

SEC Syllabus (2018) Accounting

**SEC SYLLABUS (2018)**

**ACCOUNTING**

**SEC 01**

**SYLLABUS**

**Accounting SEC 01  
Syllabus**

**(not available in September)  
Paper 1 (2hrs) + Paper II (2 hrs)**

**The aims of the syllabus are to enable students:**

1. To understand the function of accounting as a comprehensive and systematic method of recording the daily transactions of both profit making organizations; and not-for-profit making organisations.
2. To appreciate the importance of accounting in the appraisal of the financial position and performance of the enterprise and in the making of sound financial decisions.
3. To provide a solid base for progression to MATSEC Intermediate and Advance level examinations in the subject.

**To assess whether these aims have been achieved students will be examined on the ability to:**

1. Record the information generated within an enterprise in a methodical manner;
2. Summarise the information into a set of financial statements and to evaluate the performance and position of the entity therefrom;
3. Apply the financial information into making of simple financial decisions; and

The examination will consist of two papers of two hours duration each. Questions will be set in English and must be answered in English.

**Paper I** (100 marks) is to be taken by all candidates. This is a core paper and will consist of ten multiple choice questions of two marks each and four other questions carrying 20 marks each.

There will be two versions of **Paper II**: Paper IIA and Paper IIB. Questions in Paper IIB will be easier than those in Paper IIA. Candidates are required to indicate on the registration form which Paper II they wish to sit for. No change in the choice of paper will be allowed after the registration period.

**Paper IIA** (100 marks) will be divided into two sections. Section I will consist of two compulsory questions, each question will carry 30 marks (60 marks). **Only one** of these questions may require the preparation of a full set of financial statements. Section II (40 marks) will consist of three other questions, out of which candidates will be required to answer two. Each question in this section will carry 20 marks.

**Paper IIB** (100 marks) will be divided into two sections. Section I (40 marks) will consist of two compulsory questions each carrying 20 marks. **Only one** of these questions may require the preparation of a full set of financial statements. Section II (60 marks) will consist of five questions, out of which candidates will be required to answer four. Each question in this section will carry 15 marks.

**Only** the vertical format presentation of financial statements is acceptable for all types of organisations. Workings are to be in accounting form or by way of calculations.

Noiseless electronic calculators will be permitted. Candidates are strongly advised to show all workings.

## **Results**

Candidates sitting for Paper I and Paper IIA may qualify for grades 1, 2, 3, 4 or 5. The results of candidates who do not obtain at least a grade 5 shall remain Unclassified (U). Candidates sitting for Paper I and Paper IIB may qualify for grades 4, 5, 6 or 7. The result of candidates who do not obtain at least grade 7 shall remain Unclassified (U)

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SYLLABUS	Notes for Guidance
<p><b>THE NATURE &amp; PURPOSE OF ACCOUNTING</b></p>	<p>a) Accounting as an information system.                      b) The users of accounting information with particular reference to the local situation and the reasons why they need such information.  <b>Users:</b>                      Owners and shareholders;                      Potential investors;                      Lenders and other creditors ;                      Suppliers;                      Management;                      Government;                      Customers.</p>
<p><b>THE PRINCIPLES OF DOUBLE ENTRY, THE LEDGER, BALANCING OFF, THE TRIAL BALANCE and RELEVANT ACCOUNTING CONCEPTS</b></p>	<p>a) Recording of transactions using the double entry system.                      b) The ledger as a principle book of accounting.                      c) Recording entries in the ledger using the traditional 'T' form accounts.                      d) Balancing the accounts; an interpretation of any balances remaining, understanding as to their proper place in the statement of financial position.                      e) The extraction of a Trial Balance                      i. What is a trial balance?                      ii. What is the purpose of a trial balance?                      iii. Relevant accounting concepts:  <b>The Dual concept;</b>  <b>The Business Entity concept;</b>  <b>The Money Measurement concept.</b></p>
<p><b>BOOKS OF ORIGINAL ENTRY and THE SUBDIVISION OF THE LEDGER</b></p> <p><b>BOOKS OF PRIME ENTRY:</b>                      SALES JOURNAL;                      PURCHASES JOURNAL;                      SALES RETURNS JOURNAL;                      PURCHASES RETURNS JOURNAL                      CASH BOOK;                      PETTY CASH BOOK;                      JOURNAL (general journal).</p> <p><b>SUBDIVISION OF THE LEDGER:</b>                      SALES LEDGER;                      PURCHASES LEDGER;                      CASH BOOK;                      GENERAL LEDGER.</p>	<p>a) Understand the purpose of Day Books and their relationship with the ledger;                      b) The source of information (document) used to complete the Day Books;                      c) Record purchases, sales and returns to the appropriate Day Book, with and without the inclusion of VAT (Value Added Tax).                      d) The posting of day book totals to the respective ledgers.                      e) The preparation of the VAT Account including transfers for VAT charged on purchases, sales and returns.                      f) Trade discount and its treatment;                      g) The purpose and the preparation of a <b>two-column</b> cash book and a <b>three-column</b> cash book;                      h) Cash discounts – their recording and transfers to the general ledger.                      i) The use and the preparation of the petty cash book and the imprest system;                      j) The use and preparation of the Journal in the following circumstances:                      i. to correct errors;                      ii. to write off irrecoverable debts;                      iii. upon the purchase on credit of non-current assets;                      iv. to transfer amounts to the Profit and Loss Account (Income Statement), including depreciation charges and allowances for trade receivables;  <b>Narratives may be required.</b></p>

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<b>CAPITAL &amp; REVENUE EXPENDITURE</b>	The distinction between Capital Expenditure and Revenue Expenditure.
<b>THE STATEMENT OF PROFIT OR LOSS (INCOME STATEMENT) and THE STATEMENT OF FINANCIAL POSITION.</b>	<ul style="list-style-type: none"> <li>a) The preparation of the Statement of Profit or Loss (Income Statement), distinguishing between the <b>Trading Account</b> and the <b>Profit and Loss Account</b>;</li> <li>b) The purpose of the Trading account and the Profit and Loss account in the calculation of profit or loss, and the end of year transfers from the ledger accounts;</li> <li>c) The application of the <b>accruals concept</b> in the preparation of the Statement of Profit or Loss;</li> <li>d) The preparation and the use of the Statement of Financial Position and its relevance in communicating the current financial position of the business;</li> <li>e) The application of the <b>going concern concept</b> in the preparation of the financial statements;</li> <li>f) The calculation and significance of Working Capital (net current assets) and Capital Employed (Total assets <i>less</i> current liabilities);</li> </ul>
<b>ACCOUNTING FOR ACCRUALS AND PREPAYMENTS</b>	<ul style="list-style-type: none"> <li>a) The need for the accounting for accruals and prepayments in compliance with the <b>accruals concept</b>;</li> <li>b) Accounting and computations for accruals and prepayments both for expense and revenue accounts;</li> </ul>
<b>ACCOUNTING FOR DEPRECIATION</b>	<ul style="list-style-type: none"> <li>a) The need to allow for depreciation and the application of the <b>accruals concept</b> in the accounting for depreciation;</li> <li>b) An awareness of the causes of depreciation; The calculation of depreciation using the straight line, reducing balance and the revaluation methods. A basic understanding of each method;</li> <li>c) The allowance for depreciation account;</li> <li>d) The asset disposal account (excluding part-exchange);</li> <li>e) Other accounting concepts relevant to depreciation: <ul style="list-style-type: none"> <li><b>Consistency concept;</b></li> <li><b>Prudence concept;</b></li> <li><b>Going concern concept;</b></li> <li><b>Cost concept.</b></li> </ul> </li> </ul>

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<p><b>IRRECOVERABLE DEBTS and ALLOWANCES FOR TRADE RECEIVABLES (DOUBTFUL DEBTS)</b></p>	<ul style="list-style-type: none"> <li>a) The distinction between a definite irrecoverable debt and a doubtful debt;</li> <li>b) The writing off of irrecoverable debts;</li> <li>c) The distinction between a specific and a general allowance for doubtful debts and the calculation of an allowance;</li> <li>d) The treatment of recovered debts;</li> <li>e) The preparation of all relevant accounts;</li> <li>f) An understanding of relevant accounting concepts, namely the <b>Prudence concept</b> and the <b>Accruals concept</b>.</li> </ul>
<p><b>BANK RECONCILIATION STATEMENT</b></p>	<ul style="list-style-type: none"> <li>a) Bank statements and their reconciliation with the cash book;</li> <li>b) Familiarity with the bank statement format and the following terms contained in the statement: Overdrawn balance, credit transfer, direct debit, standing order, dishonoured cheque, bank charges and bank interest.</li> </ul>
<p><b>CONTROL ACCOUNTS FOR TRADE RECEIVABLES and TRADE PAYABLES (SALES &amp; PURCHASES LEDGER CONTROL ACCOUNTS)</b></p>	<ul style="list-style-type: none"> <li>a) The purpose of control accounts;</li> <li>b) The source of entries for the compilation of control accounts;</li> <li>c) The preparation of trade receivables and trade payables control accounts.</li> </ul>
<p><b>SINGLE ENTRY and INCOMPLETE RECORDS</b></p>	<ul style="list-style-type: none"> <li>a) Utilising the direct method in arriving at the profit figure by the use of a Statement of Affairs;</li> <li>b) The use of control accounts to calculate the value of credit sales and credit purchases;</li> <li>c) The use of the cash account in incomplete records;</li> <li>d) The use of Mark-up and Margin in the calculation of the values of Sales, Cost of Sales and Gross Profit;</li> <li>e) The preparation of the Financial Statements from incomplete information.</li> </ul>
<p><b>PARTNERSHIPS</b></p>	<ul style="list-style-type: none"> <li>a) The partnership deed and the main common clauses in such an agreement;</li> <li>b) The use and purpose of separate partners' capital and current accounts including the understanding of debit and credit balances;</li> <li>c) Treatment of interest on capitals, partners' salaries, partners' drawings in cash and in kind and the division of residual profits or losses;</li> <li>d) The preparation of the Appropriation Account and the partners' Current Accounts. (Interest on drawings is <b>not</b> examinable).</li> </ul> <p>In the absence of a partnership agreement profits or losses are shared according to the partners' capital ratio.</p> <p>Examination questions assessing this area of study will <b>not</b> require the preparation of a full set of financial statements and questions will <b>not</b> include correction of errors. The aim of this area of the syllabus is to create the awareness of the distribution of profit or loss. (The statement of profit or loss and the statement of financial position are not examinable).</p>

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<b>CORRECTION OF ERRORS</b>	<ul style="list-style-type: none"> <li>a) Correcting errors affecting the Trial Balance agreement;</li> <li>b) Correcting errors not affecting the Trial Balance agreement;</li> <li>c) The preparation of a suspense account;</li> <li>d) Redrafting a correct Trial Balance;</li> <li>e) A statement to correct Net Profit, and the correction of the Statement of Financial Position.</li> </ul> <p>The Statement to correct Net Profit and the correction of the Statement of Financial Position is <b>not</b> examinable in Paper IIB.</p>
<b>DEPARTMENTAL ACCOUNTS</b>	<ul style="list-style-type: none"> <li>a) The need for the calculation of the profit or loss of each department;</li> <li>b) Direct allocation and apportionment of expenses in accordance with given data;</li> <li>c) The preparation of the financial statements, primarily a statement of departmental profit or loss.</li> </ul> <p>Examination questions will be set for two departments <b>only</b> and, unless the question states otherwise, the presentation of the profit or loss statement must include departmental columns and columns for the business as a whole.</p>
<b>MANUFACTURING ACCOUNT</b>	<ul style="list-style-type: none"> <li>a) The purpose of preparing a Manufacturing Account clearly identifying the different elements of cost, namely Direct Materials, Direct Labour, Direct Expenses and Factory Overheads;</li> <li>b) Distinction between the direct and the indirect costs of production;</li> <li>c) Distinction between manufacturing expenses, administration expenses, selling and distribution expenses, and financial charges.</li> <li>d) The preparation of the financial statements. The classification of expenses within the statement of profit or loss may be required;</li> <li>e) The calculation of the cost per unit produced and the calculation of the value of the closing inventory of finished goods;</li> <li>f) The distinction between fixed and variable costs.</li> </ul>
<b>NOT-FOR-PROFIT MAKING ORGANISATIONS</b>	<ul style="list-style-type: none"> <li>a) The main features of such organisations;</li> <li>b) The difference between an Income and Expenditure Account and a Receipt and Payments Account;</li> <li>c) The calculation of the accumulated fund;</li> <li>d) The preparation of the Subscriptions Account;</li> <li>e) The preparation of a Bar Trading and Profit and Loss account, or Trading and Profit and Loss accounts for other trading activities;</li> <li>f) The Income and Expenditure Account and the Statement of Financial Position;</li> <li>g) The effect of a surplus or deficit on the accumulated fund.</li> </ul>

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<p><b>LIMITED LIABILITY COMPANIES</b></p>	<ul style="list-style-type: none"> <li>a) The advantages of limited liability companies in contrast to unlimited liability business organisations;</li> <li>b) An elementary understanding of ordinary shares and debentures;</li> <li>c) The difference between:             <ul style="list-style-type: none"> <li>i) authorised and issued share capital;</li> <li>ii) nominal and market value of shares.</li> </ul> </li> <li>d) The calculation of dividends including interim dividends and loan/debenture interest;</li> <li>e) The distinction and treatment of share premium and retained earnings and an awareness of how these accounts are created;</li> <li>f) The appropriation of net profit, limited to interim dividends and retained earnings, <b>only</b>.</li> </ul> <p>The preparation of a full set of financial statements of limited companies is <b>not</b> examinable.</p> <p><b>This area of study is examinable ONLY in Paper I.</b></p>
<p><b>ACCOUNTING RATIOS</b></p>	<p>The purpose of accounting ratios, their calculation and basic interpretation of the <b>profitability</b> ratios and <b>liquidity</b> ratios:</p> <ul style="list-style-type: none"> <li>i) Return on capital employed (ROCE);</li> <li>ii) Gross profit to cost of sales % (gross profit mark-up);</li> <li>iii) Gross profit to sales % (gross profit margin);</li> <li>iv) Net profit to sales % (net profit margin);</li> <li>v) Current ratio (working capital ratio);</li> <li>vi) Acid test ratio (quick ratio).</li> </ul> <p><b>Capital employed</b> is to be taken as non-current assets <i>plus</i> working capital at year-end.</p> <p>ROCE is examinable <b>only</b> for sole proprietor business organisations.</p>
<p><b>(NOTE) The sequence in which the topics have been presented does not imply any particular degree of importance or the order in which they ought to be taught.</b></p>	

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**Suggested Resource Books**

<b>Title</b>	<b>Author</b>	<b>Publisher</b>	<b>ISBN No</b>
Go for Accounting!	Eric Mitchell & Alfred J. Sant Fournier	Eric Mitchell and Alfred J. Sant Fournier	978-99957-0-674-6
Business Accounting Vol 1(12 <sup>th</sup> edition)	Alan Sangster Frank Wood	Pearson Education	9780273759287

**Reading list**

<b>Title</b>	<b>Author</b>	<b>Publisher</b>	<b>ISBN No</b>
Cambridge IGCSE Accounting	Catherine Coucom	Cambridge University Press, United Kingdom	13:978-1107625327
Accounting – A Process Book 1 & Workbook 1	Peter Pace O’Shea	Peter Pace O’Shea	978-99957-0-621-0
Accounting – A Process Book 2 & Workbook 2	Peter Pace O’Shea	Peter Pace O’Shea	978-99957-0-622-7



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APPENDIX I - Suggested format for a Statement of Profit or Loss

<b>STATEMENT OF PROFIT OR LOSS for the year ended</b>		
	€	€
<b>Sales</b>		<b>X</b>
Sales Returns		(X)
		<b>X</b>
<b>Cost of Sales</b>		
Opening Inventory	X	
Purchases	X	
Carriage Inwards	X	
Purchases Returns	(X)	
	X	
Closing Inventory	(X)	
		<b>X</b>
<b>Gross Profit</b>		<b>X</b>
<b>Other Revenue</b>		
Rent Receivable		X
		<b>X</b>
<b>Expenses</b>		
Discounts Allowed	X	
Communication Expenses	X	
Postage & Stationery	X	
Wages & Salaries	X	
Selling & Distribution Expenses	X	
Insurance	X	
General Expenses	X	
Cleaning	X	
Administrative Expenses	X	
Bank Charges	X	
Interest Expenses	X	
Irrecoverable Debts	X	
Allowance for Trade Receivables	X	
Depreciation:		
Equipment	X	
Vehicles	X	
		<b>X</b>
<b>Net Profit</b>		<b>X</b>

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APPENDIX II - Suggested format for a Statement of Financial Position

<b>STATEMENT OF FINANCIAL POSITION as at</b>			
	€	€	€
<b>Assets</b>			
<b>Non-current assets</b>	<b>Cost</b>	<b>Dep'n</b>	<b>NBV</b>
Property	X	X	X
Machinery	X	X	X
Equipment	X	X	X
Furniture & Fittings	X	X	X
Vehicles	X	X	X
	X	X	X
<b>Current assets</b>			
Inventories		X	
Trade Receivables	X		
Allowance for Trade Receivables	(X)		
		X	
Other Receivables:			
Prepaid Expenses		X	
Accrued Revenue		X	
Bank		X	
Cash		X	
			X
<b>Total Assets</b>			<b>X</b>
<b>Capital and Liabilities</b>			
Opening Capital			X
Net Profit			X
Drawings			(X)
Closing Capital			<b>X</b>
<b>Non-Current Liabilities</b>			
Loan		X	
<b>Current Liabilities</b>			
Trade Payables	X		
Other Payables:			
Accrued Expenses	X		
Prepaid Revenue	X		
Bank overdraft	X		
		X	
<b>Total Liabilities</b>			<b>X</b>
<b>Total Capital and Liabilities</b>			<b>X</b>

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APPENDIX III – Recommended terminology

<b>Traditional Terminology</b>	<b>Recommended Terminology</b>
Creditors	Accounts (Amounts) Payable
Trade Creditors	Trade Payables
Other Creditors	Other Payables (other accounts payable)
Debtors	Accounts (Amounts) Receivable
Trade Debtors	Trade Receivables
Other Debtors	Other Receivables (other accounts receivable)
Bad Debts	Irrecoverable Debts
Bad Debts Recovered	Recovered Debts
Provision for Doubtful Debts	Allowance for Trade Receivables/ Allowance for doubtful debts
Provision for Depreciation	Allowance for Depreciation
Fixed Assets	Non-Current Assets
Long-term Liabilities	Non-Current Liabilities
Stocks	Inventories
Trading, Profit and Loss account	Statement of Profit or Loss
Balance Sheet	Statement of Financial Position