

#### Examples of learning activities

record transactions manually into journals and ledgers



prepare financial reports using Excel templates



prepare a chart which tracks the accounting system from transactions to reports including subsidiary records

develop a checklist for accounting terms used in the double entry recording system

prepare a ledger template poster for Debtors' Control, Creditors' Control and Stock Control



design a poster showing the links between Accounting Principles and Qualitative Characteristics

#### Detailed example

##### LINKS BETWEEN ACCOUNTING PRINCIPLES AND QUALITATIVE CHARACTERISTICS

Design a poster showing the links between:

##### Accounting Principles

- entity
- reporting period
- monetary unit
- conservatism
- historical cost
- going concern
- consistency

##### Qualitative Characteristics

- relevance
- reliability
- comparability
- understandability


**AND**


## AREA OF STUDY 2: Balance day adjustments and reporting of accounting information

### Outcome 2

Record balance day adjustments, prepare financial reports and explain related aspects of the accounting system.

### Examples of learning activities

 display the information contained in financial reports using a variety of methods including pie charts, histograms and line graphs

 undertake a case study that records balance day adjustments

preparation of a table showing the effect each balance day adjustment has on the financial reports

### Detailed example

#### TABLE FOR BALANCE DAY ADJUSTMENTS

Prepare a table showing the effect each of the balance day adjustments listed below has on financial reports.

Financial reports:

- Profit and Loss Statements
- Balance Sheet

Balance day adjustments:

- depreciation (straight-line method)
- stock loss
- stock gain
- pre-paid expenses (asset approach)
- accrued expenses.

The column headings of the table should include:

- Adjustment
- Definition
- General Journal Entry
- Effect of Adjustment on Profit and Loss Statement
- Effect of Adjustment on Balance Sheet
- Effect on Profit and Loss Statement if adjustment is NOT recorded
- Effect on Balance Sheet if adjustment is NOT recorded.

## Unit 4: Control and analysis of business performance

### AREA OF STUDY 1: Extension of recording and reporting

#### Outcome 1

Record and report financial data and information using a double entry accrual-based system for a single activity sole trader, and explain related aspects of this accounting system.

#### Examples of learning activities

collect and design accounting documents including credit notes for sales returns by trade debtors and purchase returns to trade creditors

record a range of transactions manually using a double entry accrual-based accounting system



design a flow chart to show the decision-making process to record an item as either a product or period cost

undertake a case study that incorporates the use of the general journal, special journals, control accounts, returns of stock, balance day adjustments, stock valuations and the purchase and disposal of non-current depreciable assets

#### Detailed example

##### CASE STUDY

Record and report 20 transactions (using the double entry accrual-based system for a single activity business). This task is to be completed manually.

The task should be divided into two sections:

Part 1: The recording of the transactions (including Balance Day Adjustments) in Special and General Journals, General and Subsidiary Ledgers and Stock Cards using First In, First Out (FIFO) and preparation of a Trial Balance.

Part 2: The preparation of financial reports from an Adjusted Trial Balance.

Part 1: Transactions could cover:

- the use of the general journal
  - establishing a double entry system
  - contribution/drawings of non-current assets by the owner
  - bad debts;
- special journals
  - sales
  - purchases
  - cash receipts (with discount expense)
  - cash payments (with discount revenue);
- control accounts for debtors, creditors and stock;

- returns of stock
  - sales returns from trade debtors
  - purchase returns to trade creditors;
- balance day adjustments
  - depreciation (straight-line method)
  - stock loss or gain as revealed by a physical stocktake
  - prepaid expenses (asset approach)
  - accrued expenses
  - prepaid revenue (liability approach)
  - accrued revenue;
- stock valuation
  - using product and/or period costs
  - stock write down;
- the purchase of non-current depreciable assets on credit;
- disposal of non-current depreciable assets, for cash or trade-in.

Part 2: Prepare the financial reports:

- Cash Flow Statement
- Profit and Loss Statement
- Balance Sheet



## AREA OF STUDY 2: Financial planning and decision-making

### Outcome 2

Prepare and analyse budgets, evaluate a business using financial and non-financial information and suggest strategies to improve the profitability and liquidity of the business.

### Examples of learning activities



design a poster/PowerPoint demonstration showing the links between financial reports

prepare a table of items with categories to highlight the distinction between Cash (Inflows and Outflows), Profit (Revenue and Expenses) or both

prepare a diagram to illustrate relationships between key accounting terms



present financial reports in a variety of ways



prepare charts and graphs from financial reports

give advice based on charts and graphs prepared from financial reports

### Detailed example

#### ILLUSTRATING RELATIONSHIPS

Using the following key accounting terms, prepare a diagram to display their relationships:

- Return on Owner's Investment
- Return on Assets
- Net Profit Ratio
- Gross Profit Ratio
- Variance
- Debtors' Turnover
- Stock Turnover
- Asset Turnover
- Creditors' Turnover
- Benchmarks
- Trends
- Working Capital Ratio
- Quick Asset Ratio
- Cash Flow Indicator
- Interest Cover
- Non-financial Information
- Profitability
- Liquidity
- Efficiency
- Strategies for improvement
- Budgeting
- Cash Flow Statement
- Profit and Loss Statement
- Balance Sheet

## SCHOOL-ASSESSED COURSEWORK

In Units 3 and 4 teachers must select appropriate tasks from the assessment table provided for each unit. Advice on the assessment tasks and performance descriptors to assist teachers in designing and marking assessment tasks will be published by the Victorian Curriculum and Assessment Authority in an assessment handbook. The following is an example of a teacher's assessment program using a selection of the tasks from the Units 3 and 4 assessment tables.

Outcomes	Marks allocated	Assessment tasks
<b>Unit 3</b>		
<b>Outcome 1</b> Record financial data into appropriate accounting records using a double entry accrual-based system for a single activity sole trader, and explain related aspects of this accounting system.	50	Folio of exercises (manual and ICT) focusing on the recording and reporting of financial data and theory aspects of the accounting system.
<b>Outcome 2</b> Record balance day adjustments, prepare financial reports and explain related aspects of the accounting system.	50	A case study requiring the recording of balance day adjustments and the preparation of financial reports.
<b>Total marks for Unit 3</b>	<b>100*</b>	
<b>Unit 4</b>		
<b>Outcome 1</b> Record and report financial data and information using a double entry accrual-based system for a single activity sole trader, and explain related aspects of this accounting system.	60	Folio of exercises (manual and ICT) focusing on the recording and reporting of financial data and information and theory aspects of the accounting system.
<b>Outcome 2</b> Prepare and analyse budgets, evaluate a business using financial and non-financial information and suggest strategies to improve the profitability and liquidity of the business.	40	A case study requiring the preparation and analysis of budgets.  <b>AND</b> Structured questions, using financial reports, graphs and non-financial information to evaluate the business's performance and offering advice to the owner on strategies to improve the profitability and liquidity of the business.
<b>Total marks for Unit 4</b>	<b>100*</b>	

\*At least 30 marks are allocated to ICT-based assessment.

## ACCOUNTING STANDARDS

The accounting standards are a set of rules that govern the way in which financial reports are prepared so that different financial reports are comparable. Historically, they have been drawn up on a national basis at an individual country level; however, with the increasing globalisation of business there is a need to make financial reports comparable across national boundaries and this was the driving force behind Australia adopting international accounting standards in 2005.

### Accounting principles

#### **Entity**

The business must be a separate accounting entity from its owner and from other entities. It is important to identify for whom we are preparing financial reports. A common illustration of the entity principle is seen in the way in which the business will have separate records from the owner.

#### **Reporting period**

The ongoing life of a business is broken into regular intervals of time for the preparation of financial reports.

#### **Monetary unit**

In order to record financial events and understand the meaning of reported information it is necessary to use a common unit of measurement. Australian businesses use Australian dollars as this measure.

#### **Conservatism**

It is acknowledged that gains will not be recognised until earned and losses will be recognised as soon as they are likely to occur.

#### **Historical cost**

All transactions are recorded at their original value. Therefore, items are shown in the accounting records at their historical (original) price.

#### **Going concern**

It is assumed that the business will be ongoing, i.e. the business will have an indefinite life. The purpose of this rule is so that a distinction can be made between assets, which will provide benefit to future reporting periods, and expenses that are totally consumed within one reporting period.

#### **Consistency**

The accounting methods used by the business should be applied consistently from one reporting period to another.

### Qualitative characteristics of accounting information

*The Framework for the Preparation and Presentation of Financial Statements* (AASB Framework), which is the Australian equivalent to the IASB Conceptual Framework, provides guidance as to the attributes that make information provided in financial reports useful to users.

#### **Understandability**

An essential quality of the information provided in financial reports is that it is readily understandable by users. For this purpose, users are assumed to have a reasonable knowledge of business, economic activities and accounting, and a willingness to study the information with reasonable diligence. However, information about complex matters should be included in the financial report because of its relevance to the economic decision-making needs of users, and should not be excluded merely on the grounds that it may be too difficult for certain users to understand. (AASB Framework, para. 25)

### **Relevance**

To be useful, information must be relevant to the decision-making needs of users. Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluation. (AASB Framework, para. 26)

The relevance of information is affected by its nature and materiality. In some cases, the nature of information alone is sufficient to determine its relevance. For example, the reporting of a new segment may affect the assessment of the risks and opportunities facing the entity irrespective of the materiality of the results achieved by the new segment in the reporting period. In other cases, both the nature and materiality are important; for example, the amounts of inventories held in each of the main categories that are appropriate to the business. (AASB Framework, para. 29)

Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial report. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful. (AASB Framework, para. 30)

### **Reliability**

The AASB Framework includes the following under the qualitative characteristics of reliability:

- Faithful representation
- Substance over form
- Neutrality
- Prudence
- Completeness.

To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to **represent faithfully** that which it either purports to represent or could reasonably be expected to represent. (AASB Framework, para. 31)

If information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their **substance and economic reality and not merely their legal form** ... (AASB Framework, para. 35)

To be reliable, the information contained in financial reports must be **neutral**, that is, free from bias. Financial reports are not neutral if, by the selection or presentation of information, they influence the making of a decision or judgement in order to achieve a predetermined result or outcome. (AASB Framework, para. 36)

The preparers of financial reports do, however, have to contend with the uncertainties that inevitably surround many events and circumstances, such as the collectability of doubtful receivables, the probable useful life of plant and equipment and the number of warranty claims that may occur. Such uncertainties are recognised by the disclosure of their nature and extent and by the exercise of prudence in the preparation of the financial report. **Prudence** is the inclusion of a caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated ... (AASB Framework, para. 37)

To be reliable, the information in financial reports must be complete within the bounds of materiality and cost. An omission can cause information to be false or misleading and thus unreliable and deficient in terms of its relevance.

### **Comparability**

Users must be able to compare the financial reports of an entity through time in order to identify trends in its financial position and performance. Users must also be able to compare the financial reports of different entities in order to evaluate their relative financial position, financial performance and cash flows. Hence, the measurement and display of the financial effect of like transactions and other events must be carried out in a consistent way throughout an entity and over time and in a consistent way for different entities.

### **Assets, Liabilities, Equity, Revenue and Expenses**

*The Framework for the Preparation and Presentation of Financial Statements* (AASB Framework) provides guidance as to the definition of the elements of financial statements.

#### **Assets**

An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity. (AASB Framework, para. 49)

#### **Liabilities**

A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. (AASB Framework, para. 49)

#### **Equity**

Equity is the residual interest in the assets of the entity after deducting all its liabilities. (AASB Framework, para. 49)

i.e.  $OE = A - L$ . This is the accounting equation from which we develop our accounting system. Because equity is seen as what is left of the assets after deducting what is owed to outsiders (liabilities), the equation must always balance.

#### **Revenue**

Revenue arises in the course of the ordinary activities of an entity and is referred to by a variety of different names including sales, fees, interest, dividends, royalties and rent. (AASB Framework, para. 74)

For the purposes of this study, revenue is inflows of economic benefits or savings in outflows in the form of increases in assets or decreases in liabilities that lead to an increase in owner's equity, except capital contribution.

#### **Expenses**

Expenses are recognised in the income statement when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. This means, in effect, that recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets. Expenses are outflows of economic benefits or reductions in inflows in the form of decreases in assets or increases in liabilities that lead to a decrease in owner's equity, except drawings. (AASB Framework, para. 95)

For the purposes of this study, the terms 'Profit and Loss Statement', 'Profit and Loss Summary Account' and 'Balance Sheet' will be used.

## TEMPLATES FOR JOURNALS AND LEDGERS

### Units 3 and 4

#### Purchases Journal

Date	Creditor	Invoice Number	Stock	GST	Total Creditors
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#### Sales Journal

Date	Debtor	Invoice Number	Cost of Sales	Sales	GST	Total Debtors
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#### Cash Receipts Journal

Date	Details	Rec. Number	Bank	Disc. Exp.	Debtors	Cost of Sales	Sales	*	GST	Sundries
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#### Cash Payments Journal

Date	Details	Cheque Number	Bank	Disc. Rev.	Creditors	Stock	*	*	GST	Sundries
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\*Headings to be based on scenario

#### General Journal

		General Ledger		Subsidiary Ledger	
Date	Particulars	Debit	Credit	Debit	Credit

## DISPOSAL OF NON-CURRENT ASSETS

Disposal (for cash or trade-in) of non-current depreciable assets, recording and reporting the profit or loss on disposal.

A non-current asset will be disposed of at the end of its useful life. A situation of under depreciation or over depreciation may occur because the time period for which the asset is used may be longer or shorter than the life used to determine the depreciation. This situation can also occur when the asset has become obsolete, outdated, or no longer required.

When the asset is sold if the proceeds are greater than the book value (carrying amount), a profit on disposal occurs. If the proceeds are less than the book value, a loss on disposal occurs. A temporary account is created to determine the profit or loss on disposal.

To determine profit or loss on disposal the following items are taken into consideration:

1. cost price of asset sold
2. accumulated depreciation of the asset at time of disposal
3. proceeds from the disposal

*Example 1:*

Assume equipment was purchased for \$22 000 and accumulated depreciation at the time of disposal was \$15 000. The equipment was traded-in for \$4 000 to Machine Works.

The following general journal entries would take place:

**General Journal**

Date	Particulars	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
June 30	Disposal of equipment Equipment	22 000			
			22 000		
	Accumulated depreciation of equipment Disposal of equipment	15 000			
			15 000		
	Sundry creditor Machine Works Disposal of equipment	4 000			
			4 000		
	Loss on disposal of equipment Disposal of equipment	3 000			
			3 000		

The journal entries are posted to the ledger as follows:

**Equipment**

Date	Cross Reference	\$	Date	Cross Reference	\$
June 30	Balance	22 000	June 30	Disposal of equipment	22 000

**Accumulated depreciation of equipment**

Date	Cross Reference	\$	Date	Cross Reference	\$
June 30	Disposal of equipment	15 000	June 30	Balance	15 000

**Disposal of equipment**

Date	Cross Reference	\$	Date	Cross Reference	\$
June 30	Equipment	22 000	June 30	Acc. dep. of equipment	15 000
				Sundry creditor Machine Works	4 000
				Loss on disposal of equipment	3 000
		22 000			22 000

## Loss on disposal of equipment

Date	Cross Reference	\$	Date	Cross Reference	\$
June 30	Disposal of equipment	3 000			

## Example 2:

Assume equipment was purchased for \$22 000 and accumulated depreciation to date of \$15 000. The equipment was sold for \$8 000 cash to Machine Works.

The following journal entries would take place:

## Cash Receipts Journal

Date	Details	Rec. no.	Bank	Disc. exp	Debtors	Cost of sales	Sales	GST	Sundries
June 30	Machine Works	456	8 000						8 000

## General Journal

Date	Particulars	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
June 30	Disposal of equipment Equipment	22 000			
			22 000		
	Accumulated depreciation of equipment Disposal of equipment	15 000			
			15 000		
	Disposal of equipment Profit on disposal of equipment	1 000			
			1 000		

The journal entries are posted to the ledger as follows:

## Equipment

Date	Cross Reference	\$	Date	Cross Reference	\$
June 30	Balance	22 000	June 30	Disposal of equipment	22 000

## Accumulated depreciation of equipment

Date	Cross Reference	\$	Date	Cross Reference	\$
June 30	Disposal of equipment	15 000	June 30	Balance	15 000



## Disposal of equipment

Date	Cross Reference	\$	Date	Cross Reference	\$
June 30	Equipment	22 000	June 30	Acc. dep. of equipment	15 000
	Profit on disposal of equipment	1 000		Bank	8 000
		23 000			23 000

## Profit on disposal of equipment

Date	Cross Reference	\$	Date	Cross Reference	\$
			June 30	Disposal of equipment	1 000

## RECORDING THE GOODS AND SERVICES TAX

Purchases Journal					
Date	Creditor	Invoice no.	Stock	GST	Total Creditors
2006					
July 5	Sam Supplier	7 218	4 000	400	4 400
20	Terri Trader	9 274	4 900	490	5 390
			8 900	890	9 790

Sales Journal						
Date	Debtor	Invoice no.	Cost of sales	Sales	GST	Total Debtors
July 13	B King	36	4 000	8 200	820	9 020
16	Clare Cloze	37	2 100	4 700	470	5 170
29	B King	38	1 800	4 000	400	4 400
			7 900	16 900	1 690	18 590

Cash Receipts Journal										
Date	Details	Rec. no.	Bank	Disc. exp.	Debtors	Cost of sales	Sales	Commission Revenue	GST	Sundries
July 2	Commission Rev. Accrued Comm. Revenue	72	1 320					500	120	700
7	Loan	73	60 000							60 000
10	ATO	74	980							980
13	Prepaid Revenue	75	2 200						200	2 000
15	Sales	76	3 740			1 000	3 400		340	
23	B. King	77	8 930	90	9 020					
26	Clare	78	2 940	30	2 970					
31	Sales	79	2 145			800	1 950		195	
			82 255	120	11 990	1 800	5 350	500	855	63 680

Cash Payments Journal										
Date	Details	Chq. no.	Bank	Discount Revenue	Creditors	Stock	Wages	Cleaning Expenses	GST	Sundries
July 6	Cleaning Exp. Accrued Cleaning Expense	81	440					300	40	100
9	Prepaid insurance	82	792						72	720
12	Stock control	83	5 500			5 000			500	
15	Sam Supplier	84	3 450	70	3 520					
16	Wages	85	2 650				2 650			
25	Cleaning expense	86	242					220	22	
29	Terri Trader	87	5 336	54	5 390					
31	Wages	88	2 850				2 850			
31	Office equipment	89	330						30	300
			21 590	124	8 910	5 000	5 500	520	664	1 120

General Journal					
		General Ledger		Subsidiary Ledger	
Date	Particulars	Debit	Credit	Debit	Credit
July 9	Creditors' control Stock control GST clearing Creditor – Sam Supplier Returned goods, credit note #164	880	800 80	880	
23	Sales returns GST clearing Debtors control Debtor – Clare Cloze Stock Control Cost of Sales Return of goods sold. Issued c/n 133	2 000 200 900	2 200 900		2 200

## GST Clearing Account

Date	Cross Reference	\$	Date	Cross Reference	\$
July 1	Balance	980	July 31	Debtors' control	1 690
July 31	Bank	664		Bank	855
	Creditors' control	890		Bank	980
	Debtors' control	200		Creditors' control	80
	Balance	871			
		3 605			3 605

### Evaluation of performance indicators

Students are expected to know how indicators are calculated. Students will not be required to make the calculations in the examinations.

INDICATOR	CALCULATION	EXPRESSED AS
<b>Profitability</b>		
Return on Owner's Investment	$\frac{\text{Net Profit}}{\text{Average Capital}}$	percentage
Return on Assets	$\frac{\text{Net Profit}}{\text{Average Total Assets}}$	percentage
Net Profit	$\frac{\text{Net Profit}}{\text{Sales}}$	percentage
Gross Profit	$\frac{\text{Gross Profit}}{\text{Sales}}$	percentage
<b>Efficiency</b>		
Debtors' Turnover	$\frac{\text{Average Debtors} \times 365}{\text{Credit Sales}}$	number of days
Stock Turnover	$\frac{\text{Average Stock} \times 365}{\text{Cost of Goods Sold}}$	number of days
Asset Turnover	$\frac{\text{Sales}}{\text{Average Total Asset}}$	times per period
Creditors' Turnover	$\frac{\text{Average Creditors} \times 365}{\text{Credit Purchases}}$	number of days
<b>Liquidity</b>		
Working Capital	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	ratio current assets:1
Quick Asset	$\frac{\text{Current Assets} - (\text{Stock} + \text{Prepayments})}{\text{Current Liabilities} - \text{Bank Overdraft}}$	ratio quick assets:1
Cash Flow	$\frac{\text{Net Cash Flow from Operating Activities}}{\text{Average Current Liabilities}}$	times per period
Interest Cover	$\frac{\text{Net Cash Flow from Operating Activities (before interest)}}{\text{Interest}}$	times per period

### Returns of stock

If goods are returned to a supplier, the actual cost price of the goods being returned must be recorded. This is because the amount owing to a creditor will be reduced by what the supplier charged the business.

### Purchases returns

The double entry for purchases returns is:

Debit: Creditors' Control and Subsidiary Account

Credit: Stock Control

Credit: GST Clearing Account

In a stock card, it is important to ensure that the correct cost price is recorded when a return to a supplier occurs. For example, in the stock card below on 7 October the balance was 100 units @ \$50 and 50 units @ \$51. If 20 items with a cost of \$51 were returned to a supplier on 13 October, the stock card would be adjusted as follows (Credit Note #662).

The Out column is used to record the return because goods have left the business and have been returned to the supplier. The end result is that the total of the stock on hand has been reduced and the balance has been adjusted accordingly.

### Stock card

**Product:** DVD Player

**Code no:** DVDP X1228

**Recording method:** FIFO

Date	Details	In			Out			Balance		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
Oct 1	Balance							100	50	5 000
7	Invoice X207	50	51	2 550				100 50	50 51	5 000 2 550
11	Invoice 20-296				70	50	2 450	30 50	50 51	1 500 2 550
13	Credit Note #662				20	51	1 020	30 30	50 51	1 500 1 530
14	Invoice 20-297				30 10	50 51	1 500 510	20	51	1 020

### Sales returns

The FIFO assumption is applied to all goods sold. It allocates the older prices first to the goods that have been sold, with the most recent prices remaining in stock. When a customer returns a sale to the business, these goods must be returned to the stock card as they are again part of stock on hand. As FIFO is applied to all sales when they are sold, the process is simply reversed if a return occurs.

The double entry for sales returns is:

Debit: Sales Returns

Debit: GST Clearing Account

Credit: Debtors' Control and Subsidiary Account

Debit: Stock Control

Credit: Cost of Sales

If on October 19, 15 units were returned, simply work back through the stock card. That is, start at the most recent prices until they are all returned and then move back to the previous price used. Make sure the business does not have more units at a particular cost price than that stated previously in the stock card.

## Stock card

**Product:** DVD Player

**Code no:** DVDP X1228

**Recording method:** FIFO

Date	Details	In			Out			Balance		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
Oct 1	Balance							100	50	5 000
7	Invoice X207	50	51	2 550				100 50	50 51	5 000 2 550
11	Invoice 20-296				70	50	2 450	30 50	50 51	1 500 2 550
13	Credit Note #662				20	51	1 020	30 30	50 51	1 500 1 530
14	Invoice 20-297				30 10	50 51	1 500 510	20	51	1 020
19	Credit Note #411	5 10	50 51	250 510				5 30	50 51	250 2 550
31	Memo #29				2	50	100	3 50	50 51	150 2 550

### Product costs

Including a particular expense in the calculation of the unit cost (of an individual item) of stock requires that the cost fit the definition of a 'product cost'.

Product cost: a cost incurred in order to bring stock into a condition and location ready for sale, which can be allocated to individual units of stock on a logical basis.

The distinction between period and product costs rests primarily on the existence of a logical basis for allocation; if a cost can be allocated among individual units, it should be treated as a product cost.

Product costs are not recorded separately in the ledger, but rather as increases to the unit cost of stock as recorded in the stock cards. Consequently, they are recognised as being incurred only in the period in which stock is sold, and reported as part of the 'Cost of sales' figure.

### Period costs

Period costs: a cost (other than the supplier's price) incurred in order to bring stock into a condition and location ready for sale, that is not allocated to individual units of stock because there is no logical basis to do so.

Period costs are recorded separately in the ledger and reported under the heading 'cost of goods sold' in the Profit and Loss Statement. They are recognised as being incurred in the period in which the stock is purchased, regardless of whether stock is sold or not.

## SUITABLE RESOURCES

Courses must be developed within the framework of the study design: the areas of study, outcome statements, and key knowledge and skills.

Some of the print resources listed in this section may be out of print. They have been included because they may still be available from libraries, bookshops and private collections.

At the time of publication the URLs (website addresses) cited were checked for accuracy and appropriateness of content. However, due to the transient nature of material placed on the web, their continuing accuracy cannot be verified. Teachers are strongly advised to prepare their own indexes of sites that are suitable and applicable to the courses they teach, and to check these addresses prior to allowing student access.

## BOOKS

### Units 1 and 2

Box, N 2002, *VCE Accounting Units 1 and 2*, 3rd edn, Macmillan Education, Melbourne (includes student CD-ROM and solutions manual).

Brooks, A & Collings, S 2002, *Accounting for Small Business*, 4th edn, Macmillan Education, Melbourne (includes textbook and teacher CD-ROM).

CPA Australia 2005, *Accounting Handbook 2005*, Vol. 1, Pearson Education Australia, Melbourne, Australia.

Doyle, C & Page, D 2002, *Profit*, 4th edn, A+ Publishing, Melbourne (includes book and teacher manual).

Steer, R 2003, *Accounting Study Guides*, Copytopics, Melbourne (includes a photocopy of the study guides).

### Units 3 and 4

Canty, K & R 2004, *Quality Assessment Tasks – Units 3 and 4*, Warrigal Publications, Melbourne.

Canty, R 2003, *Double Entry for Trading Businesses Unit 3*, Warrigal Publications, Melbourne.

Canty, R 2003, *Planning, Control and Decision Making Unit 4*, Warrigal Publications, Melbourne.

CPA Australia 2005, *Accounting Handbook 2005*, Vol. 1, Pearson Education Australia, Melbourne, Australia.

Doyle, C & Page, D 2002, *Computerbooks Using QuickBooks Quick Books Pro*, 2nd edn, A+ Publishing, Melbourne.

Doyle, C & Page, D 2002, *Double Profit*, 3rd edn, A+ Publishing, Melbourne (includes book and teacher manual).

Doyle, C & Page, D 2003, *A+ Practice Exams, Accounting Exam 1*, A+ Publishing, Melbourne.

Doyle, C & Page, D 2003, *A+ Practice Exams, Accounting Exam 2*, A+ Publishing, Melbourne.

Doyle, C & Page, D 2003, *Budgetbooks*, A+ Publishing, Melbourne.

Hutton, P, Wigg, R & Champion, P 2002, *Accounting Essentials-VCE Units 3 and 4*, Macmillan Education, Melbourne (includes textbook and teacher CD-ROM).

King, K 2002, *VCE Study Pack Accounting Unit 3*, 2nd edn, John Wiley and Sons, Melbourne.

King, K 2002, *VCE Study Pack Accounting Unit 4*, 2nd edn, John Wiley and Sons, Melbourne.

Steer, R 2003, *Accounting Study Guides*, Copytopics, Melbourne (includes a photocopy of the study guides).

## JOURNALS, NEWSPAPERS AND PERIODICALS

*Australian CPA*  
(previously known as The Australian Accountant)

*Australian Financial Review*

*Business Review Weekly*

*Charter*  
magazine for Australian CAs

*Compak Journal*  
Victorian Commercial Teachers Association (contains teacher professional development articles as well as student activities and exercises).

*Herald-Sun*  
(Monday supplement)

*National Accountant Journal*  
official journal of the National Institute of Accountants

*Personal Investor*

*The Age*  
(Monday Money supplement)

*The Australian*

## WEBSITES

Australian Credit Unions  
[www.cu.net.au](http://www.cu.net.au)  
Resources for Units 1 and 2 on superannuation, investment and small business.

Australian Stock Exchange Ltd  
[www.asx.com.au](http://www.asx.com.au)  
Resources for Units 1 and 2 on superannuation, investment and small business.

Australian Tax Office  
[www.taxreform.ato.gov.au](http://www.taxreform.ato.gov.au)  
 Resources for Units 1 and 2 on superannuation, investment and small business.

Business Access (Victorian Government)  
[www.businessaccess.vic.gov.au](http://www.businessaccess.vic.gov.au)  
 Resources for Units 1 and 2 on superannuation, investment and small business.

Commonwealth Bank  
[www.commbank.com.au](http://www.commbank.com.au)  
 Resources for Units 1 and 2 on superannuation, investment and small business.

ComNET – website of the Victorian Commercial Teachers Association  
[www.vcta.asn.au](http://www.vcta.asn.au)  
 Contains teacher professional development materials, as well as student activities and exercises.

CPA Australia  
[www.cpaaustralia.com.au](http://www.cpaaustralia.com.au)  
 Contains information on current issues concerning finance, accounting and business, including a section for secondary students.

Media Australia  
[www.mediaust.com.au](http://www.mediaust.com.au)  
 An extensive range of videos on accounting and small business topics.

Film Australia  
[www.filmaust.com.au](http://www.filmaust.com.au)  
 An extensive range of videos on small business topics.

Firstar Corporation – Escape from Knab  
[www.escapefromknab.com](http://www.escapefromknab.com)  
 Interactive game for budgeting, decision making, sources of finance.

KJE Computer Solutions LLC  
[www.dinkytown.net/java](http://www.dinkytown.net/java)  
 Financial calculations of all types, including loan and interest calculations, Breakeven, cost/volume/profit, retirement planners, compound interest exercises, financial assessment ratios.

Mind Your Own Business Ltd (MYOB)  
[www.myob.com.au](http://www.myob.com.au)  
 Information on MYOB products and resources.

National Australia Bank Ltd  
[www.national.com.au](http://www.national.com.au)  
 Resources for Units 1 and 2 on superannuation, investment and small business.

Network Australian and New Zealand Ltd – Trading Room  
[www.tradingroom.com.au](http://www.tradingroom.com.au)  
 Stock exchange information, history of companies, glossary of terms.

NineMSN  
[www.ninemsn.com.au](http://www.ninemsn.com.au)  
 Resources for Units 1 and 2 on superannuation, investment and small business.

Quicken Australia  
[www.quicken.com.au](http://www.quicken.com.au)  
 Contains information on Quicken products and teaching resources.

University of Bristol – Biz/Ed  
[www.bized.ac.uk/learn/learn.htm](http://www.bized.ac.uk/learn/learn.htm)  
 Glossary, Interactive worksheets, simulations, financial ratios and analysis.

Westpac  
[www.westpac.com.au](http://www.westpac.com.au)  
 Resources for Units 1 and 2 on superannuation, investment and small business.

## COMPUTER SOFTWARE AND KITS

*Cash Flow Manager*, Exercise generator, INOM.

MYOB, *Quicken CashBook* 2003, CD-ROM.

*QuickBooks* 2005/06, CD-ROM.

*The Tax Files*, CD-ROM and kit, Australian Tax Office.

*VCE Accounting: Using Information and Communications Technology in Units 1–4* 2002, CD-ROM, Victorian Curriculum and Assessment Authority, Melbourne.

## VIDEOS

*Accounting for Small Business Series – Cash Flow* 2001, Learning Essentials, Australia, [www.learningessentials.com.au](http://www.learningessentials.com.au)

*Accounting for Small Business Series – Financial Budgets* 2001, Learning Essentials, Australia, [www.learningessentials.com.au](http://www.learningessentials.com.au)

*Accounting for Small Business Series – Financial Stability* 2001, Learning Essentials, Australia, [www.learningessentials.com.au](http://www.learningessentials.com.au)

*Accounting for Small Business Series – Profitability* 2001, Learning Essentials, Australia, [www.learningessentials.com.au](http://www.learningessentials.com.au)

*The Story of Baz and his Business* 1997, Close Encounters with Accounting Series, Video Education Australasia (VEA), Victoria, [www.vea.com.au](http://www.vea.com.au)