
PRESCRIPTION: 100 ACCOUNTING PRINCIPLES

Last date for assessing this prescription is 31 December 2008

INTRODUCED 1991
REVISED 2000 (Implemented Semester One 2001)

AIM OF SUBJECT

To provide students with an understanding of financial statements and reports and to enable them to analyse and interpret business performance.

ASSUMED PRIOR KNOWLEDGE

No prior knowledge is required.

COURSE LENGTH

The equivalent of 20 National Qualifications Framework credits, with a minimum of 60 class contact hours or the equivalent of open learning/distance tuition.

RESOURCES

Suggested student references

Harris, Grahame. (1999) Getting to grips with financial statements. Palmerston North: Dunmore Press.

Institute of Chartered Accountants of New Zealand. (1997) Statement of concepts for general purpose financial reporting 1993. Wellington.

Rivett, David W. and Jones, Michael D. (1990) Accounting, a conceptual approach. Rev ed. North Ryde, N.S.W.: CCH Australia.

Robb, Alan J. Dictionary of accounting and finance terms. Auckland: Longman. Latest edition.

Robinson, Catherine and Ker, Phil. Understanding accounting principles. Wellington: Butterworths. Latest Edition.

Wells, Paul K., Dixon, Bruce R. and Ridgeway, Esmé. Accounting principles. Auckland: Longman. Latest Edition.

Viitakangas, Lilian. (1997) Accounting: a beginning. Part one. Auckland: New House Publishers.

Financial sections of newspapers

Web sites

TIME AND ASSESSMENT SCHEDULE

The prescription assumes a RCAP model of assessment (R = recall, C = comprehension, A = application, P = problem solving). In assessing to the prescription, it is expected that, in general, assessment will be of the ability of students to apply the learning outcomes and to undertake problem solving within the course material. Assessment of comprehension should be undertaken only where it is appropriate. Assessment of recall is implicit.

TOPICS	Time in hours	Assessment Weightings (%)	
		min	max
1 The Business Environment	6	0	10
2 Financial Statements and Components	30	45	55
3 Budgeting	8	7	12
4 Analysis and Interpretation of Financial Statements	16	25	35
	TOTAL	60	100%

This schedule is a recommendation and guide for lecturers/tutors, examiners and students. It gives:

- 1 an approximate allocation of time in hours by topic.
- 2 an approximate percentage allocation for assessment by topic.

SPECIAL NOTE

Assessment Criteria that are prefaced by the words "*Demonstrate an understanding of...*" (2.1.5, 2.2.5, 2.2.6, 2.3.3, 2.4.2, 3.5 and 4.5) may be assessed through any one, or combination of:

- interpretation
- analysis
- preparation
- explanation

of material associated with the context of the Learning Outcome.

The breadth of these requirements should satisfy lecturers/tutors who wish to require students to prepare financial statements, as well as those who prefer the emphasis to be on the narrative or explanatory aspects of financial statements.

Assessment Criteria prefaced by the words "*explain*" (2.1.4, 2.2.4, 2.6.1, 2.6.2, 2.6.5, 2.6.6), "*compare and contrast*" (2.6.3), and "*distinguish between*" (2.6.4) may be assessed by requiring students to prepare financial statements, or the emphasis may be on the narrative or explanatory aspects of financial statements.

TOPICS

1 ACCOUNTING AND THE BUSINESS ENVIRONMENT

Learning Outcome

Students who have fulfilled all requirements for this topic understand the purpose of accounting and its relationship to the business environment.

Assessment Criteria

Students will be expected to:

- 1.1 Discuss the role of business in society.
- 1.2 Compare and contrast the various forms of business ownership.
- 1.3 Identify the resources of a business.
- 1.4 Explain the circulation of resources as the basis of business activity.
- 1.5 Explain the information needs of interested parties.
- 1.6 Explain the effect of information technology on the accounting system.
- 1.7 Explain the impact of Goods and Services Tax on business.
- 1.8 Explain the role of ICANZ in the reporting of accounting information.

2 FINANCIAL STATEMENTS AND COMPONENTS

Learning Outcome

Students who have fulfilled all requirements for this topic are able to understand the purpose, elements and presentation of Financial Statements.

2.1 Statement of Financial Position

Assessment Criteria

Students will be expected to:

- 2.1.1 Explain the purpose of this Statement.
- 2.1.2 Define and identify assets and liabilities, and classify them into commonly accepted categories.

- 2.1.3 Explain the relationship between ownership of assets and the financing of them (liabilities and owner's equity).
- 2.1.4 Explain and illustrate the effect of a variety of transactions on this Statement.
- 2.1.5 Demonstrate an understanding of a fully classified Statement of Financial Position.

2.2 Statement of Financial Performance

Assessment Criteria

Students will be expected to:

- 2.2.1 Explain the purpose of this Statement.
- 2.2.2 Define and identify revenue and expenses, and classify them into commonly accepted categories.
- 2.2.3 Design a Chart of Accounts.
- 2.2.4 Explain and illustrate the effect of a variety of transactions on the expanded accounting equation.
- 2.2.5 Demonstrate an understanding of the effect of balance day adjustments on the accounting equation.
- 2.2.6 Demonstrate an understanding of a fully classified Statement of Financial Performance.

2.3 Statement of Movements in Equity

Assessment Criteria

Students will be expected to:

- 2.3.1 Explain the purpose of this Statement.
- 2.3.2 Describe the components of owner's equity.
- 2.3.3 Demonstrate an understanding of the movements within this Statement.

2.4 Statement of Cash Flows

Assessment Criteria

Students will be expect to:

- 2.4.1 Explain the purpose of this Statement.
- 2.4.2 Demonstrate an understanding of a fully classified Statement of Cash Flows.

2.5 Statement of Accounting Policies

Assessment Criteria

Students will be expected to:

- 2.5.1 Explain the assumptions underlying the preparation of general purpose financial reports as per the Statement of Concepts Section 5.
- 2.5.2 Explain the policies for measurement of non current assets, depreciation, accounts receivable and inventory.

2.6 Specific Components and Assumptions

Assessment Criteria

Students will be expected to:

- 2.6.1 Explain the concept of depreciation and distinguish it from amortisation.
- 2.6.2 Explain the effect on the Financial Statements of valuation of non current assets.
- 2.6.3 Compare and contrast the straight line and diminishing value methods of depreciation and their effect on the Financial Statements.
- 2.6.4 Distinguish between:
 - cost and net realisable value of inventories
 - perpetual and physical inventory systems.
- 2.6.5 Explain the effect on the Financial Statements of under/over valuation of inventories.
- 2.6.6 Explain the effect on the Financial Statements of valuation of Accounts Receivable.
- 2.6.7 Identify and explain Contingent Liabilities.
- 2.6.8 Explain and recognise the application of the qualitative characteristics as per Statement of Concepts Section 4.

3 BUDGETING

Learning Outcome

Students who have fulfilled all requirements for this topic are able to demonstrate an understanding of financial management tools.

Assessment Criteria

Students will be expected to:

- 3.1 Explain the purpose of budgeting as a management, accountability and monitoring tool.
- 3.2 Prepare a simple trading budget.
- 3.3 Report on variances between actual performance and budgeted performance.
- 3.4 Distinguish between fixed and variable costs.
- 3.5 Demonstrate an understanding of break-even and contribution margin.

4 ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS

Learning Outcome

Students who have fulfilled all requirements for this topic are able to analyse and report on business performance.

Assessment Criteria

Students will be expected to:

- 4.1 Explain the usefulness and purposes of financial statement analysis.
- 4.2 Calculate and explain ratios and percentages which measure effectiveness in each of the following areas:
 - profitability of operations
 - asset utilisation
 - financial stability.
- 4.3 Identify and explain the relationships between the ratios and percentages calculated.
- 4.4 Analyse the performance of a business and report on:
 - trends
 - problems identified
 - remedies available
 - managerial performance.
- 4.5 Demonstrate an understanding of internal controls.
- 4.6 Explain the importance and use of share market statistics.
- 4.7 Explain the importance of the two arms of the Solvency Test.

TEACHING NOTES

General Issues

Accounting Principles serves two purposes:

- it is a terminal accounting course for students who go no further with accounting studies, and
- it lays a foundation for all subsequent accounting papers for other students.

While there is a logical sequence of topics presented in this prescription, they should be taught/covered in the order/sequence best suited to individual delivery and teaching styles.

Recommendations for percentage allocations within each topic have not been made, to allow for and encourage flexibility of delivery and assessment – from short questions through to case studies incorporating a more holistic approach as suits each lecturer's delivery style, topic sequence, and to a lesser extent, whether or not computers are used. It is not necessary for each requirement within a topic to be assessed separately. Methods of assessment that integrate topics are to be encouraged.

The forms of business ownership to be included in this paper are, at a minimum, sole traders and companies, but other forms may be alluded to.

The application of debit and credit is not part of this paper. However, some lecturers may employ the terminology to achieve the outcomes expected of this paper.

The coverage of analysis and interpretation has been extended to include some share market ratios, as many students do not go on to study 201 Financial Accounting. An understanding of these ratios is considered important for students who go no further with accounting studies.

Specific Issues

2.4.2 Cash flow classifications are those covered by FRS-10: operating, investing, and financing. Students are not expected to perform detailed calculations to determine cash flows but are required to be able to recognise and classify cash flows from a list of receipts and payments.

2.6.4 This is restricted to distinguish between the inventory systems. Coverage of detailed inventory valuations of FIFO, LIFO and weighted average is not required.

Statements of Service Performance have not been included as an assessable topic due to time constraints. However, coverage of this is encouraged.

3.2 Budgeting. This requires preparing a budgeted Statement of Financial Performance, using as a base actual figures from previous year and applying some simple 'What if?' changes, eg percentage change sales and the associated changes in expenses.

4.2 The following ratios and percentages are to be covered:

Profitability:

- Gross Profit %
- Mark Up
- Net Profit %
- Expenses %
- Interest Cover
- Return on Equity
- Return on Assets
- Significant changes %
- Percentage change in Sales.

Financial Stability

- Liquid
- Current
- Equity
- Gearing (Debt:Equity).

Asset Utilisation

- Debtors' Age
- Stock Turn Over
- Days Sales in Stock.

4.3 Examples of relationships include:

- liquid ratio and debtors' age
- interest cover and debt:equity
- current ratio and debtors' age, stock turn.

4.6 Students are not expected to calculate share market ratios but must have an understanding of the following typical share market information.

Share market Ratios

- EPS earnings per share
- DPS Dividends per share
- DY Dividend Yield
- PE Price:Earnings.

4.7 Students are not expected to calculate whether a business is solvent or not, but should understand the reasoning behind the need for the solvency test.