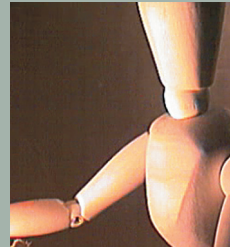
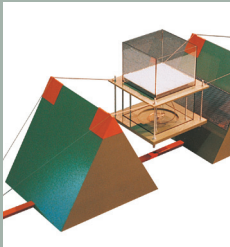
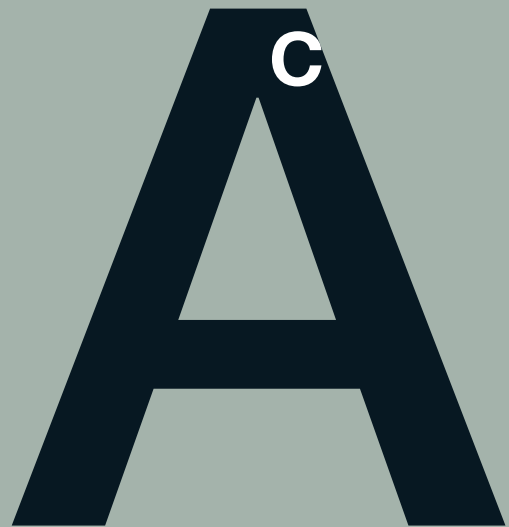


Accreditation period
2013–2016

Accounting

Victorian Certificate of Education Study Design



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41 St Andrews Place East Melbourne Victoria 3002 Australia

TELEPHONE +61 3 9651 4300 **FACSIMILE** +61 3 9651 4324

EMAIL vcaa@edumail.vic.gov.au

WEB www.vcaa.vic.edu.au



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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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IMPORTANT INFORMATION

Accreditation period

Units 1–4: 2013–2016

The accreditation period commences on 1 January 2013.

Other sources of information

The *VCAA Bulletin VCE, VCAL and VET* is the only official source of changes to regulations and accredited studies. The 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 Bulletin. The Bulletin is available as an e-newsletter via free subscription on the Victorian Curriculum and Assessment Authority's website at: 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 online an assessment handbook that includes advice on the assessment tasks and performance descriptors for assessment.

The companion document to the assessment handbook 'Administrative Procedures for Assessment in VCE Studies' is available on the Victorian Curriculum and Assessment Authority's website at: www.vcaa.vic.edu.au/vce/generaladvice/index.html.

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

VCE providers

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

Copyright

VCE schools may reproduce parts of this study design for use by teachers. The full VCAA Copyright Policy is available at: www.vcaa.vic.edu.au/Pages/aboutus/policies/policy-copyright.aspx.

Introduction

SCOPE OF STUDY

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

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).

RATIONALE

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

VCE Accounting focuses on small business. Unit 1 begins with a small service business, allowing students to develop knowledge and skills in accounting without the complexities of accounting for trading businesses or large organisations. Units 2, 3 and 4 then focus on a single activity trading business where students build on and extend their accounting skills.

Many students who study VCE Accounting will go on to further studies and careers in business and finance.

AIMS

This study enables students to:

- acquire knowledge and skills to record financial data and report accounting 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
- develop the capacity to identify, analyse and interpret financial data and accounting 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 contained in areas of study and is designed to enable students to achieve a set of outcomes for that unit. Each outcome is described in terms of key knowledge and key 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 announced in the *VCAA Bulletin VCE, VCAL and VET*. The Bulletin is the only source of changes to regulations and accredited studies. It is the responsibility of each VCE teacher to monitor changes or advice about VCE studies published in the Bulletin.

MONITORING FOR QUALITY

As part of ongoing monitoring and quality assurance, the Victorian Curriculum and Assessment Authority will periodically undertake an audit of VCE 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 if they are required to submit material to be audited.

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.

EMPLOYABILITY SKILLS

This study offers a number of opportunities for students to develop employability skills. The ‘Advice for teachers’ section provides specific examples of how students can develop employability skills 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.

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 online 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 of each unit 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 *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 VCE Accounting students' level of achievement will be determined by School-assessed Coursework and an end-of-year examination. The Victorian Curriculum and Assessment Authority will report students' 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 *VCE and VCAL Administrative Handbook* for details on graded assessment and calculation of the study score. Percentage contributions to the study score in VCE Accounting are as follows:

- Unit 3 School-assessed Coursework: 25 per cent
- Unit 4 School-assessed Coursework: 25 per cent
- End-of-year examination: 50 per cent.

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

Characteristics of the study

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). The AASB Framework is a guide to the definitions of the elements of financial statements.

For the purposes of this study, 'Cash Flow Statement', 'Income Statement', 'Profit and Loss Summary Account' and 'Balance Sheet' will be the titles used for the accounting reports.

ACCOUNTING PRINCIPLES AND QUALITATIVE CHARACTERISTICS

The following accounting principles and qualitative characteristics underpin each of Units 1 to 4. The explanations come from *The Financial Reporting Handbook of 2010* (Institute of Chartered Accountants Australia, John Wiley & Sons, pages 27–31). Where appropriate, the accounting procedures developed in each unit should incorporate the application of accounting principles and the qualitative characteristics of accounting information.

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 the preparation of financial reports is being conducted. 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. Under accrual accounting profit is revenue earned less expenses incurred in that period.

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. This principle is followed so as not to overstate assets and revenues and not understate liabilities and expenses.

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. This allows valid comparisons of performance to be made.

Monetary unit

To understand the meaning of the reported information it is necessary to use a common unit of measurement. Australian dollars are used as this measure.

Qualitative characteristics**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.

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. In other cases, both the nature and materiality are important. 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.

Reliability

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.

If information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that transactions are accounted for and presented in accordance with the transactions' substance and economic reality and not merely their legal form.

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 judgment to achieve a predetermined result or outcome.

Comparability

Users must be able to compare the financial reports of an entity through time to identify trends in the entity's financial position and performance. Users must also be able to compare the financial reports of different entities 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.

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.

GOODS AND SERVICES TAX

The Goods and Services Tax (GST) is to be included throughout the study design, except where it has been specifically excluded as shown in the relevant key knowledge dot points.

STOCK GAIN

Stock gains are to be determined by using the lowest available price in the balance column of the stock card, as required by the conservatism accounting principle.

STOCK LOSS

Stock losses are to be determined by following the First-In, First-Out (FIFO) assumption.

SALES RETURNS

Sales returns are to be calculated by using the latest issued cost price in the stock card (i.e. reversing the last out).

PURCHASES RETURNS

Purchases returns are to be calculated by using the cost price identified by supplier's credit note.

FINANCIAL INDICATORS

Financial indicator	Calculation	Expressed as
Gross Profit Margin	$\frac{\text{Gross Profit}}{\text{Sales}} \times 100$	percentage
Net Profit Margin	$\frac{\text{Net Profit}}{\text{Sales}} \times 100$	percentage
Return on Assets	$\frac{\text{Net Profit}}{\text{Average Total Assets}} \times 100$	percentage
Return on Owner's Investment	$\frac{\text{Net Profit}}{\text{Average Capital}} \times 100$	percentage
Asset Turnover	$\frac{\text{Sales}}{\text{Average Total Assets}}$	times per period
Creditors Turnover	$\frac{\text{Average Creditors}}{\text{Credit Purchases}} \times 365$	number of days
Debtors Turnover	$\frac{\text{Average Debtors}}{\text{Credit Sales}} \times 365$	number of days
Stock Turnover	$\frac{\text{Average Stock}}{\text{Cost of Goods Sold}} \times 365$	number of days
Cash Flow Cover	$\frac{\text{Net Cash Flow from Operating Activities}}{\text{Average Current Liabilities}}$	times per period
Quick Asset Ratio	$\frac{\text{Current Assets} - (\text{Stock} + \text{Prepayments})}{\text{Current Liabilities} - \text{Bank Overdraft}}$	ratio quick assets:1
Working Capital Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	ratio current assets:1
Debt Ratio	$\frac{\text{Total Liabilities}}{\text{Total Assets}} \times 100$	percentage

INFORMATION AND COMMUNICATIONS TECHNOLOGY

ICT is 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 commercial accounting software packages, the Internet and multimedia presentation software.

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

The use of word processing software alone does not allow students to demonstrate the skills to be developed across Units 1 to 4 of Accounting. Therefore students using word processing software would not be able to sufficiently demonstrate completion of the outcomes in Units 1 to 4 Accounting.

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 such as undertaking numeric calculations, presenting information in various formats, analysing data and assisting in the decision-making process.

Following is a guide to the use of ICT across the four units:

Unit 1: Establishing and operating a service business

Spreadsheets, the Internet, single entry accounting packages and presentation software may be used in this unit for recording transactions, preparing financial reports, applying cash control systems and procedures and budgeting.

Unit 2: Accounting for a trading business

A commercial accounting software package must be used in Outcome 2, Area of Study 2: ICT in accounting.

Unit 3: Recording and reporting for a trading business

Spreadsheets and commercial accounting software 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 to facilitate calculations, present information and analyse business performance with the calculation of indicators.

Further advice and specific examples of ICT applications are provided in the ‘Advice for teachers’ section.

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 and recording financial data and the reporting and analysing of accounting information by internal and external users. The cash basis of recording and reporting is used throughout this unit.

Using single entry recording of financial data and analysis of accounting information, students examine the role of accounting in the decision-making process for a sole proprietor 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 (see pages 12–14).

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 early stage will often influence the success or failure of the business. In this area of study students investigate the reasons for establishing a small business, factors that lead to success or failure, 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 required, and explain and discuss the knowledge and skills necessary, to set up a small business.

To achieve this outcome the student will draw on key knowledge and key skills outlined in Area of Study 1.

Key knowledge

- reasons for establishing a small business
- alternatives to establishing a small business
- factors that lead to the success or failure of a small business
- resources required to establish 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

- use correct accounting terminology
- research information about small business from a range of sources
- apply theoretical knowledge to simulated situations
- analyse issues in relation to the establishment of a small business
- explain the sources of finance available to small businesses
- discuss factors leading to the success or failure of a small business.

AREA OF STUDY 2**Recording financial data and reporting accounting information**

In this area of study students investigate the role of accounting in the generation of financial data and accounting information for the owner of a service business. This information is used by the owner to assist in the decision-making processes of the business. The focus is on the recording of financial data and the reporting of accounting 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 and record the financial data, and report and explain accounting information, for a sole proprietor of a service business.

To achieve this outcome the student will draw on key knowledge and key skills outlined in Area of Study 2.

Key knowledge

- applicable accounting principles and qualitative characteristics of accounting information
- the 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, including cash receipts, cheque butts, memos, bank statements
- 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
 - Income Statement
 - Balance Sheet
- budgeting for cash and profit:
 - role and benefits of cash and profit budgeting in planning and control
 - budgeted reports for cash and profit
 - budget variance reports for cash and profit
- graphical representations of accounting information.

Key skills

- identify, classify and record financial data
- use correct accounting terminology
- explain and apply the principles underlying the recording of financial data and preparation of accounting information
- apply theoretical knowledge to simulated situations
- explain how control is maintained over an accounting system
- prepare and analyse financial reports to make business decisions
- prepare budgeted reports for cash and profit, and prepare variance reports
- interpret accounting information from reports and graphical representations.

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 key skills listed for each outcome should be used as a guide to course design and the development of learning activities. The key knowledge and key 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 key 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 key skills being assessed and to provide for different learning styles.

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

Demonstration of achievement of Outcomes 1 and 2 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 selected from the following:

- a folio of exercises (manual and ICT-based)
- a test (manual and/or ICT-based)
- an assignment (manual and/or ICT-based)
- a case study (manual and/or ICT-based)
- a classroom presentation (oral or multimedia)
- a report (written, oral or multimedia).

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

Unit 2: Accounting for a trading business

This unit extends the accounting process from a service business and focuses on accounting for a sole proprietor of a single activity trading business. Students use a single entry recording system for cash and credit transactions and the accrual method for determining profit. They analyse and evaluate the performance of the business using financial and non-financial information. Using these evaluations, students suggest strategies to the owner on how to improve the performance of the business.

Students develop their understanding of the importance of ICT in the accounting process by using a commercial accounting software package to establish a set of accounts, record financial transactions and generate accounting reports.

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 (see pages 12–14).

AREA OF STUDY 1

Recording financial data and reporting accounting 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 financial data and report accounting information for a single activity sole trader using the single entry accounting system. 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 financial data and report accounting information for a sole trader.

To achieve this outcome the student will draw on key knowledge and key skills outlined in Area of Study 1.

Key knowledge

- applicable accounting principles and qualitative characteristics of accounting information
- service and trading businesses
- price setting strategies:
 - methods of determining selling price
 - cost, volume, profit analysis

- source and business documents for a trading business: cash receipts, cheque butts, sales and purchases invoices, bank statements, memos, statements of account
- special journals: cash receipts, cash payments, purchases and sales
- individual debtors and creditors records
- perpetual inventory system recording on stock cards 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 using the asset approach
 - accrued expenses
- accounting reports:
 - Cash Flow Statement
 - Income Statement
 - Balance Sheet
- graphical representations of accounting information
- the distinction between cash and profit
- the two-fold effect of transactions on the accounting reports.

Key skills

- use correct accounting terminology
- explain the differences between service and trading businesses
- identify, classify and record financial data
- explain and apply the principles underlying the recording of financial data and preparation of accounting information
- apply theoretical knowledge to simulated situations
- prepare and analyse financial reports
- interpret accounting information from written reports and graphical representations.

AREA OF STUDY 2

ICT in accounting

Information and communications technology is an essential tool in the operation of a small business. In this area of study students develop an understanding of the role of ICT in the accounting process. Students use a commercial accounting software package to record financial data and report accounting information for a single activity sole trader, and to 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 financial data and report accounting information for a single activity sole trader using a commercial accounting software package, and discuss the use of ICT in the accounting process.

To achieve this outcome the student will draw on key knowledge and key skills outlined in Area of Study 2.

Key knowledge

- applicable accounting principles and qualitative characteristics of accounting information
- the advantages and disadvantages of both computerised accounting systems and manual accounting systems
- the chart of accounts
- the process of recording transactions from source documents or a transaction list using a commercial accounting software package
- accounting reports.

Key skills

- use correct accounting terminology
- identify, classify and record financial data and report accounting information using a commercial accounting software package
- explain and apply the principles underlying the recording of financial data and preparation of accounting information
- apply theoretical knowledge to simulated situations
- present accounting information in a format suitable for users
- compare computerised accounting systems with manual accounting systems
- discuss the use of ICT in the accounting process
- interpret accounting information from written reports and graphical representations.

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 assists the owner in planning and decision making. This area of study focuses on an evaluation of the performance of a business using particular criteria such as stock and debtors. Based on this information, students discuss strategies that may 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 the performance of a business and discuss strategies that may improve business performance.

To achieve this outcome the student will draw on key knowledge and key skills outlined in Area of Study 3.

Key knowledge

- applicable accounting principles and qualitative characteristics of accounting information
- business performance evaluation:
 - financial and non-financial information
 - the role of selected financial indicators
- strategies to improve the business operations in selected areas.

Key skills

- use correct accounting terminology
- apply theoretical knowledge to simulated situations
- explain and apply the principles underlying the recording of financial data and preparation of accounting information
- select and use financial and non-financial information to evaluate business performance
- interpret accounting information from written reports and graphical representations
- discuss strategies for improvement in business performance.

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 key skills listed for each outcome should be used as a guide to course design and the development of learning activities. The key knowledge and key 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 key 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 key 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 selected from the following:

- exercise/s using a commercial accounting software package
- a folio of exercises (manual and ICT-based)
- a test (manual and/or ICT-based)
- an assignment (manual and/or ICT-based)
- a case study (manual and/or ICT-based)
- a classroom presentation (oral or multimedia)
- a report (written, oral or 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 use the double entry system of recording financial data and prepare reports using the accrual basis of accounting. The perpetual method of stock recording with the First In, First Out (FIFO) method is also 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 (see pages 12–14).

AREA OF STUDY 1

Recording financial data

This area of study focuses on identifying and recording financial data for a single activity sole trader. Students record data using double entry accounting to provide the owner with accounting information, enabling the owner to make informed decisions about the operation of the business.

Outcome 1

On completion of this unit the student should be able to record financial data for a single activity sole trader using a double entry system, and discuss the function of various aspects of this accounting system.

To achieve this outcome the student will draw on key knowledge and key skills outlined in Area of Study 1.

Key knowledge

- applicable accounting principles and qualitative characteristics of accounting information
- the 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, bank statements
- stock cards using the First In, First Out (FIFO) method for cash and credit purchases and sales of stock, advertising use and drawings

- the GST Clearing account
- special journals:
 - sales journal, all credit sales of stock
 - purchases journal, all credit purchases of stock
 - cash receipts journal, all receipts of cash with GST not applicable on discount expense
 - cash payments journal, all payments of cash with GST not applicable on discount revenue
- the use of the general journal to record infrequent non-cash transactions:
 - establishing a double entry system
 - correction of errors
 - contribution of non-current assets by the owner at agreed value
 - use of stock for advertising purposes
 - withdrawals of stock by the owner with GST not applicable
 - bad debts with GST not applicable
- the distinction between historical cost and agreed value in relation to non-current assets
- the general ledger using T-form accounts
- the process of posting to the general ledger from the general journal and special journals on a monthly basis
- the process of balancing the general ledger and subsidiary ledger accounts in preparation for the next reporting period
- reasons for using control accounts
- control accounts for debtors, creditors and stock
- subsidiary ledgers and schedules for debtors and creditors, with individual transactions posted to the subsidiary ledger accounts on the date the transaction occurs
- internal control procedures and practices of this accounting system
- pre-adjustment trial balance.

Key skills

- use correct accounting terminology
- identify, classify and record financial data
- explain and apply the qualitative characteristics and accounting principles underlying the recording of financial data and presentation of accounting information
- apply theoretical knowledge to simulated situations
- explain the effect of financial transactions on the accounting equation
- discuss the function of the various aspects of the accounting system for a single activity trading business.

AREA OF STUDY 2

Balance day adjustments and reporting and interpreting accounting information

The preparation of financial reports at the end of the reporting period provides information for planning and decision making by the owner of a small business. Students complete the accounting processes required at balance day and apply the accrual method of accounting in the preparation of accounting reports. They identify the differences between cash and profit and explain the implications of these differences when using reports to make decisions.

Outcome 2

On completion of this unit the student should be able to record balance day adjustments and prepare and interpret accounting reports.

To achieve this outcome the student will draw on key knowledge and key skills outlined in Area of Study 2.

Key knowledge

- applicable accounting principles and qualitative characteristics of accounting information
- the recording and reporting of balance day adjustments:
 - straight-line method of depreciation
 - stock loss or gain as revealed by a physical stocktake
 - the asset approach to recording prepaid expenses with GST being recorded at the time of payment
 - accrued expenses with GST being recorded at the time of payment
- the payment of accrued expenses in the subsequent reporting 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
- classified accounting reports:
 - Cash Flow Statement using the transaction approach
 - Income Statement
 - Balance Sheet
- the effect of transactions on the accounting equation and the accounting reports
- the distinction between cash and profit.

Key skills

- use correct accounting terminology
- identify, classify and record financial data and report accounting information
- explain and apply the qualitative characteristics and accounting principles underlying the recording of financial data and the reporting and presentation of accounting information
- apply theoretical knowledge to simulated situations
- discuss the effect of financial transactions on the accounting equation and accounting reports
- distinguish between cash and profit and explain the effect on accounting reports
- prepare, explain and interpret accounting reports
- discuss the function of the various aspects of the accounting system for a single activity trading 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 Victorian Curriculum and Assessment Authority publishes online an assessment handbook for this study that includes advice on the assessment tasks and performance descriptors for assessment.

The key knowledge and key skills listed for each outcome should be used as a guide to course design and the development of learning activities. The key knowledge and key 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 key 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 an end-of-year examination.

Contribution to final assessment

School-assessed Coursework for Unit 3 will contribute 25 per cent.

The level of achievement for Units 3 and 4 is also assessed by an end-of-year examination, which will contribute 50 per cent.

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 the assessment handbook published online 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 teachers provide a range of options for the same assessment task, they should ensure that the options are of comparable scope and demand. Teachers should select a variety of assessment tasks for their program to reflect the key knowledge and key skills being assessed and to provide for different learning styles.

At least 30 marks must be allocated to assessment that uses ICT application/s.

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

*School-assessed Coursework for Unit 3 contributes 25 per cent.

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 is based on the double entry accounting system and the accrual method of reporting for a single activity trading business using the perpetual inventory recording system.

Students investigate the role and importance of budgeting for the business and undertake the practical completion of budgets for cash, profit and financial position. Students interpret accounting information from accounting reports and graphical representations, and analyse the results to 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 (see pages 12–14).

AREA OF STUDY 1

Extension of recording and reporting

This area of study enables students to build on their knowledge of the accounting system developed in Unit 3. The collecting, measuring, processing and communication of financial data and accounting information is an important process for a sole trader. Students undertake this process using double entry accounting and an accrual-based reporting system. Students explore alternative depreciation methods in the recording and reporting process.

Outcome 1

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

To achieve this outcome the student will draw on key knowledge and key skills outlined in Area of Study 1.

Key knowledge

- applicable accounting principles and qualitative characteristics of accounting information
- the accounting system as developed in Unit 3
- source and business documents as outlined in Unit 3, and credit notes for sales returns by trade debtors and purchase returns to trade creditors
- returns of stock recorded in the general journal:
 - sales returns from trade debtors
 - purchase returns to trade creditors
- the recording and reporting of balance day adjustments:
 - liability approach of recording prepaid revenue with no GST being recorded at the time of the deposit
 - accrued revenue with GST being recorded at the time of receipt
- receipt of accrued revenue in the subsequent reporting period
- stock valuation:
 - product and period costs
 - lower of cost and net realisable value including stock write down
- the purchase of non-current depreciable assets from a sundry creditor
- the reducing balance method of depreciation
- the implications of the use of alternative methods of depreciation on accounting reports
- disposal of non-current depreciable assets for cash or as a trade-in
- the recording and reporting of a profit or loss on disposal of a non-current depreciable asset with GST not applicable on the disposal of the asset
- recording of transactions into special and general journals, general and subsidiary ledgers and stock cards
- the effect of transactions on the accounting equation and accounting reports.

Key skills

- use correct accounting terminology
- identify, classify and record financial data
- explain and apply the qualitative characteristics and principles underlying the recording of financial data and the reporting and presentation of accounting information
- apply theoretical knowledge to simulated situations
- explain the effect of financial transactions on the accounting equation
- distinguish between product and period costs
- compare alternative methods of depreciating non-current assets
- justify the selection of alternative depreciation methods
- prepare, explain and interpret accounting reports and graphical representations
- discuss the function of the various aspects of the accounting system for a single activity trading business.

AREA OF STUDY 2

Financial planning and decision making

The owner of a small business must be able to plan and control the activities of the business. The preparation of budgeted accounting reports provides information for the owner in this decision-making process. Students focus on preparing budgeted accounting reports and analysing 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 budgets and variance reports, evaluate the performance of a business using financial and non-financial information and discuss strategies to improve the profitability and liquidity of the business.

To achieve this outcome the student will draw on key knowledge and key skills outlined in Area of Study 2.

Key knowledge

- applicable accounting principles and qualitative characteristics of accounting information
- classified budgeted accounting reports, including reconstruction of accounts:
 - Cash Flow Statement
 - Income Statement
 - Balance Sheet
- variance reports for Cash Flow Statements and Income Statements
- measures for evaluating profitability, liquidity, efficiency and stability:
 - financial 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

- use appropriate accounting terminology
- explain and apply the qualitative characteristics and principles underlying the recording of financial data and the reporting and presentation of accounting information
- apply theoretical knowledge to simulated situations
- prepare budgeted accounting reports to assist in decision making
- discuss the function of the various aspects of the accounting system for a single activity trading business
- analyse and interpret accounting reports, graphical representations and non-financial information to evaluate the performance of a business
- discuss strategies to improve the profitability and liquidity of the business
- discuss the implications of changes in the level of debt ratio.

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 online an assessment handbook for this study that includes advice on the assessment tasks and performance descriptors for assessment.

The key knowledge and key skills listed for each outcome should be used as a guide to course design and the development of learning activities. The key knowledge and key 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 key skills should not be assessed separately.

Assessment of levels of achievement

The student's level of achievement in 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 25 per cent.

The level of achievement for Units 3 and 4 is also assessed by an end-of-year examination, which will contribute 50 per cent.

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 the assessment handbook published online 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 teachers provide a range of options for the same assessment task, they should ensure that the options are of comparable scope and demand. Teachers should select a variety of assessment tasks for their program to reflect the key knowledge and key skills being assessed and to provide for different learning styles.

At least 30 marks must be allocated to assessment that uses ICT application/s.

Outcomes	Marks allocated*	Assessment tasks
Outcome 1 Record financial data using double entry accounting and report accounting information using an accrual-based system for a single activity sole trader, and discuss the function of various aspects of this accounting system.	50	The student's performance on Outcome 1 will be assessed using one or more of the following: <ul style="list-style-type: none"> structured questions a folio of exercises (manual and/or ICT) a case study (manual and/or ICT) a test (manual and/or ICT) a report (written, oral or multimedia).
Outcome 2 Prepare budgets and variance reports, evaluate the performance of a business using financial and non-financial information and discuss strategies to improve the profitability and liquidity of the business.	30	Outcome 2 will be assessed by two tasks: Task A Prepare budgets and variance reports for a business using spreadsheets. Evaluate the budgets and variance reports and discuss strategies for improvement.
	20	Task B Evaluate the performance of a business using financial and non-financial information and discuss strategies to improve the profitability and liquidity of the business. The student's performance for Task B will be assessed using one or more of the following: <ul style="list-style-type: none"> structured questions a folio of exercises (manual and/or ICT) a case study (manual and/or ICT) a test (manual and/or ICT) a report (written, oral or multimedia).
Total marks	100	At least 30 marks must be allocated to ICT-based assessment

*School-assessed Coursework for Unit 4 contributes 25 per cent.

End-of-year examination

Description

The examination will be set by a panel appointed by the Victorian Curriculum and Assessment Authority. All the key knowledge and key skills that underpin the outcomes in Units 3 and 4 are 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 financial indicators or prepare graphical representations in the examination. Students will not be required to use information and communications technology (ICT) in the examination.

Conditions

The examination will be completed under the following conditions:

- Duration: two 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 assessors appointed by the Victorian Curriculum and Assessment Authority.

Contribution to final assessment

The examination will contribute 50 per cent.

Further advice

The Victorian Curriculum and Assessment Authority publishes specifications for all VCE examinations on the Victorian Curriculum and Assessment Authority website. Examination specifications include details about the sections of the examination, their weighting, the question format/s and any other essential information, together with any sample material.

Advice for teachers

VCE Accounting allows students to build on knowledge and skills developed in the Victorian Essential Learning Standards (VELS), the curriculum framework for the compulsory years of schooling in Victoria. Links between the VCE Accounting study and the VELS are shown below.

VCE Accounting also provides students with opportunities to develop employability skills. The links between the forms of assessment in the study design and employability skills are provided in the table on page 36.

VICTORIAN ESSENTIAL LEARNING STANDARDS (VELS)

VCE Accounting is an interdisciplinary study which builds on knowledge and skills developed in the VELS domains of The Humanities – Economics, Personal Learning, Communication, Thinking Processes, Mathematics, and Information and Communications Technology at Level 6.

In The Humanities – Economics domain students develop an ability to identify, collect and process data from a range of sources and learn how to manage their personal finances.

In the Personal Learning domain students develop skills of acquiring self-knowledge and dispositions which support learning, learning with peers, including by seeking and responding appropriately to feedback, increasingly manage their own learning and growth, including by setting goals and managing resources to achieve these.

In the Thinking Processes domain students develop their skills in reasoning, processing and inquiry, creativity and reflection, evaluation and metacognition.

In the Communication domain students develop skills of listening, viewing and responding, and presenting.

In the Mathematics domain students learn important common measures relating to money and solve practical problems with mathematics, especially industry and work-based problems.

In the Information and Communications Technology (ICT) domain students develop new thinking and learning skills, develop more productive ways of working and solving problems individually and collaboratively, and understand the implications of the use of ICT and their social and ethical responsibilities as users of ICT. Students focus on the task to be accomplished rather than on the technology they are using to do the work.

EMPLOYABILITY SKILLS

Units 1 to 4 of VCE Accounting provide students with the opportunity to engage in a range of learning activities. In addition to demonstrating their understanding and mastery of the content and skills specific to the study, students may also develop employability skills through their learning activities.

The nationally agreed employability skills* are: Communication; Planning and organising; Teamwork; Problem solving; Self-management; Initiative and enterprise; Technology; and Learning.

Each employability skill contains a number of facets that have a broad coverage of all employment contexts and are designed to describe all employees. The table below links those facets that may be understood and applied in a school or non-employment related setting, to the types of assessment commonly undertaken within this VCE study.

Assessment task	Employability skills: selected facets
Folio of exercises	Communication (writing to the needs of the audience)
Case study	Communication (sharing information; speaking clearly and directly; using numeracy) Planning and organising (collecting, analysing and organising information) Problem solving (testing assumptions taking the context of data and circumstances into account)
Structured questions	Communication (reading independently; writing to the needs of the audience; using numeracy) Planning and organising (collecting, analysing and organising information) Problem solving (testing assumptions taking the context of data and circumstances into account)
Multimedia presentation	Communication (sharing information; speaking clearly and directly) Technology (having a range of basic IT skills; using IT to organise data; being willing to learn new IT skills)
Report (oral/written)	Communication (sharing information; speaking clearly and directly; writing to the needs of the audience; using numeracy) Planning and organising (collecting, analysing and organising information) Technology (using IT to organise data)
ICT applications	Communication (writing to the needs of the audience; reading independently) Planning and organising (collecting, analysing and organising information) Problem solving (testing assumptions taking the context of data and circumstances into account) Initiative and enterprise (adapting to new situations) Learning (managing own learning; having enthusiasm for ongoing learning) Technology (having a range of basic IT skills; being willing to learn new IT skills; using IT to organise data)
Test	Communication (writing to the needs of the audience; reading independently) Problem solving (using mathematics to solve problems)

*The employability skills are derived from the Employability Skills Framework (*Employability Skills for the Future*, 2002), developed by the Australian Chamber of Commerce and Industry and the Business Council of Australia, and published by the (former) Commonwealth Department of Education, Science and Training.

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 key skills which relate to the outcomes.

Teachers must develop courses that include appropriate learning activities to enable students to develop the key knowledge and key 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.

ELEMENTS OF FINANCIAL REPORTS

The following explanations of the elements of financial reports are taken from *The Financial Reporting Handbook of 2010* (Institute of Chartered Accountants, John Wiley & Sons, pages 31–36).

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.

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.

Owner's Equity

Equity is the residual interest in the assets of the entity after deducting all its liabilities; that is, $OE = A - L$. This is the accounting equation from which an accounting system is developed. 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 ordinary course of business, including sales, fees, interest, advertising, commission and rent.

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 for capital contribution.

Expenses

Expenses are recognised in the income statement when a decrease in future economic benefit 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.

TEMPLATES

The following templates are recommended for use in teaching and learning activities.

General Journal

Date	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit

Cash Receipts Journal

Date	Details	Receipt Number	Bank	Discount Expense	Debtors Control	Cost of Sales	Sales	*	Sundries	GST

*Heading to be based on scenario

Cash Payments Journal

Date	Details	Cheque Number	Bank	Discount Revenue	Creditors Control	Stock Control	*	*	Sundries	GST

*Headings to be based on scenario

Purchases Journal

Date	Creditor	Invoice Number	Stock Control	GST	Creditors Control

Sales Journal

Date	Debtor	Invoice Number	Cost of Sales	Sales	GST	Debtors Control

Cash Flow Statement Variance Report for period ended (date)

	Budget	Actual	Variance	Favourable/ Unfavourable

Income Statement Variance Report for period ended (date)

	Budget	Actual	Variance	Favourable/ Unfavourable

Income Statement

BUSINESS NAME INCOME STATEMENT for period ended (date)		
Revenue		
Less Cost of Goods Sold		
Gross Profit		
Adjusted Gross Profit		
Add Other Revenue		
Less Other Expenses		
Net Profit		

Balance Sheet

BUSINESS NAME BALANCE SHEET as at (date)					
	\$	\$		\$	\$
Current Assets			Current Liabilities		
			Non-Current Liabilities		
Non-Current Assets			Owner's Equity		

Cash Flow Statement

BUSINESS NAME CASH FLOW STATEMENT for period ended (date)		
Cash Flow from Operating Activities	\$	\$
<i>Net Cash flows from Operations</i>		
Cash Flow from Investing Activities		
<i>Net Cash flows from Investing Activities</i>		
Cash Flow from Financing Activities		
<i>Net Cash flows from Financing Activities</i>		
Net Increase/Decrease in Cash Position		
Bank Balance at start		
Bank Balance at end		

RETURNS OF STOCK

In a stock card, it is important to ensure that the correct cost price is recorded when a return to a supplier occurs. 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.

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 the process is simply reversed if a return occurs.

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.

Example:

Recording transactions in the Stock Card

Date	Transaction	Document
Nov 1	Balance on hand; 10 units @ \$80 each	
10	Credit purchase of 8 units for \$85 each	Invoice P63
11	Credit sale of 11 units	Invoice 627
12	Returned 2 units to supplier for a credit of \$85 each	Credit Note #163
12	Owner withdrew 1 unit for personal use	Memo #23
13	Sales return of 5 units	Credit Note #R11
14	Stocktake revealed 11 units on hand. (Stock Gain)	Memo #29
OR		
14	Stocktake revealed 7 units on hand. (Stock Loss)	Memo #29

Stock Card**Product:** MP5–7 Player**Code No:** MPVP 556677**Recording method:** FIFO

Date	Details	In			Out			Balance		
		Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
Nov 1	Balance							10	80	800
10	Invoice P63	8	85	680				10	80	800
								8	85	680
11	Invoice 627				10	80	800			
					1	85	85	7	85	595
12	Credit Note #163				2	85	170	5	85	425
12	Memo #23				1	85	85	4	85	340
13	Credit Note #R11	1	80	250				1	80	80
		4	85	510				8	85	680
If a Stock Gain occurred:										
14	Memo #29	2	80	160				3	80	240
								8	85	680
OR										
If a Stock Loss occurred:										
14	Memo #29				1	80	80			
					1	85	85	7	85	595

RECORDING PREPAID REVENUE

A deposit is paid by a customer to secure a future contract of sale. The deposit does not create any GST charge, nor does it create a Cost of Sales entry for a specific number of goods.

When goods are provided by the retailer, transfer the prepaid revenue to the sales revenue account in the General Journal. The rest of the required entries should then be made in the Sales Journal. This includes the recording of the Cost of Sales on the total transaction, recording the remainder of the sales amount, the GST on the total sale, and finally, the total that remains as owing by the debtor.

Example:

On 15 November 2010, Business Ltd received \$2 000 (Receipt 498) from a customer for 50 specially ordered suits to be supplied in January.

Cost Price: \$300 (plus \$30 GST)

Selling Price: \$500 (plus \$50 GST)

The suits are delivered and invoiced on January 20 (Invoice S345).

Required:

Record the transaction for November 15.

Record the transaction for January 20. Narrations NOT required.

Cash Receipts Journal

Date	Details	Receipt Number	Bank	Discount Expense	Debtors Control	Cost of Sales	Sales	Sundries	GST
Nov 15	Prepaid Sales Revenue	498	2 000					2 000	

General Journal

Date	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
Jan 20	Prepaid Sales Revenue	2 000			
	Sales Revenue		2 000		

Sales Journal

Date	Debtor	Invoice Number	Cost of Sales	Sales	GST	Debtors Control
Jan 20	Boyz2Men	S345	15 000	23 000	2 500	25 500

EFFECT OF REDUCING BALANCE DEPRECIATION ON ACCOUNTING REPORTS

Dan's Deliveries purchased a new vehicle on 1 July 2012 for \$55 000 (including GST). In addition to this price, the business also paid the following: registration and insurance \$2 200 (plus GST), installation of roof racks, tow bar and internal shelving \$6 000 (plus GST). Dan has decided to use the vehicle for 4 years, before trading it in for another model. The estimated residual value of the vehicle is \$8 000. Two methods of depreciation are being considered, the straight line and reducing balance methods. If reducing balance is selected, the rate to be applied is 30% per annum.

Question: If the reducing balance method is used instead of the straight line method, state the effect on profit for the year ended 30 June 2014.

Straight line depreciation: $(\text{Cost Price} - \text{Residual Value}) / \text{Useful Life}$

$$(\$56\,000 - \$8\,000) / 4 = \$12\,000 \text{ per year}$$

Reducing balance depreciation: Percentage of Carrying Value

$$2013 \quad 30\% \text{ of } \$56\,000 = \$16\,800$$

$$2014 \quad 30\% \text{ of } \$39\,200 = \$11\,760$$

Comparison of methods: Reducing balance method \$11 760

Straight line method \$12 000

Difference \$240

Under reducing balance, profit would be \$240 higher in 2014.

DISPOSAL OF NON-CURRENT ASSETS

Students are required to know the process for the disposal (for cash or trade-in) of non-current depreciable assets, and 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:

On 1 January 2013 design equipment was purchased for \$58 000 (plus GST), and cost \$2 200 (including GST) to install. The owner has been advised to calculate annual depreciation on either 20% straight line or 30% reducing balance.

On 31 December 2014 the owner decides the equipment is not performing and will be sold for \$30 000 cash (Receipt 537) and replaced.

- a. Calculate the carrying value of the asset on 31 December 2014 using the straight line method of depreciation.
- b. Calculate the carrying value of the asset on 31 December 2014 using the reducing balance method of depreciation.
- c. Prepare the Disposal of Equipment ledger account using the reducing balance method of depreciation.
- d. Prepare the journal entries for the disposal of the asset using the straight line method of depreciation.
- e. State the effect on the Income Statement if the reducing balance method of depreciation is used in preference to the straight line method.

Solution:

a.

Dec 31	STRAIGHT LINE METHOD (20% p.a.)		
	Depreciation Expense \$	Accumulated Depreciation \$	Carrying value \$
2013	12 000	12 000	48 000
2014	12 000	24 000	36 000

b.

Dec 31	REDUCING BALANCE (30% p.a.)		
	Depreciation Expense \$	Accumulated Depreciation \$	Carrying value \$
2013	18 000	18 000	42 000
2014	12 600	30 600	29 400

c. Reducing Balance Method

Disposal of Equipment

Date	Cross-reference	Amount	Date	Cross-reference	Amount
Dec 31	Equipment	60 000	Dec 31	Acc. Dep. of Equipment	30 600
	Profit on disposal of equipment	600		Bank	30 000
		60 600			60 600

d. Straight Line Method

General Journal

Date	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
Dec 31	Disposal of Equipment	60 000			
	Equipment		60 000		
	Accumulated Depreciation Equipment	24 000			
	Disposal of Equipment		24 000		
	Loss on Disposal of Equipment	6 000			
	Disposal of Equipment		6 000		

Cash Receipts Journal

Date	Details	Receipt Number	Bank	Discount Expense	Debtors Control	Cost of Sales	Sales	Sundries	GST
Dec 31	Disposal of Equipment	537	30 000					30 000	

e. Under reducing balance, profit would be \$6 600 higher in 2014.

SUITABLE RESOURCES

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

A list of suitable resources for this study has been compiled and is available via the Accounting study page on the Victorian Curriculum and Assessment Authority website: www.vcaa.vic.edu.au/vce/studies/index.html.

LEARNING ACTIVITIES

Implementation advice and example learning activities for each unit are provided below. Examples in the shaded boxes are explained in detail in accompanying boxes.

Teachers should consider these activities in conjunction with the key knowledge and key skills identified for each outcome within the study.

Unit 1: Establishing and operating a service business

This unit deals with the establishment of a small business and the accounting and financial management of a small service business. The cash basis of recording of financial data and the reporting of accounting information is used throughout this unit.

The accounting principles and qualitative characteristics underpin each unit. It would be best to introduce them progressively through the unit as appropriate transactions arise, rather than all at once.

Area of study	Suggested duration
Going into business	3–4 weeks
Recording financial data and reporting accounting information	12 weeks

Area of Study 1 is relatively short. Students investigate the setting up of small businesses and this sets the scene for the types of transactions students will record in Units 1 to 4.

Students should draw on their own knowledge of small business together with researching and interviewing small business owners. Teachers can use a variety of assessment tasks to suit their students. The first outcome provides the opportunity for students to prepare written reports and/or multimedia presentations on how a small business owner can increase their chances of success by choosing the appropriate recording system and obtaining advice from professionals such as accountants and business advisors.

Area of Study 2 focuses on recording financial data and reporting accounting information using the single entry system to assist in the decision-making process. The Goods and Services Tax (GST) is introduced in this unit and will affect all transactions, except where it has been specifically excluded as shown in the relevant key knowledge dot points.

Students need to be aware of the use of spreadsheets, current commercial accounting software packages, the Internet and multimedia presentation software. ICT should be used in this unit for the recording of transactions, preparation of financial reports, cash control systems and procedures and budgeting. ICT will be particularly helpful when students are required to prepare and interpret accounting information from graphical representations such as pie charts and line graphs.

Accounting is theoretical and practical. Students should be able to record transactions correctly, as well as apply theory to problem solving and decision making.

Example activities

AREA OF STUDY 1: Going into business

Outcome 1

Describe the resources required, and explain and discuss the knowledge and skills necessary, to set up a small business.

Examples of learning activities

collect and summarise a range of newspaper articles and other media material describing success and failure of small businesses

construct a concept map or a poster to show the factors that lead to the success or failure of a small business

construct a concept map or a poster to show the reasons for and alternatives to establishing a small business

construct a multimedia presentation and design a quiz with questions about establishing a small business

develop a questionnaire and interview an accountant on the role they play in providing advice to small business owners; complete a PowerPoint presentation on the answers provided

invite a business professional to speak to the class about their experiences with small business owners

invite a small business owner to speak to the class about their experiences of running a business

prepare a report following an interview with a small business owner covering the history of the business, the use of professional advisors and the factors which lead to the success or failure of a small business

participate in the ASX game to demonstrate an alternative investment strategy

research sources of finance and prepare a PowerPoint presentation showing when it would be most appropriate to use each type and the advantages and disadvantages of each

Detailed example**SMALL BUSINESS REPORT****Task:**

Investigate how a small business owner can increase their chances of success. Prepare a written report that focuses on the methods of record keeping, professional advisors and the qualities necessary to succeed in business.

Outline of Task:

This investigation will be partly done outside class time to enable students to interview owners and collect materials. 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 include:

- Name and nature of business.
- History of the business.

- 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.
- The owner's plans for the business.
- Qualities the owner needs for the business to be a success.
- Improvements the owner of the business could make to the business.

AREA OF STUDY 2: Recording financial data and reporting accounting information**Outcome 2**

Identify and record the financial data, and report and explain accounting information, for a sole proprietor of a service business.

Examples of learning activities

as a group create a web quest task for others to complete, investigating the impact of GST on small businesses

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

construct a multimedia presentation and design a quiz with questions about recording and reporting financial information

create a class wiki for students to load podcasts and discussion questions to be used as preparation and revision prior to tests

create a glossary of appropriate accounting terms

create podcasts of the accounting elements, accounting principles and qualitative characteristics

given a list of transactions, design an appropriate document and record the transactions

research websites for information on the recording requirements of the GST and its impact on small business

play the board game Monopoly; students to design their own records and reports for the transactions and result of each player

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

use spreadsheets to produce templates of cash journals and financial reports linked to charts and graphs

Detailed example**GST RESEARCH AND WEB REVIEW**

This task requires students to access an appropriate website to gain information about the GST and to evaluate the website's usefulness, accessibility, and value to a user. They determine whether or not the site provides accurate and useful information that informs the user in an efficient and reliable manner.

Possible websites:

www.gstaustralia.com.au/

<http://en.wikipedia.org>

www.ato.gov.au/

www.unisa.edu.au/fin/tax/gst/faqsGST.asp

Part A: Goods and Services Tax

Access one of the websites listed, or another appropriate website on the GST.

1. Who levies the GST?
2. Who collects the GST and when and how often is it submitted to the government?
3. What items include GST?
4. What items are GST exempt and why?
5. How is the amount of GST determined?

Part B: The Review

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

The site is to be rated in terms of the following criteria:

- 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 (is the information contained on the site reliable and informed?)

3. Rating

Give the site a rating between 5 and 1 Stars as an indication of how useful you think it would be to small business owners.

To obtain 5 Stars the site must be an excellent site that will help a user gain reliable and informed knowledge. It allows easy access to information, can be easily negotiated and has an interesting and user friendly way of presenting reliable information.

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. Site overview

This part of the evaluation requires a brief overview of the material that is presented and accessible on the site. Students 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 include points of interest and highlight sections that might interest the small business owner. These sections:

- may contain references to other sources that should be accessed for further information
- may contain useful statistical information
- could be advice or information that might assist 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 students will spend up to 30 minutes surveying the site before attempting to complete the Website Review.

Unit 2: Accounting for a trading business

This unit introduces students to trading businesses and credit transactions. Students use a single entry recording system for cash and credit transactions and the accrual method for determining profit.

Area of study	Suggested duration
Recording financial data and reporting accounting information	8 weeks
ICT in accounting	3 weeks
Evaluation of business performance	4 weeks

Students should be encouraged to design and complete business documents as this will enhance their understanding of the accounting process. A point to note: the two-fold effect of transactions on accounting reports does not mean recording transactions in the general ledger.

In Area of Study 2 students develop an understanding of the role of ICT in the accounting process. Students must use a commercial accounting software package to complete this outcome. The use of ICT in the recording process will enable students to gain a greater understanding of the process, which they can then apply when manually recording transactions.

In Area of Study 3 students use a range of financial and non-financial information. They use this information to evaluate the performance of the business. Students must then discuss strategies that will enable the business to improve its performance. They should be encouraged to look at the impact of the strategies on performance and explain why the strategy would result in an improvement. Using ICT to produce and interpret accounting information using graphical representations will enhance student knowledge and understanding of the strategies that could be used to improve the performance of the business.

Example activities

AREA OF STUDY 1: Recording financial data and reporting accounting information

Outcome 1

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

Examples of learning activities

collect a range of business documents (handwritten and electronically generated) and identify the financial data each contains, explaining how it will be used in the accounting system

create a glossary of appropriate accounting terms

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

design appropriate business documents and record a list of transactions

design stock records using spreadsheets

prepare a list of price setting methods

prepare a list of strategies to minimise stock losses

prepare a poster which explains the difference between cash and profit

use spreadsheets to produce a template for a cash flow statement linked to charts and graphs

use spreadsheets to produce a template for a balance sheet linked to charts and graphs

use spreadsheets to produce a template for an income statement linked to charts and graphs

Detailed example

DESIGN DOCUMENTS AND RECORD TRANSACTIONS

A business may personalise the business documents it uses; however, all documents will include most of the following features:

- business logo
- business name, address and other contact details
- contact details of customers
- date of transaction
- description of transaction
- document number
- dollar amount of transaction
- GST amount or GST inclusive.

Paper Products have received an order from Terri Green of 545 Allowance Avenue, South Haven, 3073 for the following products:

2 Advertising Bundles code 19687 @ \$230 each, 1100 postcards code 979695 @ \$1 each and 2000 calendars code 96156 @ \$15 each. Add 10% GST to all items.

Required:

1. Design and complete an invoice 17511 dated June 21.
2. Design and complete a cheque from Terri Green to Paper Products for the above transaction dated July 15.
3. Design and complete receipt from Paper Products to Terri Green to acknowledge her cheque received on July 18.

AREA OF STUDY 2: ICT in Accounting

Outcome 2

Record financial data and report accounting information for a single activity sole trader using a commercial accounting software package, and discuss the use of ICT in the accounting process.

Examples of learning activities

create a list of shortcuts for the commercial accounting software package

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

prepare a suitable chart of accounts from a list of transactions using an accounting package

develop a series of questions and answers to be used in a student quiz with questions about recording financial data and reporting accounting information

record financial transactions using a commercial accounting software package

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

Detailed example**RECORD FINANCIAL TRANSACTIONS USING A COMMERCIAL 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 are given 20 appropriate transactions from a list and/or original documents (including an adjustment for stock loss or gain) to record. The transactions are recorded using a commercial accounting software package and reports prepared.

- Design or edit the Chart of Accounts.
- Enter opening balances as required.
- Record the transactions using document templates as provided by the accounting software package.
- Adjust the stock on hand.
- Prepare a Cash Flow Statement.
- Prepare an Income Statement.
- Prepare a Balance Sheet.

Computer Accounting Assignment: Thomas the Tankman

Thomas the Tankman specialises in the sales and installation of water tanks for domestic purposes, such as gardening and extra water supply for houses. He purchases water tanks from local suppliers and sells mostly to individuals, although he has some credit customers. The business is a sole trader, with Timothy Thomas as the owner, operating from 113 Well Street, Dustbowl, 3999.

All Thomas the Tankman's (ABN 84 539 283 701) sales are on cash, except where specifically stated, and all business expenses are paid for by cash, unless stated otherwise.

Stock on October 1:

Quantity on hand	Item Code	Description	Cost Price	Selling Price	Supplier
8	1000 R	1000 litre Round	500	700	No Holes Tanks
5	1000 S	1000 litre Slim	540	900	No Holes Tanks
4	5000 R	5000 litre Round	1 300	1 800	Half Full Tanks
6	5000 S	5000 litre Slim	1 370	2 000	Half Full Tanks

Each of the above items of Stock is quoted as GST free. On each item, an additional 10% GST is charged to customers on the sales price, and 10% GST paid on the cost price.

Creditors

Name	Address	Account balance
No Holes Tanks	Lot 2, Girt Terrace, North Dustbowl Vic 3998	\$2 600
Half Full Tanks	Factory 3, Cloud Court, South Dustbowl Vic 3987	\$8 800

Debtors

Name	Address	Account balance
Water Tight Manufacturing	85 River Street, Dustbowl Vic 3999	\$13 860
Dustbowl Secondary School	555 Count Street, Dustbowl Vic 3999	\$4 510

(continued)

Thomas the Tankman

Account balance as at October 1.

Assets	
Cash at bank	5 800
Stock	20 120
Debtors (customers)	18 370
Motor vehicles	65 000
Office equipment	8 000
Liabilities	
Creditors (suppliers)	11 400
Loan – Water bank	25 000
Owner's Equity	
Capital – Timothy Thomas	80 890

Transactions

October 2	Monthly rent of \$2 200 (plus GST) is paid to Diane Wood Real Estate, for October.
3	Paid Blue Star Autos for motor vehicle fuel – \$100 (plus GST).
3	Cash sales – one x 1000 Round.
6	Dustbowl Secondary School paid their account in full.
7	Water Tight Manufacturing paid their account in full.
7	Cash sales – two x 1000 Slim.
8	Paid Blue Star Auto for motor vehicle repairs – \$210 (plus GST).
9	Credit sale of two 5000 Slim to Water Tight Manufacturing.
14	Pay day for the employees \$1 800.
16	Paid postage – \$66 (including GST).
18	Purchased two 5000 Round and three 5000 Slim tanks on credit from Half Full Tanks.
20	Credit sale of four 5000 Slim to Beveridge Industries, 550 Stuart Highway, Rochdale Vic 3919.
21	Timothy withdraws \$4 500 from the business bank account for personal expenses.
22	Paid monthly Internet account from Cable Works \$220.
23	Credit sales of two 5000 Round to Dustbowl Secondary School.
27	Beveridge Industries pay their invoice dated October 20 in full.
29	Purchased 1000 Round and 1000 Slim on credit from No Holes Tanks.
29	Pay day for the employees \$1 800.
30	Credit sales to Water Tight Manufacturing one 5000 Round and one 5000 Slim.
31	Paid loan interest \$180.

- Physical stocktake revealed two 1000 Round tanks were missing.

Required:

- Enter the business information, establish a chart of accounts, record supplier and customer balances, enter Stock balances and record opening ledger account balances.
- Record the transactions for the month of October.
- Prepare an Income Statement for October.
- Prepare a Balance Sheet as at 31 October.

AREA OF STUDY 3: Evaluation of business performance

Outcome 3

Select and use financial and non-financial information to evaluate the performance of a business and discuss strategies that may improve business performance.

Examples of learning activities

analyse the performance of a business over three reporting periods and prepare a report suggesting strategies to improve the business performance

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

construct a multimedia presentation on the performance of a business and design a quiz to evaluate this

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

prepare a diagram to illustrate the relationship between key accounting terms used in evaluation

Detailed example

EVALUATION RELATIONSHIPS

Using the following key accounting terms, prepare a mind map to display their relationships.

- Asset Turnover
- Balance Sheet
- Benchmarks
- Budgeting
- Cash Flow Cover
- Creditors Turnover
- Debt Ratio
- Debtors Turnover
- Efficiency
- Gross Profit Margin
- Income Statement
- Liquidity
- Net Profit Margin
- Non-Financial Information
- Profitability
- Quick Asset Ratio
- Return on Assets
- Return on Owner's Investment
- Stock Turnover
- Strategies for improvement
- Trends
- Working Capital Ratio

Unit 3: Recording and reporting for a trading business

In this unit students learn about financial accounting for a single activity trading business as operated by a sole trader.

Area of study	Suggested duration
Recording financial data	10 weeks
Balance day adjustments and reporting and interpreting accounting information	7 weeks

In Area of Study 1 the double entry system of recording financial data and preparing reports using the accrual basis of accounting is introduced. The perpetual method of stock recording with the First In, First Out (FIFO) method is used. As the accounting principles and qualitative characteristics underpin each unit, it would be best to introduce them progressively through the unit as appropriate transactions arise, rather than all at once.

Four special journals and the general journal are used to record transactions which are then posted to the general ledger using T-form accounts on a monthly basis. A pre-adjustment trial balance is then prepared. The Goods and Services Tax (GST) will affect all transactions, except where it has been specifically excluded as shown in the relevant key knowledge dot points.

In Area of Study 2 students are required to record balance day adjustments, complete the recording process and then prepare, explain and interpret accounting reports.

Students should be encouraged to consider the accounting system used and be able to discuss the functions of aspects of the system; for example, why control accounts are used, advantages, disadvantages, benefits to the business; or internal control procedures and the benefits to the business of using a broad range of practices.

Example activities

AREA OF STUDY 1: Recording financial data

Outcome 1

Record financial data for a single activity sole trader using a double entry system, and discuss the function of various aspects of this accounting system.

Examples of learning activities

construct a multimedia presentation about a trading business and design a quiz with questions on recording its financial data

create podcasts of the accounting elements, accounting principles and qualitative characteristics

develop a glossary of accounting terms used in the double entry recording system

fill in the gaps for the missing amounts in the special journals

prepare a ledger template poster for debtors control, creditors control, stock control and GST Clearing account

prepare a flow chart showing the accounting system from documents to reports, including subsidiary records

prepare a poster showing the links between accounting principles and qualitative characteristics

record transactions manually into journals and ledgers

use spreadsheets to produce a template for a Cash Flow Statement linked to charts and graphs

use spreadsheets to produce a template for a Balance Sheet linked to charts and graphs

use spreadsheets to produce a template for an Income Statement linked to charts and graphs

Detailed example

SPECIAL JOURNALS: FILL THE GAPS

Using the information below, fill in the missing amounts in the special journals.

Sales Journal

Date	Debtor	Invoice number	Cost of sales	Sales	GST	Debtors control
May 8	N. Roll	121		3 250		
23	K. Rock	122				6 600
28	K. Rock	123	2 500			

Purchases Journal

Date	Creditor	Invoice number	Stock control	GST	Creditors control
May 7	I. Tune	364	1 000		
22	M. Sound	651		500	
28	I. Tune	378			2 200

Cash Payments Journal

Date	Details	Chq. no.	Bank	Discount revenue	Creditors control	Stock control	Wages	Sundries	GST
May 5	Wages	401					250		
7	Equipment	402							75
12	M. Sound	403	2 975		3 000				
23	Stock	404				1 000			
28	Prepaid rent	405	6 600						

Cash Receipts Journal

Date	Details	Rec. no.	Bank	Discount expense	Debtors control	Cost of sales	Sales	Sundries	GST
May 5	Wages	401							400
7	Equipment	402		50	2 000				
12	M. Sound	403							

The mark-up on sales is 100%.

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

Outcome 2

Record balance day adjustments and prepare and interpret accounting reports.

Examples of learning activities

construct a multimedia presentation about balance day adjustments and design a quiz with questions on reporting and interpreting accounting information

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

prepare a table stating the effect each balance day adjustment has on the financial reports, including a definition, the general journal entry, the effect on the Income Statement and the Balance Sheet

undertake a case study that records balance day adjustments

design a poster identifying the steps involved in closing the ledger at the end of the reporting period

prepare templates for accounting reports

Detailed example

CUT AND PASTE ACCOUNTING REPORTS

Using the items below, cut out and paste the appropriate item to complete an Income Statement and a Balance Sheet.

The headings in each report are in bold and italics to assist students; teachers may choose to change the font or items to vary the degree of difficulty for the students, depending on when this activity is completed.

Accumulated depreciation of vehicles	<i>ADJUSTED GROSS PROFIT</i>
Advertising	<i>BALANCE SHEET AS AT 30 JUNE 2012</i>
Buildings	Buying expenses
Cartage inwards	Creditors control
Cartage outwards	Capital
Cash at bank	<i>CURRENT LIABILITIES</i>
<i>CURRENT ASSETS</i>	Cost of sales
Debtors control	Drawings
Gross profit	GST clearing
<i>INCOME STATEMENT FOR YEAR ENDED 30 JUNE 2012</i>	<i>LESS COST OF GOODS SOLD</i>
<i>LESS OTHER EXPENSES</i>	Mortgage on buildings
<i>NET PROFIT</i>	<i>NET PROFIT/LOSS</i>
<i>NON CURRENT ASSETS</i>	<i>NON CURRENT LIABILITIES</i>
<i>OWNER'S EQUITY</i>	Prepaid rent expense
Rent	Revenue
Sales	Selling expenses
Short-term loan	Stock control
Stock loss	Vehicles

Unit 4: Control and analysis of business performance

In Unit 4 students build on their knowledge of and skills in recording and reporting processes. They analyse financial and non-financial information in order to aid decision making and improve business performance.

Area of study	Suggested duration
Extension of recording and reporting	8 weeks
Financial planning and decision making	8 weeks

In Area of Study 1 the extension topics include: sales and purchases returns, stock valuation, prepaid and accrued revenue, reducing balance method of depreciation, and the disposal of non-current assets. Students prepare, explain and interpret accounting information from accounting reports and graphical representations.

In Area of Study 2 students are required to prepare budgeted reports, including the reconstruction of accounts, for the Cash Flow Statement, Income Statement and Balance Sheet. Variance reports are prepared for Cash Flow Statements and Income Statements. The preparation of budgets and variance reports is best facilitated by the use of ICT, in particular spreadsheets.

ICT will also assist with interpreting accounting information from graphical representations to evaluate the performance of a business using financial and non-financial information. Students will not be required to prepare graphical representations or calculate financial indicators during the examination. However, students will gain a deeper understanding of the purpose and use of graphical representations and financial indicators if they know how they are prepared and calculated.

Example activities

AREA OF STUDY 1: Extension of recording and reporting

Outcome 1

Record financial data using double entry accounting and report accounting information using an accrual-based system for a single activity sole trader, and discuss the function of various aspects of this accounting system.

Examples of learning activities

collect and design source and business documents as specified in Unit 4

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

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

prepare concept maps for control accounts to summarise and highlight transactions

Detailed example**CONTROL ACCOUNT CONCEPT MAPS**

On A3 paper or using appropriate computer software, students prepare a concept map for control accounts showing all they need to know.

DEBTORS Control

Definition

Documents verifying transactions

Transactions including:

- Credit sales
- Cash receipts
- Returns
- Discounts

Records

- Journals
- General Ledger
- Subsidiary Ledger

Reports

- Income Statement
- Balance Sheet
- Cash Flow Statement

Tips and Tricks

GST Clearing

Definition

Documents verifying transactions

Transactions including:

- Cash purchases
- Cash sales
- Credit purchases
- Cash purchases
- Returns
- Sundry creditors

Records

- Journals
- General Ledger

Reports

- Income Statement
- Balance Sheet
- Cash Flow Statement

Tips and Tricks

STOCK Control

Definition

Documents verifying transactions

Transactions including:

- Cash purchases
- Cash sales
- Credit purchases
- Credit sales
- Returns
- Drawings
- Stock loss/gain
- Stock write down
- Advertising

Records

- Journals
- General Ledger
- Stock Card

Reports

- Income Statement
- Balance Sheet
- Cash Flow Statement

Tips and Tricks

CREDITORS Control

Definition

Documents verifying transactions

Transactions including:

- Credit purchases
- Cash payments
- Returns
- Discounts

Records

- Journals
- General Ledger
- Subsidiary Ledger

Reports

- Income Statement
- Balance Sheet
- Cash Flow Statement

Tips and Tricks

AREA OF STUDY 2: Financial planning and decision making**Outcome 2**

Prepare budgets and variance reports, evaluate the performance of a business using financial and non-financial information and discuss strategies to improve the profitability and liquidity of the business.

Examples of learning activities

complete a table of financial indicators

using charts and graphs prepared from financial reports provided in case study material, suggest and explain strategies the owner could use to improve business performance

prepare a table of items with categories to highlight the distinction between cash (inflows and outflow) and profit (revenue and expenses)

use spreadsheets to produce a template for a statement of cash flows linked to charts and graphs

use spreadsheets to produce a template for a balance sheet linked to charts and graphs

use spreadsheets to produce a template for an income statement linked to charts and graphs

Detailed example**FINANCIAL INDICATORS**

Using the alternatives set out in the following table, complete the table headed Financial Indicators.

Indicates how quickly a business is paying its creditors.	$\frac{\text{Sales}}{\text{Average total assets}}$	For every dollar invested, indicate how much the owner receives	$\frac{\text{Total liabilities}}{\text{Total assets}} \times \frac{100}{1}$
Debtors turnover	Net profit margin	Cash flow cover	$\frac{\text{Net profit}}{\text{Average total assets}} \times \frac{100}{1}$
$\frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1}$	Quick asset ratio	$\frac{\text{Average stock} \times 365}{\text{Cost of goods sold}}$	ratio current assets:1

Financial Indicators

Indicator	Calculation	Expressed as	Explanation
Asset turnover		times per period	The measure of how efficiently the business has used assets to earn revenue.
	$\frac{\text{Net cash flow from operating activities}}{\text{Average current liabilities}}$	times per period	Shows the number of times cash flows from operating activities covers current liabilities.
Creditors turnover	$\frac{\text{Average creditors} \times 365}{\text{Credit purchases}}$	number of days	
Debt ratio		percentage	Shows the percentage of the business's assets that are financed by liabilities.
	$\frac{\text{Average debtors} \times 365}{\text{Credit sales}}$	number of days	Indicates how quickly a business is collecting its debts.
Gross profit margin		percentage	For each dollar of sales, indicates how much remains as gross profit.
	$\frac{\text{Net profit}}{\text{Sales}} \times \frac{100}{1}$	percentage	For each dollar of sales, indicates how much remains as net profit.
	$\frac{\text{C.A.} - (\text{stock} + \text{prepayments})}{\text{Current liabilities} - \text{overdraft}}$	ratio quick assets:1	Shows the ability of a business to pay its debts immediately.
Return on assets		percentage	For every dollar invested in assets, indicates how much profit is generated.
Return on owner's investment	$\frac{\text{Net profit}}{\text{Average capital}} \times \frac{100}{1}$	percentage	
Stock turnover		number of days	Indicates how quickly a business is selling its stock.
Working capital ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$		Shows the ability of a business to meet its debts in the next twelve months.