

Level 3 Certificate in Accounting



Syllabus

Effective for examinations to be held after 1 January 2008

Vision Statement

Our vision is to contribute to the achievements of learners around the world by providing integrated assessment and learning services, adapted to meet both local market and wider occupational needs and delivered to international standards.



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INTRODUCTION

Education Development International (EDI) is a leading international awarding body that was formed through the merger of the London Chamber of Commerce and Industry Examinations Board (LCCIEB) and a leading online assessment provider GOAL. EDI now delivers LCCI International Qualifications (LCCI IQ) through a network of over 4000 registered centres in more than 100 countries worldwide. Our range of business-related qualifications are trusted and valued by employers worldwide and recognised by universities and professional bodies.

Level 3 Certificate in Accounting

Aims

The aims of this qualification are to enable candidates to develop:

- an understanding of the basic principles underlying the recording of business transactions
- the ability to prepare and interpret accounts for sole traders, partnerships, non-trading organisations, limited companies and groups of companies in accordance with basic accounting conventions and current accounting practice
- the ability to apply the principles of decision making

Assessment Objectives

The examination will assess the candidate's ability to:

- demonstrate an understanding of the more advanced aspects of Level 1 Certificate in Book-keeping and Certificate in Level 2 Book-keeping and Accounts
- prepare accounts for a partnership in relation to alterations in partners' interests and the conversion of a partnership into a limited company
- prepare accounting entries for a limited company to record the issue of share capital and the issue and redemption of debentures
- account for distributable profits and profits prior to incorporation for companies
- prepare cash flow statements in accordance with FRS 1 (revised)
- prepare a cash budget
- prepare a budgeted trading and profit and loss account
- calculate and interpret accounting ratios
- demonstrate an understanding of the principles of decision making
- interpret accounting statements
- demonstrate an understanding of accounting standards and concepts

Target Audience and Candidate Progression

This qualification is suitable for candidates who work or wish to work in an advanced area of accountancy.

All businesses require suitably skilled people who are able to prepare and maintain accurate accountancy records. In addition they must be able to produce regular accountancy statements and explain their meaning to management. There continues to be a demand for people who possess these skills.

Candidates who attempt this qualification must have the knowledge and skills equivalent to the LCCI IQ Level 1 Certificate in Book-keeping and Level 2 Certificate in Book-keeping and Accounts qualifications.

Successful candidates at Level 3 Certificate in Accounting can progress to study LCCI IQ Level 4 Financial Accounting.

Level of English Required

Candidates should have a standard of English equivalent to LCCI IQ Level 2 English for Business.

Syllabus Topics

1. Levels 1 and 2 revisited
2. Valuation of stocks
3. Valuation of fixed assets
4. Partnerships
5. Companies
6. Accounting for groups of companies
7. Cash flow statements
8. Accounting ratios
9. Budgetary control
10. Introduction to decision making
11. Concepts and accounting framework

Note: Taxation, in all its forms, is excluded from this syllabus

Coverage of Syllabus Topics in Examinations

At least **two** of the following syllabus topics will appear in each examination:

4. Partnerships
5. Companies
6. Accounting for groups of companies
7. Cash flow statements
8. Accounting ratios
10. Introduction to decision making

Examination Format

- The time allowance for the examination is 3 hours
- The examination paper will comprise 5 questions
- Candidates are required to answer 4 questions. No question will be compulsory
- Any question can relate to more than one topic area from the syllabus

Guided Learning Hours

EDI recommends that 140 - 160 Guided Learning Hours (GLHs) provide a suitable course duration for an 'average' candidate at this level. This figure includes direct contact hours as well as other time when candidates' work is being supervised by teachers. Ultimately, however, it is the responsibility of training centres to determine the appropriate course duration based on their candidates' ability and level of existing knowledge. EDI experience indicates that the number of GLHs can vary significantly from one training centre to another.

Candidate Answer Guidance

Answer Formats

The answers required will be predominantly of a quantitative nature, but some questions will also require candidates to provide short written answers.

Candidate Performance Measurement

Pass Mark Information

Pass	50%
Credit	60%
Distinction	75%

Mark Allocation

A positive marking approach is used. Although candidates will be penalised for initial calculation errors, they will gain marks for consequential 'own figures' as long as the correct use of principles has been demonstrated.

Skills

Candidates will need to show that they can:

- add, subtract, divide and multiply, calculate and use percentages
- prepare journal entries and ledger accounts
- present the final accounts of sole traders, partnerships, limited companies, including groups and non-trading organisations in appropriate format
- analyse and interpret data
- apply basic decision making techniques
- prepare financial data in compliance with Statements of Standard Accounting Practice (SSAP) and Financial Reporting Standards (FRS)

Recommended Reading List and Support Material

Reading List

Title	Author(s)	Publisher	ISBN Code
Preferred Text:			
How to Pass Accounting (Second edition)	Joe Adomako and Bala Balachandran	LCCIEB	1 86247 033 Z
Recommended Additional Text:			
As Level and A Level Accounting	Harold Randall	Cambridge Univ Press	0 521 53993 5

Support Material

A specimen paper with answers is available from the LCCI IQ website.

Syllabus Topic

Items Covered

1 Levels 1 and 2 revisited

Candidates must be able to:

- 1.1 Undertake more advanced examples of syllabus topics contained in the syllabi at Levels 1 and 2 and not covered elsewhere in this syllabus. Special reference will be made to the following:
- Accounting for depreciation and bad and doubtful debts
 - Preparation of final accounts for a sole trader
 - Preparation of final accounts from incomplete records
 - Preparation of final accounts for a non-trading organisation
 - Preparation of Manufacturing Accounts
 - Sales and Purchase Ledger Control Accounts and reconciliation with the total of the list of balances in the subsidiary sales and purchase ledgers
 - Correction of errors and use of suspense account

2 Valuation of stocks

Candidates must be able to:

- 2.1 Undertake more advanced examples of the Level 2 syllabus for this topic area
- 2.2 Stock accounts
- 2.2.1 Explain the objectives of stock Accounts
- 2.2.2 Prepare stock accounts
- 2.2.3 Differentiate between perpetual and periodic stock valuation
- 2.3 Stock valuation for final accounts
- 2.3.1 Explain and/or apply the following cost bases: FIFO; average cost; replacement cost; standard cost.

Exclusion:

The study of long-term contracts is not a requirement of this syllabus

2.4 Ascertaining stock in the absence of physical stocktaking	
	2.4.1 Adjust stock valuation for stock movement before or after end of accounting period
3 Valuation of fixed assets	Candidates must be able to:
	3.1 Undertake more advanced examples of the Levels 1 and 2 syllabi for this topic area
	3.2 Explain and apply the following additional methods of depreciation: Units of output; machine hour; sum of years' digits; annual revaluation
	3.3 Calculate the effect of a change in the basis of depreciation of a fixed asset
	3.4 Calculate the change in the charge for depreciation when there is a change in the life and/or residual value of a fixed asset
4 Partnerships	Candidates must be able to:
	4.1 Undertake more advanced examples of the Level 2 syllabus for this topic area
4.2 Changes in partnership interests during a financial year	
	4.2.1 Prepare entries for the division of profits/losses in accordance with a partnership agreement
	4.2.2 Prepare entries for the division of a trading and profit & loss account into periods before and after the date of change in a partnership agreement, if within an accounting period, using time, turnover and other bases
	4.2.3 Prepare entries to partners' capital accounts for funds introduced/ Withdrawn

- 4.2.4 Prepare entries for the adjustment of partners' capital and/or current accounts for share of unrecorded assets/liabilities when profit/loss ratios are changed
- 4.2.5 Prepare entries for the inclusion or exclusion from the books of any assets/liabilities in accordance with partners' decisions
- 4.3 Admission or retirement of partners during a financial year**
 - 4.3.1 Prepare the entries to partners' capital accounts for funds introduced/withdrawn
 - 4.3.2 Make adjustment to partners' capital and/or current accounts for share of unrecorded assets/liabilities
 - 4.3.3 Divide a trading and profit & loss statement into periods before and after date of admission or retirement of partners, if within an accounting period using time, turnover and other bases of apportionment
- 4.4 Conversion into a company**
 - 4.4.1 Prepare a sale of business account in partnership books
 - 4.4.2 Prepare a dissolution (realisation) account in partnership books
 - 4.4.3 Show the distribution of proceeds between partners
 - 4.4.4 Close the partners' capital accounts in partnership books
 - 4.4.5 Prepare a purchase of business account in company books
 - 4.4.6 Record the issue of shares and debentures etc in company books
 - 4.4.6 Record goodwill in company books
 - 4.4.7 Divide profits before and after incorporation

5 Companies

Candidates must be able to:

- 5.1 Undertake more advanced examples of the Level 2 syllabus for this topic area
- 5.2 Issue of shares and issue and redemption of debentures**
 - 5.2.1 Prepare the application and allotment account
 - 5.2.2 Prepare the share capital and debenture accounts
 - 5.2.3 Prepare the share and/or debenture premium accounts
 - 5.2.4 Record the calls on shares and debentures
 - 5.2.5 Record the redemption of debentures
- 5.3 Purchase of own ordinary shares and redemption of preference shares**
 - 5.3.1 Record the purchase, by a company, of its own ordinary shares out of the proceeds of a new issue made for that purpose
 - 5.3.2 Record the purchase, by a company, of its own ordinary shares out of distributable reserves
 - 5.3.3 Record the purchase, by a company, of its own ordinary shares from a mix of a new issue and distributable reserves
 - 5.3.4 Record the redemption of preference shares
- 5.4 Rights and bonus (capitalisation) issues of shares**
 - 5.4.1 Explain what is meant by a rights issue of shares and prepare the necessary accounts
 - 5.4.2 Explain what is meant by a bonus issue of shares and prepare the necessary accounts, making appropriate use of available reserves

5.5 Distributable profits	5.5.1 Assess the influence of liquidity on the decision whether or not to distribute profits
5.6 Profits prior to incorporation	5.6.1 Calculate the profit earned prior to incorporation 5.6.2 Apply the required accounting treatment to the pre-incorporation profits
6 Accounting for groups of companies	<p>Candidates must be able to:</p> 6.1 Prepare a consolidated profit and loss account and /or balance sheet for a simple group 6.2 Calculate goodwill on consolidation or cost of control 6.3 Calculate minority interest 6.4 Calculate group retained earnings 6.5 Treat profits in stock 6.6 Treat inter-company dividends 6.7 Treat inter-company balances 6.8 Treat items in transit e.g. stock and cash 6.9 Treat fair value of fixed assets 6.10 Explain the reasons for the adjustments used in consolidation <p>Exclusion: <i>No questions will be asked involving:</i></p> <ul style="list-style-type: none"> • <i>Piecemeal acquisitions</i> • <i>Subsidiaries with preference shares</i> • <i>Sub-subsidiaries</i> • <i>Associates</i> • <i>Mergers</i>
7 Cash flow statements	<p>Candidates must be able to:</p> 7.1 Explain and use the formats contained in FRS 1 (revised)

- 7.2 Prepare cash flow statements in accordance with FRS 1 (revised)

8 Accounting ratios

Candidates must be able to:

- 8.1 Undertake more advanced examples of the Level 2 syllabus for this topic area

8.2 Calculate the following additional ratios:

- 8.2.1 Gearing
- 8.2.2 Sales to fixed assets
- 8.2.3 Sales to capital employed
- 8.2.4 Net profit to total assets employed
- 8.2.5 Earnings per share
- 8.2.6 Price/earnings
- 8.2.7 Dividend yield
- 8.2.8 Dividend cover for ordinary shares
- 8.2.9 Earnings yield
- 8.2.10 Interest cover

Where an examination question requires the use of a specific version of a ratio formula (e.g. gearing) this will be clearly stated in the question.

8.3 Further considerations

- 8.3.1 Interpret and comment upon the ratios
- 8.3.2 Prepare final accounts using ratios

9 Budgetary control

Candidates must be able to:

9.1 Cash budgets

- 9.1.1 Calculate budgeted cash inflows and cash outflows for each period
- 9.1.2 Prepare cash budgets using a columnar layout in accordance with the periods required e.g. weekly, monthly, quarterly (three monthly) etc.

9.2 Budgeted statements	9.2.1 Prepare a budgeted trading and profit & loss account and/or balance sheet from given information. The use of accounting ratios may be required
9.3 Interpretation	9.3.1 Comment upon the results obtained from the preparation of cash budgets and budgeted trading and profit & loss accounts and balance sheets
10 Introduction to decision making 10.1 Breakeven	Candidates must be able to: 10.1.1 Explain what is meant by the breakeven point 10.1.2 Calculate the breakeven point in both sales units and sales value 10.1.3 Calculate the profit or loss for a given number of units sold 10.1.4 Calculate the number of units required to be sold in order to generate a given amount of profit 10.1.5 Comment upon the results obtained Exclusion: <i>Questions will not be set involving the preparation of a breakeven graph or chart</i>
10.2 Simple payback	10.2.1 Explain what is meant by the payback method of investment appraisal 10.2.6 Calculate the payback period using either constant or uneven cash flows 10.2.7 Comment upon the results obtained and make recommendations 10.2.8 State the advantages and disadvantages of using payback as a method of investment appraisal Exclusion: <i>Questions will not be set involving discounted payback</i>

10.3 Net present value method of discounted cash flow

- 10.3.1 Explain the meaning of the time value of money
- 10.3.2 Explain what is meant by net present value (either positive or negative)
- 10.3.3 Calculate net present value. Extracts from discount tables will be provided
- 10.3.4 Comment upon the results obtained and make recommendations
- 10.3.5 State the advantages and disadvantages of using net present value as a method of investment appraisal

Exclusion:

Questions will not be set involving any other aspects of discounted cash flow e.g. annuities, perpetuities or IRR

10.4 Accounting rate of return

- 10.4.1 Explain what is meant by the accounting rate of return
- 10.4.2 Calculate the accounting rate of return using the formula:

$$\frac{\text{average profits after depreciation but before interest} \times 100}{\text{initial capital costs}} \quad 1$$

- 10.4.3 Comment upon the results obtained and make recommendations
- 10.4.4 State the advantages and disadvantages of using the accounting rate of return as a method of investment appraisal

11 Concepts and accounting framework

Candidates must be able to:

- 11.1 Explain the following:
 - Going concern concept
 - Accruals or matching concept
 - Prudence concept
 - Consistency concept
 - Entity concept
 - Separate valuation principle
 - Materiality concept
 - Historical cost convention
 - Objectivity concept
 - Duality concept
 - Substance over form

11.2 Explain and apply the principles incorporated in the following accounting standards;

- SSAP 9 - Stocks (long term contracts will not be examined)
- FRS 1 (revised) - Cash flow statements
- FRS 2 - Accounting for subsidiary undertakings
- FRS 15 - Tangible fixed assets

Note:

If any standard is either revised or replaced, the revised or replaced standard will become examinable 18 months after it is issued



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Advanced Business Calculations

Third Level



Extended Syllabus

Effective from 1 October 2001

INTRODUCTION

Extended Syllabuses are part of a comprehensive package of support materials currently being developed by the LCCIEB. This package includes past question papers, Examiners' Reports, Model Answers, and a range of How to Pass books, all of which are designed to offer extra help and guidance to teachers and candidates, and to enhance chances of success in LCCIEB examinations.

What are they?

Extended Syllabuses specify in detail the learning and assessment requirements of LCCIEB awards.

Each one, produced by the subject Chief Examiner, will state in detail the following:

- Aims and assessment objectives of the award
- Intended target audience and possible candidate progression for holders of the award
- Level of English required
- Syllabus topics and syllabus coverage in examinations
- Assessment weightings and examination format
- Guided learning hours
- Candidate answer guidance
- Pass mark information and mark allocation
- Recommended reading list and support material
- Detailed listing of syllabus topics and syllabus elements

Who are they for and how can they be of use?

They are designed for:

- Teachers who will find them invaluable when designing courses and planning lessons.
- Candidates who will find them essential because they can be used as checklists when preparing for examinations. Candidates will also be able to refer to Extended Syllabuses when planning revision programmes.

Aims

The aims of this syllabus are to enable candidates to develop:

- A broad knowledge and understanding of advanced business calculations in relation to simple and compound interest, stock exchanges, business ownership, profitability and liquidity, investment appraisal, bankruptcy, depreciation of business assets and index numbers
- The ability to apply this knowledge and understanding in a business situation
- A knowledge and understanding of related terminology

Assessment Objectives

After successfully completing this examination candidates will be able to:

- Calculate simple and compound interest in business situations over periods measured in days, months, or years, including the use of the appropriate formulae
- Perform standard business calculations involving shares, debentures, stocks and unit trusts
- Perform standard business calculations involving revenue and costs, trading and profit and loss accounts, balance sheets, and including break-even analysis
- Perform standard business calculations involving the more common ratios used to assess profitability and liquidity
- Perform standard investment appraisal involving payback, average rate of return, internal rate of return, and net present value
- Perform standard bankruptcy calculations involving assets and liabilities, secured and unsecured creditors, and dividends
- Perform standard calculations of the depreciation of business assets involving the equal instalment method and the diminishing balance method
- Perform calculations of index numbers involving basic indices relative to price and to quantity, including a change in the base year
- Use and understand appropriate mathematical and business terminology

Target Audience and Candidate Progression

This qualification is intended for students who have already passed the LCCIEB Business Calculations Second Level or equivalent.

It is specifically designed for persons intending to perform a range of advanced business calculations within a business environment.

It provides a suitable mathematical preparation for the LCCIEB Fourth Level examination Cost Accounting and Quantitative Methods.

Taken with other LCCIEB business courses, it provides a suitable preparation for candidates intending to work at an advanced level in a business environment.

The syllabus is also suitable for the student with a general interest in the subject.

Level of English required

Candidates should have a standard of English equivalent to LCCIEB English for Business Second Level, together with a standard knowledge of mathematical English equivalent to that used in LCCIEB Business Calculations, Second Level.

Syllabus topics

- 1 Simple and compound interest
- 2 Stock exchanges
- 3 Business ownership
- 4 Profitability and liquidity
- 5 Investment appraisal
- 6 Bankruptcy
- 7 Depreciation of business assets
- 8 Index numbers

Important Note

The topics listed in the extended syllabus for First Level Commercial Calculations and Second Level Business Calculations are also examinable in Third Level Advanced Business Calculations examinations.

Coverage of syllabus topics in examinations

Each examination will be broadly representative of the balance of topics in the detailed syllabus. Some flexibility is appropriate in order to provide a suitable variety of questions and business contexts, and to maintain an appropriate balance of difficulty.

Each examination will include topics from most or all sections of the syllabus. A single question may relate to a single section of the syllabus, or to more than one section.

Examination format

- candidates will be examined in a single written examination lasting 3 hours
- questions will normally be set within an appropriate business context
- candidates will be required to answer all 8 questions

Guided Learning Hours

LCCIEB recommends that 140 - 160 Guided Learning Hours (GLHs) provide a suitable course duration for an "average" candidate at this level. This figure includes direct contact hours as well as other time when candidates' work is being supervised by teachers. Ultimately, however, it is the responsibility of training centres to determine the appropriate course duration based on their candidates' ability and level of existing knowledge. LCCIEB experience indicates that the number of GLHs can vary significantly from one training centre to another.

Candidate Answer Guidance

Marks are awarded for correct working as well as for correct answers and for an appropriate level of accuracy. Where a correct answer is seen, without working, a candidate will normally be given full marks for that section. However, where a question asks for a specific method, then that method must be used and shown, otherwise the candidate will normally receive no marks for that section. Candidates are advised that it is normally to their advantage to show all working.

Candidates who make an error at an early stage in a question will be given credit for later work if it involves a correct method, appropriate to the question.

Candidate performance measurement

Pass mark information

Pass	50%
Credit	60%
Distinction	75%

Mark allocation

Questions will not necessarily carry equal marks. Questions of different difficulty or different length will normally carry different marks.

Marks will be awarded for the appropriateness of the method used as well as for the accuracy of the answer.

Marks will not normally be reserved for appropriate use of English, correct use of grammar, for a specific format of answer, or for presentation, except where specifically stated in the question (such as asking for the answer in a particular format). Candidates should, however, be aware of

the need for clear, intelligible and unambiguous answers. An answer must be comprehensible in order to gain marks.

Recommended reading list and support material

Reading list

A wide range and variety of books may be useful in the preparation of candidates. The following books relate to a number of the topics in the syllabus:

Title	Author(s)	Publisher	ISBN Code
Quantitative Methods	D Friend	Longman	0582 22969 6 X
Accounting for Non-Accounting Students (4th edition)	J R Dyson	Pitmans	0273 625756
Accounting in a Business Context	Aidan Berry & Robin Jarvis	Pitmans	0993 611052

Candidates are strongly advised to study the following material available from LCCIEB: past examination papers, examiners' reports and model answers.

These highlight, respectively, the types of questions the candidate will be required to answer, the type of answer appropriate, and the more common mistakes that have been found to cost candidates marks. These materials are specifically designed to help centres and students understand the examination requirements in detail, and the Board feels that appropriate study of these materials should have considerable benefit for candidates.

Support material

Examiners' Reports, Model Answers and past question papers can be purchased from the LCCIEB Customer Service Department.

Syllabus Topic

Items Covered

1 Simple and compound interest

Candidates must be able to:

1.1 Terminology

1.1.1 Understand the terms: principal, rate of interest, time period, loan, overdraft, investor, borrower, drawer, drawee, acceptor, negotiable instrument, endorsement, banker's discount, maturity, face value, tender, at par, redemption, hire purchase terms, deposit, instalment payment, balance owing, present value

1.2 Simple interest

1.2.1 Calculate the amount of simple interest on a sum borrowed or deposited for:

- (a) a single year
- (b) a number of years
- (c) a number of months
- (d) a number of days
- (e) a combination of the above, which may involve a fractional or decimal form

1.2.2 Calculate simple interest, using the formula:

$$\text{Interest} = \frac{\text{Principal} \times \text{Rate (per cent)} \times \text{Number of years}}{100}$$
$$I = \frac{PRN}{100}$$

1.2.3 Use a rearranged formula to calculate:

- (a) rate of interest: $R = \frac{100I}{PN}$
- (b) principal borrowed or deposited:
 $P = \frac{100I}{RN}$
- (c) the number of years for which the principal was borrowed or deposited:
 $N = \frac{100I}{PR}$

1.2.4 Use the formula to calculate:

- (a) The rate of interest charged for discounting a bill of exchange
- (b) The present value of a bill of exchange

- (c) The amount of interest payable on a discounted bill of exchange
- (d) The amount of interest payable on a treasury bill before redemption
- (e) The amount of interest charged on a hire purchase transaction
- (f) The rate of interest charged on a hire purchase transaction

1.2.5 Use the 'products method' to calculate the amount of simple interest:

- (a) Payable *to* the holder of a bank account
- (b) Payable *by* the holder of a bank account

1.2.6 Calculate the final balance figure on a bank account

1.3 Compound interest

1.3.1 Calculate the amount of compound interest on a sum deposited or borrowed for:

- (a) a single year
- (b) a number of years
- (c) a number of months
- (d) a number of days
- (e) a combination of the above, which may involve a fractional or decimal form

1.3.2 Calculate compound interest, using the formula:

$$\text{Amount} = \text{Principal} \left(1 + \frac{\text{Rate of interest}}{100}\right)^{\text{Number of years}}$$

$$A = P \left(1 + \frac{R}{100}\right)^N$$

1.3.3 Use the compound interest formula to calculate:

- (a) Appreciation in value of property
- (b) An increase in a sum deposited in an interest bearing account
- (c) An increase in a sum borrowed

- (d) An increase in the value of an investment

1.3.4 Compare amounts of compound interest and simple interest on a sum borrowed or deposited

1.3.5 Compare an appreciation in value of property at compound interest with the cost of a loan at simple interest to purchase the property

1.3.6 Use the rearranged compound interest formula to calculate:

- (a) The present value (P) of an investment

$$P = \frac{A}{\left(1 + \frac{R}{100}\right)^N}$$

- (b) The rate of interest (R) using $\left(1 + \frac{R}{100}\right)^N = \frac{A}{P}$

2 Stock exchanges

Candidates must be able to:

2.1 Terminology

2.1.1 Understand the terms: issued capital, ordinary shares, preference shares, par (or nominal) value, market value, share dividend, percentage yield, debenture, interest rate, stock, unit price, bid and offer prices, commission charge, investor's income

2.2 Company shares

2.2.1 Calculate the value of a purchase and/or a sale of shares

2.2.2 Calculate commission costs in the purchase and sale of shares

2.2.3 Calculate profits or losses from the purchase and sale of shares

2.2.4 Calculate dividend payments on shares

2.2.5 Calculate the percentage yield on an investment in shares

2.3 Debentures

2.3.1 Calculate the value of a purchase and/or a sale of debentures

- 2.3.2 Calculate the interest/payment on debentures
- 2.3.3 Calculate the profit remaining for shareholders after payment of interest on debentures
- 2.3.4 Calculate the percentage yield on an investment in debentures

2.4 Stocks

- 2.4.1 Calculate the value of a purchase and/or a sale of stock
- 2.4.2 Calculate commission costs in the purchase and sale of stock
- 2.4.3 Calculate interest payments on stock
- 2.4.4 Calculate profits or losses from the purchase and sale of stock
- 2.4.5 Calculate the percentage yield on an investment in stock

2.5 Unit trusts

- 2.5.1 Calculate the value of a purchase and/or a sale of units
- 2.5.2 Calculate commission charges in the purchase and sale of units
- 2.5.3 Calculate the profits or losses from the purchase and sale of units
- 2.5.4 Calculate dividend payments on units
- 2.5.5 Calculate the percentage yield on an investment in units

3 Business ownership

Candidates must be able to:

3.1 Terminology

- 3.1.1 Understand the terms: sole trader, partnership, limited company, fixed costs, variable costs, total costs, cost price, selling price, opening stock, closing stock, average stock, cost of stock sold (cost of sales or cost of goods sold), gross profit or loss, net profit or loss, revenue break-even point, overhead expenses, turnover, fixed assets, current assets, amounts due after more than 1 year (long term liabilities), amounts due within 1 year, (current liabilities), capital invested, net worth

3.2 Revenue and costs

3.2.1 Calculate fixed costs

3.2.2 Calculate variable costs

3.2.3 Calculate total costs

3.2.4 Interpret a figure for total costs

3.2.5 Calculate sales revenue

3.3 Break-even analysis

3.3.1 Draw and interpret a break-even chart

3.3.2 Use a break-even chart to estimate:

(a) A break-even point

(b) The level of output which yields a specific level of profit

(c) The profit or loss at a specific level of output

3.3.3 Calculate a break-even point

3.3.4 Calculate the level of output which yields a specific level of profit

3.3.5 Calculate the profit or loss at a specific level of output

3.3.6 Calculate the contribution per unit

3.4 Trading and profit and loss accounts

3.4.1 Calculate average stock

3.4.2 Calculate cost of stock sold

3.4.3 Calculate gross profit

3.4.4 Calculate overhead expenses

3.4.5 Calculate net profit

3.5 Balance sheets

3.5.1 Calculate fixed assets

3.5.2 Calculate current assets

3.5.3 Calculate amounts due after more than 1 year (long term liabilities)

3.5.4 Calculate amounts due within 1 year (current liabilities)

	3.5.5	Calculate total assets and total liabilities
	3.5.6	Calculate capital <ul style="list-style-type: none"> (a) At the start of a year (b) At the end of a year
	3.5.7	Calculate net worth
4	Profitability and liquidity	Candidates must be able to:
	4.1 Terminology	4.1.1 Understand the terms: ratio, turnover, working capital, total borrowings, stockturn
	4.2 Ratios to assess profitability	4.2.1 Calculate a gross profit percentage 4.2.2 Calculate a rate of stock turnover per annum, in weeks and in days 4.2.3 Calculate a net profit percentage 4.2.4 Calculate an expense ratio 4.2.5 Calculate a percentage return on capital invested 4.2.6 Interpret ratios to assess profitability
	4.3 Ratios to assess liquidity	4.3.1 Calculate a working capital (current) ratio 4.3.2 Calculate an acid test ratio (quick asset ratio, liquid capital ratio) 4.3.3 Calculate a borrowing (gearing) ratio 4.3.4 Calculate an average credit granted ratio 4.3.5 Calculate an average credit taken ratio 4.3.6 Interpret ratios to assess liquidity
5	Investment appraisal	Candidates must be able to:
	5.1 Terminology	5.1.1. Understand the terms: opportunity cost, depreciation, investment project
	5.2 Payback	5.2.1 Calculate, using the payback method of investment appraisal

5.3 Average rate of return	5.3.1 Calculate, using the average rate of return method of investment appraisal
5.4 Net present value	5.4.1 Calculate, using the net present value method of investment appraisal
5.5 Internal rate of return	5.5.1 Calculate, using the internal rate of return method of investment appraisal
5.6 Appraisal	5.6.1 Interpret calculations of investment appraisal
	5.6.2 Make a judgement on alternative investment projects
6 Bankruptcy	Candidates must be able to:
6.1 Terminology	6.1.1 Understand the terms: assets and liabilities, secured and unsecured creditors, rate of dividend, insolvency, winding up expenses
6.2 Assets and liabilities	6.2.1 Calculate the liabilities and assets of an insolvent business
	6.2.2 Express the assets as: <ul style="list-style-type: none"> (a) a fraction of the liabilities (b) a percentage of the liabilities
	6.2.3 Calculate the net assets of an insolvent business
	6.2.4 Calculate the value of assets, given the rate of dividend, expenses of winding up the business and any liabilities
6.3 Secured and unsecured creditors	6.3.1 Calculate the sum owing to secured creditors
	6.3.2 Calculate the sum available for unsecured creditors
6.4 Dividend	6.4.1 Calculate the dividend available for unsecured creditors
	6.4.2 Calculate the sum payable to an unsecured creditor

	6.4.3	Calculate the amount owed to an unsecured creditor who receives a stated payment
7	Depreciation of business assets	Candidates must be able to:
	7.1 Terminology	7.1.1 Understand the terms: asset, depreciation, book value, residual (scrap) value, working life, depreciation schedule
	7.2 Equal instalment method	7.2.1 Calculate total depreciation over a period of years after allowing for any residual (scrap) value 7.2.2 Calculate annual depreciation 7.2.3 Calculate the book value of an asset after deduction of depreciation 7.2.4 Prepare a depreciation schedule to show annual depreciation, accumulated depreciation and book value at the year end
	7.3 Diminishing balance method	7.3.1 Calculate annual depreciation 7.3.2 Calculate the book value of an asset after deduction of depreciation 7.3.3 Prepare a depreciation schedule to show annual depreciation, accumulated depreciation and book value at the year end
8	Index numbers	Candidates must be able to:
	8.1 Terminology	8.1.1 Understand the terms: base year, current year, price index, quantity index, composite (or general) index, weighted
	8.2 Price index number	8.2.1 Calculate a price relative
	8.3 Quantity index number	8.3.1 Calculate a quantity relative
	8.4 Composite (or general) index number	8.4.1 Calculate a weighted average index number

8.5 Change of base year

8.5.1 Calculate a change of base year for a given index number

8.5.2 Calculate a chain base index

Note: Candidates will not be expected to use Laspeyre, Marshall-Edgeworth, Fisher or Paasche indices.

Level 2 Certificate in Book-keeping & Accounts



Syllabus

Effective for examinations to be held after 1 January 2008

INTRODUCTION

Education Development International (EDI) is a leading international awarding body that was formed through the merger of the London Chamber of Commerce and Industry Examinations Board (LCCIEB) and a leading online assessment provider GOAL. EDI now delivers LCCI International Qualifications (LCCI IQ) through a network of over 4000 registered centres in more than 100 countries worldwide. Our range of business-related qualifications are trusted and valued by employers worldwide and recognised by universities and professional bodies.

Level 2 Certificate in Book-keeping and Accounts

Aims

The aims of this qualification are to enable candidates to develop:

- an understanding of the basic principles underlying the recording of business transactions
- the ability to prepare and interpret accounts for sole traders, partnerships, non-trading organisations and limited companies

Assessment Objectives

The examination will assess the candidate's ability to:

- demonstrate an understanding of the more advanced aspects of Level 1 Book-keeping
- prepare accounts for a partnership in relation to its creation, the retirement of a partner, the admission of a new partner, its dissolution and its sale as a going concern
- prepare final accounts for partnerships, limited companies and non-trading organisations
- demonstrate how accounts are prepared for a business that has not maintained proper accounting records
- prepare manufacturing accounts
- demonstrate an understanding of the concept of determining stock valuation
- prepare control accounts for sales and purchases
- correct errors in accounts and show the use of a Suspense Account
- demonstrate how to use final accounts for the purpose of the calculation and interpretation of ratios

Target Audience and Candidate Progression

This qualification is suitable for candidates who are working, or are preparing to work in an accounting environment maintaining financial records and preparing accounts. Candidates attempting this qualification should have the knowledge and skills equivalent to the LCCI IQ Level 1 Book-keeping qualification.

Candidates who achieve Level 2 Book-keeping and Accounts may progress to the LCCI IQ Level 3 Accounting qualification.

Level of English Required

Candidates should have a standard of English equivalent to LCCI IQ Level 1 English for Business.

Syllabus Topics

1. Advanced aspects of the syllabus for Level 1 Book-keeping
2. Partnerships
3. Limited liability companies
4. Incomplete records
5. Manufacturing accounts
6. Stock valuation
7. Non-trading organisations
8. Control accounts
9. Suspense accounts
10. Calculation and interpretation of ratios
11. Preparation, by the use of ratios, of simple financial statements

Coverage of Syllabus Topics in Examinations

At least **2** of the following syllabus topics will appear in each examination:

2. Partnerships
3. Limited liability companies
4. Incomplete records
5. Manufacturing Accounts
8. Control Accounts

Examination Format

- The time allowance for the examination is 3 hours
- There will be 5 questions on the examination paper
- Candidates are required to answer 4 questions. No question will be compulsory
- Each question will carry equal marks

Guided Learning Hours

EDI recommends that 140 - 160 Guided Learning Hours (GLHs) provide a suitable course duration for an 'average' candidate at this level. This figure includes direct contact hours as well as other time when candidates' work is being supervised by teachers. Ultimately, however, it is the responsibility of training centres to determine the appropriate course duration based on their candidates' ability and level of existing knowledge. EDI experience indicates that the number of GLHs can vary significantly from one training centre to another.

Candidate Answer Guidance

Answer Formats

The answers required will be predominantly of a quantitative nature, but candidates will be expected to demonstrate their understanding of the subjects at an appropriate level.

Candidate Performance Measurement

Pass Mark Information

Pass	50%
Credit	60%
Distinction	75%

Mark Allocation

A positive marking approach is used. Although candidates will be penalised for initial calculation errors, they will gain marks for consequential 'own figures' as long as the correct use of principles has been demonstrated.

Skills

Candidates will need to show that they can:

- add, subtract, divide, multiply, calculate and use percentages and ratios
- prepare journal entries and ledger accounts
- present the final accounts for sole traders, partnerships, limited companies and non-trading organisations in appropriate format
- analyse and interpret data

Recommended Reading List and Support Material

Reading List

Title	Author(s)	Publisher	ISBN Code
How to Pass Book-keeping and Accounts, Second Level	DJ Skidmore and M Mincher	LCCIEB	0 7121 0866 1

This book is essential reading for all candidates.

Support Material

A Specimen paper with answers is available on the LCCI IQ website.

Syllabus Topic

Items Covered

1 Advanced aspects of the syllabus for Level 1 Book-keeping

Candidates must be able to:

1.1 Undertake more advanced examples of any syllabus topic contained in the syllabus at Level 1 and not covered elsewhere in this syllabus. Special reference will be made to the following:

- Recording transactions through double entry
- The Journal
- Errors in the accounts
- Trading and Profit and Loss Accounts
- The Balance Sheet

1.2 Advanced Aspects of Depreciation (including Disposal) Methods include: Straight-line and Reducing/Diminishing Balance

1.2.1 State the significance and purpose of depreciation

1.2.2 Distinguish between different methods of depreciation; determining the effect of each method on the charge to the profit and loss account and upon the presentation of the asset on the balance sheet

1.2.3 Recognise the relationship between the type of asset and the depreciation method chosen

1.2.4 Prepare asset accounts maintained at cost

1.2.5 Determine the difference between a depreciation expense account and an account for the accumulated provision for depreciation

1.2.6 Prepare entries in the depreciation expense account including transfer to the profit and loss account at the financial year end

1.2.7 Prepare entries in the accumulated provision for depreciation account, and balance the account at each financial year end

- 1.2.8 Prepare an asset disposal account
- 1.2.9 Calculate the profit or loss on the disposal of an asset
- 1.2.10 Prepare entries for assets sold for cash, or traded in or exchanged for a replacement asset
- 1.3 Adjusting for accruals and prepayments**
 - 1.3.1 State the significance of an accrual
 - 1.3.2 Prepare end-of-period adjustments in expense accounts for accruals
 - 1.3.3 State the significance of an expense prepayment
 - 1.3.4 Prepare end-of-period adjustments in expense accounts for prepayments
 - 1.3.5 Make adjustments for end-of-period expense accruals and expense prepayments in the Profit and Loss Account and Balance Sheet
 - 1.3.6 Make adjustments in the Trading Account and Balance Sheet for end-of-period 'outstanding' purchases, i.e. goods received but invoices still awaited
 - 1.3.7 State the significance of income accruals
 - 1.3.8 Make end-of-period adjustments in income accounts for income accrual
 - 1.3.9 State the significance of income prepayment
 - 1.3.10 Make end-of-period adjustments in income accounts for income prepayment
 - 1.3.11 Make adjustments for end-of-period income accruals and income prepayments in the Profit and Loss Account and Balance Sheet
 - 1.3.12 Prepare the recording of 2 areas of expense within the one expense account, with distinctive balances, e.g. Rent and Rates Account

1.4 Bad debts and provision for doubtful debts

- 1.4.1 Prepare entries for the recovery of bad debts previously written off in the year in which the bad debt is recovered
- 1.4.2 Prepare entries for the recovery of bad debts previously written off in the year prior to the year in which the bad debt is recovered
- 1.4.3 State the reason why a provision for doubtful debts is made at the financial year end
- 1.4.4 State the difference between a specific provision for a specific debt and a general provision for other debts
- 1.4.5 Prepare the Provision for Doubtful Debts Account for a number of years, and adjust the provision at the end of each financial year
- 1.4.6 Demonstrate the effect that a provision for doubtful debts has on the presentation of debtors on the balance sheet

2 Partnerships

Candidates must be able to:

2.1 The formation of a partnership and the partnership agreement

- 2.1.1 Describe the significance of a business partnership
- 2.1.2 State why an agreement may be drawn up and what it can be expected to include
- 2.1.3 Explain what happens where no partnership agreement exists
- 2.1.4 Prepare journal and ledger entries for the formation of a new partnership
- 2.1.5 Demonstrate how sole trader assets and liabilities become partnership assets and liabilities

- 2.1.6 Calculate capital introduced by a sole trader to a partnership
- 2.1.7 State the significance and effect of goodwill introduced, in the event of a sole trader joining the partnership
- 2.1.8 Explain the purpose of the personal accounts of partners i.e. capital and current accounts
- 2.1.9 Prepare partners' capital and current accounts in columnar format
- 2.2 Preparation of partnership final accounts**
 - 2.2.1 Demonstrate the distinction between the partnership profit and loss account and the appropriation account
 - 2.2.2 Demonstrate how to deal with interest on a loan made by a partner to the partnership
 - 2.2.3 Explain the reason for allowing interest on capital and current account balances and for charging interest on drawings
 - 2.2.4 Calculate interest on capital and current account balances and interest on drawings
 - 2.2.5 Prepare entries for interest in the appropriation account and in partners' current accounts
 - 2.2.6 Prepare a partnership balance sheet in horizontal or vertical format
- 2.3 Retirement of a partner at the end of a financial year**
 - 2.3.1 Prepare a Revaluation Account
 - 2.3.2 Make adjustments for goodwill necessary on the retirement of a partner
 - 2.3.3 Calculate amounts due to a retiring partner by cash, other assets, or by transfer to a loan account

2.4 Admission of a new partner at the beginning of a financial year

- 2.4.1 Prepare a Revaluation Account
- 2.4.2 Make adjustments for goodwill necessary on the admission of a partner
- 2.4.3 Record cash and other assets and liabilities introduced by the new partner

2.5 Change in the ratio in which profits and losses are shared

- 2.5.1 Make adjustments for goodwill necessary when a change occurs in the ratio in which profits and losses are shared
- 2.5.2 Write off goodwill where it is not to remain as an asset in the partnership ledger

2.6 Dissolution of partnership

- 2.6.1 Prepare a dissolution or realisation account
- 2.6.2 Prepare the entries in the partnership ledger for assets and/or liabilities taken over by an individual partner
- 2.6.3 Prepare the entries for partners' loans upon dissolution
- 2.6.4 Prepare the entries for the sale of partnership assets for cash
- 2.6.5 Prepare the entries for the collection of amounts from partnership debtors and the treatment of bad debts and discounts
- 2.6.6 Prepare the entries for the settlement of partnership creditors and the treatment of discounts
- 2.6.7 Prepare the entries for the treatment of goodwill on dissolution
- 2.6.8 Prepare the entries to close partners' personal accounts

- 2.6.9 Prepare the entries necessary to deal with outstanding debit balances on partners' personal accounts. Apply the rule in *Garner v Murray*
- 2.6.10 Prepare the entries to deal with the sale of a partnership as a going concern and the settlement of the purchase consideration whether received in cash or in securities such as shares or debentures
- 2.6.11 Make the transfer of securities to the partners on an agreed basis

3 Limited liability companies

Candidates must be able to:

3.1 Formation of a company - meaning, purpose and effect

- 3.1.1 Distinguish between a private company (limited) and a public company (Public Limited Company, i.e. plc)
- 3.1.2 Explain the difference between preference share capital and ordinary share capital and the nature of the reward that each expects to receive
- 3.1.3 Explain the difference between authorised share capital and called up share capital
- 3.1.4 State the difference between share capital and loan capital
- 3.1.5 Differentiate between the types of loan capital e.g. debentures, loan stock, bank loan.
- 3.1.6 Calculate loan interest and recognise that interest is a charge to the profit and loss account

3.2 Preparation of final accounts for a limited company

- 3.2.1 Prepare a profit and loss account in vertical format to show the net profit of a company
- 3.2.2 Enter the payment of the company directors' fees and/or salaries in the profit and loss account

- 3.2.3 Prepare the appropriation section of the profit and loss account
- 3.2.4 Calculate dividends by using the nominal % for preference share capital and a monetary amount per share for ordinary share capital
- 3.2.5 Differentiate between an interim dividend and a recommended final dividend on ordinary share capital
- 3.2.6 Calculate the retained profit for the year
- 3.2.7 Prepare a vertical balance sheet in good format
- 3.2.8 Differentiate between creditors falling due within one year and creditors falling due in more than one year
- 3.2.9 Differentiate between provisions and reserves
- 3.2.10 Determine what is included under the heading 'Capital and reserves'
- 3.2.11 State the significance of the main reserve headings, profit and loss, share premium, revaluation
- 3.2.12 Present the fixed assets on the balance sheet showing their cost, accumulated depreciation and net book value
- 3.2.13 Present an orderly presentation of current assets
- 3.2.14 Show the working capital or net current assets

4 Incomplete Records

Candidates must be able to:

4.1 Calculation of net profit in the absence of proper records

- 4.1.1 State the significance and use of a statement of affairs
- 4.1.2 Calculate apparent profit by measuring the increase in capital

- 4.1.3 Make adjustments for drawings and for new capital introduced in order to arrive at the net profit
- 4.2 Factors in the production of detailed final accounts from incomplete records**
 - 4.2.1 Calculate a total sales figure for a period from opening and closing debtors, cash received from customers, bad debts written off, discounts allowed, etc.
 - 4.2.2 Calculate a total purchases figure for a period from opening and closing creditors, cash paid to suppliers, discounts received, etc.
 - 4.2.3 Construct expense accounts
 - 4.2.4 Construct a trading and profit and loss account and a balance sheet from incomplete records, for a sole trader
 - 4.2.5 Construct a trading and profit and loss account (including appropriation) and a balance sheet, from incomplete records, for a partnership

5 Manufacturing Accounts

Candidates must be able to:

- 5.1.1 Prepare accounts in vertical and T-account format
- 5.1.2 Define cost accounting terms: direct materials, direct labour, direct expense, prime cost, factory or production overhead and production cost
- 5.1.3 Make adjustments for the change in work in progress and show its location in the manufacturing account
- 5.1.4 Transfer completed production at cost
- 5.1.5 Transfer completed production at cost plus a margin of profit
- 5.1.6 Make the corresponding entry for manufacturing profit

- 5.1.7 Make a provision for unrealised manufacturing profit

6 Stock Valuation

Candidates must be able to:

- 6.1 Value stock when a choice has to be made between cost and net realisable value
- 6.2 **Physical stocktaking as a basis for stock valuation**
 - 6.2.1 Show the effect on stock valuation of goods in customers' hands, e.g. on sale or return and of customers' goods on our premises
- 6.3 **Stock losses**
 - 6.3.1 Calculate the cost of goods stolen from stock
 - 6.3.2 Calculate the loss of stock arising from fire, flood, etc.
 - 6.3.3 Record appropriate entries for an insurance claim arising from loss of, or damage to, stock

7 Non-trading organisations

Candidates must be able to:

- 7.1 **Receipts and payments account**
 - 7.1.1 Prepare a summary of cash and bank transactions
 - 7.1.2 Distinguish between capital and revenue items in the receipts and payments account
 - 7.1.3 Reconcile closing balance on the receipts and payments account with the balance at bank and cash in hand
- 7.2 **The accumulated fund**
 - 7.2.1 Define the meaning of the accumulated fund
 - 7.2.2 State the causes for an increase or decrease in the accumulated fund
 - 7.2.3 Calculate the amount of the accumulated fund at the start of a financial year
 - 7.2.4 Make entries for donations as a direct entry to the accumulated fund

7.3 Trading activities within a non-trading organisation, e.g. a restaurant trading account

- 7.3.1 Make adjustments to cash paid and received to obtain purchases and sales
- 7.3.2 Account for those expenses properly chargeable to the trading activity of the non-trading organisation
- 7.3.3 Calculate the trading profit

7.4 Income and expenditure account

- 7.4.1 Recognise the nature and purpose of an income and expenditure account
- 7.4.2 Account for subscriptions received during the financial year
- 7.4.3 Account for subscriptions in arrears or in advance at the start of the financial year
- 7.4.4 Account for subscriptions in arrears or in advance at the end of the financial year
- 7.4.5 Account for lifetime subscriptions
- 7.4.6 Account for donations which are not treated as capital receipts
- 7.4.7 Determine appropriate expenses to be debited to the income and expenditure account
- 7.4.8 Calculate the balance of the income and expenditure account
- 7.4.9 Identify the balance as either an excess of income over expenditure (surplus) or as an excess of expenditure over income (deficit)
- 7.4.10 Prepare an Income & Expenditure account from a Receipts & Payments account, with adjustments

7.5 Balance Sheet

- 7.5.1 Present all the organisation's assets and liabilities on the balance sheet

- 7.5.2 Present lifetime subscriptions on the balance sheet
- 7.5.3 Present subscriptions in arrears and in advance at the balance sheet date on the balance sheet

8 Control Accounts

Candidates must be able to:

- 8.1 State the purpose of control accounts
- 8.2 State the importance of control accounts with reference to the preparation of a trial balance and a balance sheet
- 8.3 Identify areas where control accounts are particularly appropriate e.g. debtors, creditors, fixed assets, accumulated provision for depreciation on fixed assets, stocks, etc.
- 8.4 Identify the items most likely to appear in a sales ledger control account
- 8.5 Identify the items most likely to appear in a purchases ledger control account
- 8.6 Prepare the entries for transfers between the purchases ledger and the sales ledger
- 8.7 Prepare control accounts from given balances and summary transactions for a period
- 8.8 Interpret the balances on the sales ledger control account and, in particular, the meaning of credit balances in the sales ledger
- 8.9 Interpret the balances on the purchases ledger control account and, in particular, the meaning of debit balances in the purchases ledger
- 8.10 Present balances on the sales ledger control account and the purchases ledger control account on the balance sheet

- 8.11 Reconcile the balance on the control account with the total of the list of balances in the subsidiary ledger

9 Suspense Accounts

Candidates must be able to:

- 9.1 Explain different types of error
- 9.2 Determine which errors will prevent the trial balance from balancing and which errors will not
- 9.3 Correct errors in customer and supplier accounts where control accounts are not in use
- 9.4 Determine, where control accounts are in use, the effect of errors made in the sales ledger, as opposed to errors made in the sales ledger control account
- 9.5 Determine, where control accounts are in use, the effect of errors made in the purchases ledger, as opposed to errors made in the purchases ledger control account
- 9.6 Explain that the use of the suspense account is a temporary measure to balance the trial balance
- 9.7 Correct errors through the journal where the suspense account is *unaffected*
- 9.8 Correct errors through the journal where the suspense account is *affected*
- 9.9 Prepare the suspense account to arrive at the opening difference in the trial balance where this is not given by the Examiner

10 Calculation and interpretation of ratios

Candidates must be able to:

10.1 Accounting Ratio Formulae

- 10.1 State formulae for ratios included in the syllabus

10.2 ROCE (Return on Capital employed) for a sole trader or partnership

- 10.2.1 Calculate profit as a percentage of capital employed
- 10.2.2 Calculate ROCE where *no* funds are borrowed
- 10.2.3 Calculate ROCE where funds are borrowed

10.3 ROCE for a limited company

- 10.3.1 Calculate return on total shareholders' funds
- 10.3.2 Calculate return on ordinary shareholders' funds
- 10.3.3 Calculate return on total capital employed, i.e. including borrowed funds

10.4 Profit to sales

- 10.4.1 Calculate gross profit as a percentage of sales (margin) and gross profit as a percentage of cost (mark up)
- 10.4.2 Calculate net profit as a percentage of sales
- 10.4.3 Calculate net profit before interest charges as a percentage of sales

10.5 Sales to capital employed

- 10.5.1 Understand the importance of measuring sales generated for each £ of capital employed (investment)
- 10.5.2 Calculate turnover of capital employed i.e. sales divided by capital employed

10.6 Current/Working Capital ratio

- 10.6.1 State the importance of working capital
- 10.6.2 Identify the current/working capital ratio as being current assets to current liabilities or creditors falling due within one year
- 10.6.3 Calculate the current/working capital ratio

	10.6.4	State the effect that certain transactions will have upon working capital
	10.6.5	State the effect that certain transactions will have upon the current/working capital ratio
10.7 Liquidity/Acid Test ratio		
	10.7.1	State the importance of liquidity to an organisation
	10.7.2	Calculate the liquidity/acid test ratio
	10.7.3	State the effect that given transactions will have upon liquid funds
	10.7.4	State the effect that given transactions will have upon the liquidity/acid test ratio
10.8 Rate of stock turnover		
	10.8.1	State the importance of stock turnover
	10.8.2	Calculate average stocks
	10.8.3	Calculate annual rate of stock turnover, expressed as either number of times per year or as number of days
	10.8.4	Calculate average time that goods are carried in stock
10.9 Debtors' collection period		
	10.9.1	Calculate debtors' collection period
10.10 Creditors' settlement period		
	10.10.1	Calculate creditors' settlement period
10.11 Interpret ratios		
	10.11.1	Analyse and interpret the results of the above ratios
11 Preparation, by the use of ratios, of simple financial statements		Candidates must be able to:
	11.1	Prepare, by the use of ratios, simple planned financial statements, i.e. trading, profit and loss account and balance sheet



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Business Statistics

Third Level



Extended Syllabus

Effective from 1 October 2001

INTRODUCTION

Extended Syllabuses are part of a comprehensive package of support materials offered by LCCIEB. This package includes past question papers, Examiners' Reports and Model Answers, and a range of How to Pass books, all of which are designed to offer extra help and guidance to teachers and candidates, and to enhance chances of success in LCCIEB examinations.

What are they?

Extended Syllabuses specify in detail the learning and assessment requirements of LCCIEB awards.

Each one, produced by the subject Chief Examiner, will state in detail the following:

- Aims and assessment objectives of the award
- Intended target audience and possible candidate progression for holders of the award
- Level of English required
- Syllabus topics and syllabus coverage in examinations
- Examination format
- Guided learning hours
- Candidate answer guidance
- Pass mark information and mark allocation
- Recommended reading list and support material
- Detailed listing of syllabus topics and syllabus elements

Who are they for and how can they be of use?

They are designed for:

- Teachers who will find them invaluable when designing courses and planning lessons.
- Candidates who will find them essential because they can be used as checklists when preparing for examinations. Candidates will also be able to refer to Extended Syllabuses when planning revision programmes.

Business Statistics Third Level

Aims

The aims of this syllabus are to enable candidates to develop:

- A knowledge and understanding of more advanced statistical techniques
- The ability to apply this knowledge and understanding in solving business problems

Assessment Objectives

After successfully completing this examination candidates will be able to:

- demonstrate a knowledge and understanding of basic and more advanced statistical techniques including the collection and presentation of data.
- apply the above knowledge and understanding in solving business problems.

Target Audience and Candidate Progression

This qualification is intended for those people who

- have an up-to-date knowledge of basic arithmetical processes
- can recognise and use the appropriate formulae provided with the examination paper
- the ability to recognise and use the appropriate statistical tables provided with the examination paper
- wish to progress to more advanced administrative, business and management qualifications, including LCCIEB Third Level and Fourth Level Diplomas

Level of English Required

For Business Statistics, Third Level candidates should have a standard of English equivalent to LCCIEB English for Business, Second Level.

Third Level

Candidates should cover ALL topics of the Extended Syllabus. Whilst most examination questions are taken from Sections 9 to 16, questions or part questions are set from other sections. Because of the nature of Business Statistics there is also some overlap with the Second Level syllabus, particularly on syllabus topics 1, 2 and 3.

Syllabus Topics

- 1 Quantitative information
- 2 Descriptive statistics
- 3 Forecasting
- 4 Uncertainty
- 5 Statistical inference

Examination Format

Candidates must answer 5 questions from a choice of 8 questions within 3 hours. Each question carries 20 marks.

Guided Learning Hours

LCCIEB recommends that 140 - 160 Guided Learning Hours (GLHs) provide a suitable course duration for an "average" candidate at this level. This figure includes direct contact hours as well as other time when candidates' work is being supervised by teachers. Ultimately, however, it is the responsibility of training centres to determine the appropriate course duration based on their candidates' ability and level of existing knowledge. LCCIEB experience indicates that the number of GLHs can vary significantly from one training centre to another.

Frequency of Topics in Examinations

For each examination full or part questions are set on Syllabus Topics 4 and 5. The remaining questions (or part questions) are taken from Syllabus Topics 1, 2, 3. Questions may be drawn from 2 or more syllabus topics.

Candidate Answer Guidance

Marks are awarded for correct working as well as for correct answers for an appropriate level of accuracy.

Where a correct answer is provided, without working, a candidate will normally be given full marks for that section. However, where a question asks for a specific method, then that method must be used and shown, otherwise the candidate will normally receive no marks for that section. Candidates are advised that it is normally to their advantage to show all working.

Candidate Performance Measurement

For questions involving numerical processes, examination marks are divided into "method" marks and "accuracy" marks. Method marks are awarded for following the correct method for each step. To score accuracy marks, the correct method mark for that step must have been scored. In general accuracy marks are subdivided into 2 categories "correct answer only" and "follow through". Correct answer only means that only the correct answer is acceptable (but some latitude is usually allowed for very minor errors). Follow through mark is awarded if subsequent work is correct following an earlier arithmetic error provided the method is correct.

For the "comment" for descriptive parts of questions, 1 or 2 marks are awarded for each relevant point.

Pass mark information

Pass	50%
Credit	60%
Distinction	75%

Mark Allocation

Marks will be awarded for the appropriateness of the method used as well as for the accuracy of the answer.

Marks will not normally be reserved for appropriate use of English, correct use of grammar, for a specific format of answer, or for presentation, except where specifically stated in the question (such as asking for the answer in a particular format). Candidates should, however, be aware of the need for clear, intelligible and unambiguous answers. An answer must be comprehensible in order to gain marks.

Recommended Reading and Support Material

Reading list

Title	Author	Publisher	ISBN Code
How to Pass Business Statistics Second and Third Levels	D Friend	LCCIEB	1 86247 005 7

Support Material

Examiner's Reports, Model Answers and past question papers are available from LCCIEB Customer Service Department.

Formulae

A list of formulae for use at Third Level Business Statistics are printed at the rear of this syllabus. This formulae list is available to candidates of the appropriate examination. The list contains the principal formulae appropriate to the level, but they are not intended to be exhaustive. Centres and candidates should pay careful attention and note those syllabus items where the relevant formulae are not given in the list.

Syllabus Topic

Items Covered

1 Quantitative Information

Candidates must be able to:

1.1 Graphical presentation

- 1.1.1 Differentiate alternative forms of data eg discrete and continuous
- 1.1.2 Know the circumstances in which the various graphs/diagrams/ charts should be used.
- 1.1.3 Construct the various types of bar charts, pie charts, pictograms, Z charts, Lorenz curve and graphs.
- 1.1.4 Construct a semi-log graph.
- 1.1.5 Draw neat and tidy graphs/diagrams/charts.
- 1.1.6 Label axes; give titles of diagrams; when given, state source of data.
- 1.1.7 Use shading, where appropriate.
- 1.1.8 Comment on graphs/diagrams/charts.

1.2 Survey methodology

- 1.2.1 Understand the difference between primary and secondary data.
- 1.2.2 Know the difference between a census and a survey and their relative advantages and disadvantages.
- 1.2.3 Understand the nature of a sampling frame.
- 1.2.4 Understand the term sampling fraction.
- 1.2.5 Know the various methods of sampling and their advantages and disadvantages.
- 1.2.6 Know the advantages and disadvantages of the interview and the postal questionnaire as methods of collecting data.
- 1.2.7 Understand the problem of interviewer bias.

	1.2.8	Understand the principles of questionnaire design.
	1.2.9	Design a questionnaire.
	1.2.10	Recognise the problem of non-response and know the methods of attempting to overcome the problem.
	1.2.11	Understand the need for a pilot survey before conducting a large-scale survey
1.3	Use of Computers in Business Statistics	
	1.3.1	Recognise that most businesses store data on computers
	1.3.2	Understand that some computer-stored data can be processed statistically.
	1.3.3	Understand that graphics packages and spreadsheet packages enable charts, diagrams and graphs to be produced.
	1.3.4	Understand that spreadsheet packages and special statistics packages allow statistical calculations to be carried out accurately and speedily.
2	Descriptive statistics	Candidates must be able to:
2.1	Measures of location and dispersion - grouped data	
	2.1.1	Construct a cumulative frequency table.
	2.1.2	Draw a cumulative frequency curve (ogive).
	2.1.3	Draw a histogram, and be able to deal with unequal class intervals.
	2.1.4	Calculate mean, median and quartiles (the relevant formula for the mean is given in the formulae list but not the formula for the median).
	2.1.5	Obtain the median and quartiles from the cumulative frequency curve.

- 2.1.6 Obtain the mode from either a histogram or from a formula (the relevant formula is *not* given in the formulae list).
- 2.1.7 Calculate standard and quartile deviations (the relevant formula for the standard deviation is given in the formulae list but not the formula for the quartile deviation).
- 2.1.8 Know that the variance is the square of the standard deviation.
- 2.1.9 Understand what measures of location and dispersion represent.
- 2.2 Measures of location and dispersion - ungrouped data**
 - 2.2.1 Calculate the mean, median, mode, quartiles and geometric mean (the formulae are **not** given in the formulae list).
 - 2.2.2 Calculate the standard deviation (the relevant formula is given in the section marked "one sample t test").
 - 2.2.3 Calculate the quartile deviation (the formula is **not** given).
 - 2.2.4 Calculate the mean deviation (the formula is **not** given in the formula list).
- 2.3 Measures of skewness**
 - 2.3.1 Find Pearson's measure of skewness (the relevant formula is given in the formulae list).
 - 2.3.2 Find a quartile measure of skewness (the relevant formula is *not* given in the formulae list).
 - 2.3.3 From a histogram, relate positive or negative skewness found from the skewness formula to the shape of the histogram.

2.4 Coefficient of variation

- 2.4.1 Calculate a coefficient of variation (the relevant formula is given in the formula list).
- 2.4.2 Understand the use of the coefficient of variation.

2.5 Index Numbers

- 2.5.1 Calculate Laspeyres and Paasche index numbers (both price and quantity formulae for these index numbers are given in the formulae list).
- 2.5.2 Find Laspeyres or Paasche index numbers if value or cost is given instead of price/quantity.
- 2.5.3 Understand the advantages and disadvantages of Laspeyres and Paasche index numbers.
- 2.5.4 Calculate a weighted index number (the relevant formula is given in the formulae list).
- 2.5.5 "Splice" index numbers (the relevant formula is **not** given in the formulae list)
- 2.5.6 Rebase 2 sets of index numbers to a common base, so that comparisons can be made.
- 2.5.7 Use an index of retail prices and an index of earnings to find an index of "real" earnings.
- 2.5.8 Use an index of retail prices for "index linking" eg of pensions.
- 2.5.9 Understand the construction and use of at least one major index eg the index of retail prices or the index of industrial production.

3 Forecasting

3.1 Correlation and regression

Candidates must be able to:

- 3.1.1 Draw a scatter diagram, know how to place the dependent variable on the vertical axis and the explanatory variable on the horizontal axis.
- 3.1.2 Comment on the data from a scatter diagram whether the data lies on a line or a curve and the presence of outliers.
- 3.1.3 Calculate a least squares regression line (the relevant formulae are given in the formulae list).
- 3.1.4 Plot regression line on scatter diagram.
- 3.1.5 Use regression line for forecasting purposes and be able to comment on the likely accuracy of forecasts.
- 3.1.6 Calculate the product moment correlation coefficient (the relevant formula is given in the formulae list).
- 3.1.7 Test whether the product moment correlation coefficient is significantly different from (or greater or less than) zero (the relevant formula is given in the formulae list, but the number of degrees of freedom is *not* given in the formulae list).
- 3.1.8 Rank a set of data and be able to deal with ties.
- 3.1.9 Calculate Spearman's rank correlation coefficient (the relevant formula is given in the formulae list).
- 3.1.10 Obtain the coefficient of determination (the relevant formula is given in the formulae list) and understand what this coefficient measures.

3.2 Time Series

- 3.2.1 Plot a time series - time along the horizontal axis.
- 3.2.2 Understand the difference between the additive and multiplicative models.
- 3.2.3 From a time series plot or other procedures, recognise which model to use in finding seasonal factors.
- 3.2.4 Use a moving average to calculate the trend and to know when the trend needs to be centred.
- 3.2.5 Plot trend on time series graph.
- 3.2.6 Calculate the seasonal factors for either the additive or multiplicative model. The appropriate model should be used.
- 3.2.7 Calculate seasonally adjusted values.
- 3.2.8 Understand why seasonally adjusted values are found.
- 3.2.9 Find likely future values of the trend either graphically or by a simple method (fitting a least squares regression line is not expected, as this is too time consuming).
- 3.2.10 Use the future trend to forecast future values.
- 3.2.11 Discuss the likely accuracy of any forecast.

4 Uncertainty

4.1 Probability

Candidates must be able to:

- 4.1.1 Understand the classical and the empirical definitions of probability.
- 4.1.2 Understand the concept of "mutually exclusive events."
- 4.1.3 Understand the addition and multiplication rules of probability.

- 4.1.4 Draw a Venn diagram.
- 4.1.5 Draw a tree diagram.
- 4.1.6 Use Venn and tree diagrams to solve probability problems.
- 4.1.7 Recognise and solve problems involving conditional probability.
- 4.1.8 Understand the simple applications of Bayes theorem.
- 4.1.9 Understand simple problems involving mathematical expectation and know that the expected monetary value is the product of the probability and the money value.

Note:

Probability questions will not be set which require a knowledge of Binomial or Poisson distributions.

4.2 Normal distribution

- 4.2.1 Use the normal distribution tables (a limited version of the normal tables as given in the formulae list)
Examination questions are constructed So that, in general, the tables can be Used without interpolation.
Interpolation is not expected.
- 4.2.2 Use the formula $z = \frac{x - \mu}{\sigma}$
(the relevant formula is **not** given in the formulae list).
- 4.2.3 Understand that for a linear combination of 2 or more independent normal distributions, the sum if normally distributed with a mean which is the sum of the individual means and a variance which is the algebraic sum of the individual variances.
- 4.2.4 Understand the uses of the normal distribution.

5 Statistical inference

Candidates must be able to:

5.1 Procedure for significant tests

- 5.1.1 Understand the concept of a sampling distribution.
- 5.1.2 Understand that for all significance tests 5 steps are required whether listed or implied.

- Step 1 Statement of null and alternative hypothesis.
- Step 2 State, where appropriate, the degrees of freedom, and the critical value.
- Step 3 Calculate the test value from data supplied or found from the data given.
- Step 4 Compare the calculated test value with the critical value found at Step 2. If the test value is numerically larger, state significant and reject null hypothesis. If the test value is numerically smaller, state not significant and accept null hypothesis.
- Step 5 Draw conclusion - this **must** relate to the subject of the examination question.

The 5 steps need not be in the order Shown, but for full marks in Examination questions all 5 steps must be given or implied.

The use of a confidence interval for solving a significance test question needs to be carefully considered particularly in a one tailed test situation.

5.2 Type I and Type II errors

- 5.2.1 Understand the principles involved in Type I and Type II errors
- 5.2.2 Indicate the type of error that may be involved in the results of a significance test.

5.3 Significance tests and confidence intervals (n>30)

- 5.3.1 Recognise that for a large sample test the critical values are found from the normal distribution table.
- 5.3.2 Find a confidence interval for a mean (the relevant formula is *not* given in the formulae list).
- 5.3.3 Find a confidence interval for a proportion (the relevant formula is *not* given in the formulae list).
- 5.3.4 Understand the concept of a confidence interval.
- 5.3.5 Find the sample number required to obtain a confidence interval of a given size for a stated probability.
- 5.3.6 Differentiate between a one tailed and two tailed test.
- 5.3.7 Conduct a single mean test (the relevant formula is given in the formulae list).
- 5.3.8 Conduct a single proportion test (the relevant formula is given in the formulae list).
- 5.3.9 Conduct a two mean test (the relevant formula is given in the formulae list).
- 5.3.10 Conduct a two proportion test (the relevant formula is given in the formulae list).

Note:

The formulae show that a pooled estimate of p is expected.

5.4 Significance tests and confidence intervals ($n < 30$)

- 5.4.1 Recognise that for small sample tests the critical values are found from the t distribution tables.
- 5.4.2 Recognise that when mean and variance are estimated from the data the t distribution is required.
- 5.4.3 Find a confidence interval for a mean (the relevant formula is **not** given in the formulae list, nor are the degrees of freedom given).
- 5.4.4 Conduct a single mean t test (the relevant formulae are given in the formulae list, but **not** the formula for degrees of freedom).
- 5.4.5 Differentiate the circumstances when a paired comparison t test and a two means t test should be employed.
- 5.4.6 Conduct a paired comparison test (the relevant formula are **not** given in the formulae list, but the formulae for a single mean t test can easily be adapted for a paired comparison t test).
- 5.4.7 Conduct an independent samples t test - a two mean t test (the relevant formulae are given in the list, but **not** the formula for degrees of freedom).

5.5 Chi-square tests

- 5.5.1 Recognise when a chi-squared test is needed.
- 5.5.2 Conduct a test of a contingency table (the relevant formula for the chi-squared test is given in the formulae list, but **not** the formula for degrees of freedom).
- 5.5.3 Test for randomness (the relevant formula for the chi-squared test is given in the formulae list, but **not** the formula for degrees of freedom).

- 5.5.4 Test for the goodness of fit when previous percentages are given (the relevant formula for the chi-squared test is given in the formulae list, but not the formula for degrees of freedom). Goodness of fit test of normal or other distributions is **not** expected.

5.6 Quality Control

- 5.6.1 Understand the advantages to management of setting up a quality control procedure.
- 5.6.2 Understand the uses of control charts for mean and range.

Note:

The construction of a range chart is **not** expected.

- 5.6.3 Construct a mean chart using the normal distribution 0.025 point for the warning line and 0.001 point for the action line.

Note:

The formulae list does not provide the A numbers; candidates will be expected to use the normal tables provided.

- 5.6.4 Plot sample means on a control chart and interpret the results.
- 5.6.5 Use the normal distribution to evaluate the probability of a single observation lying outside warning/action limits.
- 5.6.6 Use the normal distribution to evaluate the probability of the mean of a sample lying outside the warning/action limits, if the mean is set incorrectly.

Mean $\bar{x} = \frac{\sum fx}{\sum f}$

Standard deviation

$$s = \sqrt{\frac{\sum fx^2}{\sum f} - \left(\frac{\sum fx}{\sum f}\right)^2}$$

Pearson measure of skewness

$$\frac{3(\bar{x} - \text{Median})}{s}$$

Coefficient of variation

$$\frac{s}{\bar{x}} \times 100$$

Product moment correlation coefficient

$$r = \frac{n\sum xy - (\sum x)(\sum y)}{\sqrt{(n\sum x^2 - (\sum x)^2)(n\sum y^2 - (\sum y)^2)}}$$

Spearman's rank correlation coefficient

$$r_s = 1 - \frac{6\sum d^2}{n(n^2 - 1)}$$

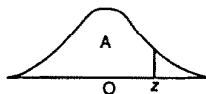
Least squares regression line $\hat{y} = a + bx$

$$b = \frac{n\sum xy - (\sum x)(\sum y)}{n\sum x^2 - (\sum x)^2}$$

$$a = \frac{\sum y}{n} - \frac{b\sum x}{n}$$

TABLE 1 – NORMAL DISTRIBUTION

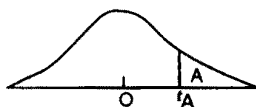
A is the area to the left of the given value of z



z	0.0	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.9	
A	.500	.540	.580	.618	.655	.692	.726	.758	.788	.816	
z	1.0	1.1	1.2	1.3	1.4	1.5	1.6	1.7	1.8	1.9	
A	.841	.864	.885	.903	.919	.933	.945	.955	.964	.971	
z	2.0	2.1	2.2	2.3	2.4	2.5	2.6	2.7	2.8	2.9	3.0
A	.977	.982	.986	.989	.992	.994	.995	.996	.997	.998	.999

TABLE 2 – t DISTRIBUTION

t_A is the value of the t statistic with ν degrees of freedom with area A to the right of it



ν	1	2	3	4	5	6	7	8
$t_{0.05}$	6.31	2.92	2.35	2.13	2.02	1.94	1.90	1.86
$t_{0.025}$	12.71	4.30	3.18	2.78	2.57	2.45	2.37	2.31
$t_{0.01}$	31.82	6.97	4.54	3.75	3.37	3.14	3.00	2.90
$t_{0.005}$	63.66	9.93	5.84	4.60	4.03	3.71	3.50	3.36
ν	9	10	11	12	13	14	15	16
$t_{0.05}$	1.83	1.81	1.80	1.78	1.77	1.76	1.75	1.75
$t_{0.025}$	2.26	2.23	2.20	2.18	2.16	2.15	2.13	2.12
$t_{0.01}$	2.82	2.76	2.72	2.68	2.65	2.62	2.60	2.58
$t_{0.005}$	3.25	3.17	3.11	3.05	3.01	2.98	2.95	2.92
ν	17	18	19	20	21	22	23	24
$t_{0.05}$	1.74	1.73	1.73	1.73	1.72	1.72	1.71	1.71
$t_{0.025}$	2.11	2.10	2.09	2.09	2.08	2.07	2.07	2.06
$t_{0.01}$	2.57	2.55	2.54	2.53	2.52	2.51	2.50	2.49
$t_{0.005}$	2.90	2.88	2.86	2.85	2.83	2.82	2.81	2.80

One sample z test

Mean $z = \frac{\bar{x} - \mu}{\sigma/\sqrt{n}}$

Proportion

$$z = \frac{p - \pi}{\sqrt{\frac{\pi(1 - \pi)}{n}}}$$

Two sample z test

Mean

$$z = \frac{\bar{x}_1 - \bar{x}_2}{\sqrt{\frac{s_1^2}{n_1} + \frac{s_2^2}{n_2}}}$$

Proportion

$$z = \frac{p_1 - p_2}{\sqrt{p(1-p)\left(\frac{1}{n_1} + \frac{1}{n_2}\right)}}$$

where $p = \frac{n_1 p_1 + n_2 p_2}{n_1 + n_2}$

Price

Quantity

Laspeyres index $\frac{\sum p_1 q_0}{\sum p_0 q_0} \times 100$ $\frac{\sum p_0 q_1}{\sum p_0 q_0} \times 100$

Paasche index $\frac{\sum p_1 q_1}{\sum p_0 q_1} \times 100$ $\frac{\sum p_1 q_1}{\sum p_0 q_0} \times 100$

Weighted index $\frac{\sum WI}{\sum W}$

One sample t test

$$t = \frac{\bar{x} - \mu}{s/\sqrt{n}}$$

where $s = \sqrt{\frac{\sum (x - \bar{x})^2}{n - 1}}$

Independent samples t test

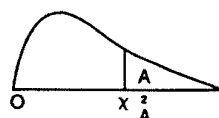
$$t = \frac{\bar{x} - \bar{y}}{s\sqrt{\frac{1}{n} + \frac{1}{m}}} \text{ where } s = \sqrt{\frac{\sum (x - \bar{x})^2 + \sum (y - \bar{y})^2}{n + m - 2}}$$

Chi-square test $\chi^2 = \sum \frac{(O - E)^2}{E}$

Test for $\rho = 0$ $t = \frac{r\sqrt{n-2}}{\sqrt{1-r^2}}$

TABLE 3 – CHI SQUARED DISTRIBUTION

χ^2_A is the value of the χ^2 statistic with ν degrees of freedom with area A to the right of it



ν	1	2	3	4	5	6
$\chi^2_{0.05}$	3.84	5.99	7.81	9.49	11.07	12.59
$\chi^2_{0.01}$	6.63	9.21	11.34	13.28	15.09	16.81
ν	7	8	9	10	11	12
$\chi^2_{0.05}$	14.07	15.51	16.92	18.31	19.68	21.03
$\chi^2_{0.01}$	18.48	20.09	21.67	23.21	24.73	26.22



Computerised Accounting



Level 3

Extended Syllabus

Effective from 1 March 2004

Computerised Accounting Level 3

Aims

The aim of this qualification is to assess candidates' practical ability to use MYOB computerised accounting systems.

Important Note

Computerised Accounting Level 3 is a test of practical ability although candidates will need to have a basis of accounting knowledge and understanding in order to pass. LCCI Accounting Level 3 assesses candidates' knowledge and understanding at this level; centres and candidates should note however that the detailed contents of the Computerised Accounting Level 3 and Accounting Level 3 syllabuses do not correspond exactly.

Please refer to the section below on the LCCI Level 3 Group Diploma in Computerised Accounting for information on how Computerised Accounting Level 3 and Accounting Level 3 may be combined.

Assessment Objectives and Coverage in Assignments

The examination will assess the candidate's ability to use MYOB computerised accounting software to:

Objective	Weighting
• Set up partnership and limited liability company accounts	10%
• Track department and job profitability	5%
• Enter transaction data including multi-currency transaction data	25%
• Manage debtors' accounts and bad debts	15%
• Manage inventory	30%
• Enter year-end journal entries before closing financial years	5%
• Customise and generate a variety of reports	10%

Weightings indicate the approximate percentage of marks available that each objective will carry in Computerised Accounting Level 3 assignments.

Target Candidates and Candidate Progression

This qualification is for people who wish to develop higher practical computerised accounting skills. Candidates should have achieved LCCI Computerised Accounting Level 2 or possess the equivalent skills.

LCCIEB Level 3 Diploma in Computerised Accounting

In order to obtain the LCCI Level 3 Diploma in Computerised Accounting, candidates are required to pass three Level 3 subjects within a period of 24 months as follows:

Compulsory Subjects

Computerised Accounting Level 3

Accounting or Accounting (IAS) Level 3

plus one from the following pool of options (all Level 3)

Advanced Business Calculations

Advertising

Business and Industrial Administration

Business Statistics

Customer Service

English for Business

Internet Marketing

Marketing

Selling and Sales Management

Business Administration

Business Practice

Cost Accounting

eCommerce

Management Accounting

Practical Computing

Public Relations

Principles and Practice of Management

Level of English Required

It is recommended that Computerised Accounting Level 3 candidates should have a standard of English equivalent to LCCI English for Business Level 2.

Computerised Accounting Syllabus Topics

- 1 Company Accounts
- 2 Track Profitability of Departments and Jobs
- 3 Multi-currency transactions
- 4 Debtor Management
- 5 Advanced Inventory Management
- 6 Year-End Procedures and Maintenance
- 7 Reports and Analysis

Assessment

Assessment is through a 2.5 hour practical assignment provided and marked by LCCI. The assignment may be undertaken by centres and candidates at dates and times convenient to them.

Candidate Answer Guidance

Answer Formats

Candidates will be required to produce: accounts list summaries, multi-period profit and loss statements, bank reconciliation reports, trial balances, multi-period balance sheets, transaction journal reports and budget analyses.

Candidate Performance Measurement

The marks available for each task will be indicated within each assignment.

Pass and Grade Information

100 marks are available for each assignment. The marks necessary to achieve Pass, Credit and Distinction grades are as follows:

Pass: 50 - 59 Marks

Credit: 60 - 74 Marks

Distinction: 75 - 100 Marks

MYOB Software Guidance Notes

MYOB is a leading global provider of business and accounting software solutions. Centres offering Computerised Accounting will be provided with the educational version of MYOB Premier accounting software free of charge. The educational version of MYOB Premier is a fully functional version of MYOB accounting software and is suitable for both training and assessment purposes; however it contains restrictions that prevent it being used for commercial activities.

Centres offering Computerised Accounting will receive full guidance on the installation and operation of the educational version of MYOB Premier.

Guided Learning Hours

LCCI International Qualifications recommends that 60 Guided Learning Hours (GLHs) provide a suitable course duration for an 'average' candidate at this level. This figure includes direct contact hours as well as other time when candidates' work is being supervised by teachers. Ultimately, however, it is the responsibility of centres to determine the appropriate course duration based on their candidates' ability and level of existing knowledge. LCCI's experience indicates that the number of GLHs can vary significantly from one training centre to another.

Individual centres will decide whether their students will benefit more from an intensive course or from a course lasting for an academic year. In this connection, centres may care to take into consideration that the set of practical assignments is available on demand and that there is no prescribed time and date that these assessments must be undertaken.

Recommended Reading List and Support Material

Reading List

Title	Publisher
Computerised Accounting	ER/MYOB

Support Material

A sample assignment and model answer is available from the EDI Customer Service Team and local LCCI offices.

Centre Registration

Further information and centre registration details can be found at the websites www.lcciasia.com or www.lccieb.com . Alternatively please contact:

For Centres outside Asia:

Education Development International plc
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Middlemarch Business Park
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Email: customerservice@ediplc.com

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Fax: +86 20 3762 0682
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Computerised Accounting

Level 3

Note

Candidates are expected to have the skills covered in the LCCI Computerised Accounting Level 2 syllabus, in particular the ability to:

- Set up company data files
- Set up accounts lists
- Record transactions in the general ledger, banking, purchases, sales, inventory command centres

Syllabus Topic

Items Covered

1 Company Accounts

Candidates must be able to:

- 1.1 Set up the datafile and the chart of accounts for the following:
 - Partnerships
 - Limited Liability Companies
- 1.2 Generate accounts listing for the various types of companies
- 1.3 Perform the necessary steps to distribute partnership profits at the end of the accounting period
- 1.4 Record the following for a limited liability company:
 - Increase in capital contribution
 - Issuance of new shares
 - Payment of dividends

2 Tracking Profitability of Departments and Jobs

Candidates must be able to:

- 2.1 Set up various profit centres
- 2.2 Record sales and expenses and allocate these to various profit centres
- 2.3 Generate reports relating to a selected profit centre or all profit centres

3 Multi-Currency Transactions

Candidates must be able to:

- 3.1 Set up control accounts to handle multiple currencies
- 3.2 Specify currency codes and exchange rates
- 3.3 Record sales and purchases involving multiple currencies
- 3.4 Update the various exchange rates and record unrealised exchange gains or losses at the end of period
- 3.5 Generate exchange gain or loss reports

4 Debtor Management

Candidates must be able to:

- 4.1 Customise and generate the debtor ageing report
- 4.2 Perform the following tasks to factor debts to a factoring entity:
 - Set up the factoring account
 - Record payments received
 - Record factoring charges
 - Close debtor accounts
- 4.3 Account for transactions in situations where a customer is also a supplier using the following methods:
 - cash received method
 - debit note method
- 4.4 Perform the steps to record:
 - Provision for bad debts
 - Writing off bad debts

5 Advanced Inventory Management

Candidates must be able to:

- 5.1 Perform the following tasks with respect to traded-in items:
 - Modify the chart of accounts to account for traded-in items
 - Set up the traded-in inventory items
 - Record traded-in items and payments
- 5.2 Account for consignment stock as:
 - A consignor
 - A consignee

6 Year-End Procedures and Maintenance

Candidates must be able to:

- 6.1 Make end-of period adjustments to:
- Accruals
 - Prepayments
- 6.2 Close the current financial year and start a new financial year

7 Reports and Analysis

Candidates must be able to:

- 7.1 Customise and generate reports including:
- Multi-period balance sheet
 - Multi-period profit and loss statement
 - Transaction journals
 - Budget Analysis
- 7.2 Enter monthly budgets
- 7.3 Compare actual company performance against budgets

Level 3 Cost Accounting



Syllabus

Effective for examinations to be held after 1 January 2008

Vision Statement

Our vision is to contribute to the achievements of learners around the world by providing integrated assessment and learning services, adapted to meet both local market and wider occupational needs and delivered to international standards.



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INTRODUCTION

Education Development International (EDI) is a leading international awarding body that was formed through the merger of the London Chamber of Commerce and Industry Examinations Board (LCCIEB) and a leading online assessment provider GOAL. EDI now delivers LCCI International Qualifications (LCCI IQ) through a network of over 4000 registered centres in more than 100 countries worldwide. Our range of business-related qualifications are trusted and valued by employers worldwide and recognised by universities and professional bodies.

Level 3 Cost Accounting

Aims

The aims of this qualification are to enable candidates to develop:

- an understanding of advanced aspects of the processing of cost accounting information, including stock control
- a detailed understanding of how cost accounting information can be used for the purposes of short-term planning, control and decision making within business organisations
- the ability to apply this understanding in a variety of business settings

Assessment Objectives

The examination will assess the candidate's ability to:

- demonstrate knowledge and understanding of advanced aspects of the processing of cost accounting information
- demonstrate knowledge and understanding of short-term planning and control principles, techniques and processes
- apply this knowledge and understanding in a variety of business settings

Target Audience and Candidate Progression

This qualification is suitable for candidates who are working in a cost accounting environment at a level that requires some depth of cost accounting knowledge and skills, as well as a basic understanding of cost accounting principles and practice. Candidates attempting this qualification should have the knowledge and skills equivalent to LCCI IQ Level 2 Cost Accounting.

Level of English Required

Candidates should have a standard of English equivalent to LCCI IQ Level 2 English for Business.

Syllabus Topics

1. Materials and stock control
2. Costing methods and systems
3. Cost-volume-profit (CVP) analysis
4. Budgetary planning and control
5. Standard costing and variances
6. Accounting systems

Examination Format

The time allowance for the examination is 3 hours. The paper will consist of 5 compulsory questions. All questions will carry equal marks.

At least **1** question based on each of the following topics will appear in each examination:

3. Cost-volume (CVP) analysis
4. Budgetary planning and control
5. Standard costing and variances

Guided Learning Hours

EDI recommends that 140-160 Guided Learning Hours (GLHs) is a suitable course duration for an 'average' candidate at this level. This figure includes direct contact hours as well as other time when candidates' work is being supervised by teachers. Ultimately, however, it is the responsibility of training centres to determine the appropriate course duration based on their candidates' ability and level of existing knowledge. EDI experience indicates that the number of GLHs can vary significantly from one training centre to another.

Candidate Performance Measurement

Pass Mark Information

Pass	50%
Credit	60%
Distinction	75%

Mark Allocation

A positive marking approach is used; although candidates will be penalised for initial calculation errors, they will gain marks for consequential 'own figures' as long as the correct use of principles has been demonstrated.

Recommended Reading List and Support Materials

Title	Author	Publisher	ISBN Code
How to Pass Cost Accounting Second and Third Levels	D Skidmore	LCCIEB	1 86247 0006
How to Pass Cost Accounting Second and Third Levels Teacher's Guide	D Skidmore	LCCIEB	1 86247 0154

Support Material

A specimen paper with answers is available from the LCCI IQ website.

Syllabus Topic

Items Covered

1 Materials and stock control

Candidates must be able to:

- 1.1 Calculate the amount and cost of materials needed to meet the production plan, taking into account process wastage and products rejects
- 1.2 List and explain the costs of holding stock and of running out of stock
- 1.3 Calculate reorder level, maximum stock control level, minimum stock control level, average stock and average stock investment
- 1.4 Use the EOQ formula to calculate the economic order quantity at a constant purchase price
- 1.5 Tabulate the stock ordering and stock holding costs for discrete order quantities to select the optimal order quantity without using the EOQ formula
- 1.6 Calculate the order quantity to minimise cost where quantity discounts are available
- 1.7 Explain the meaning of allocated and free stock
- 1.8 Make calculations for a particular material and present a stock record showing orders placed, stock in hand, allocated stock and free stock
- 1.9 Explain the principles, and implications, of a just-in-time (JIT) approach to stock management

2 Costing methods and systems

Candidates must be able to:

- 2.1 Describe the principles of activity based costing (ABC) and contrast ABC with traditional approaches
- 2.2 Calculate cost driver rates and unit production costs based on ABC principles

- 2.3 Prepare process accounts or statements where losses or gains occur along with their associated scrap values or disposal costs
- 2.4 Prepare abnormal loss and gain accounts
- 2.5 Value completed production and work-in-progress using equivalent units, and using a FIFO or weighted average approach

(NB. In 2.3 and 2.5 candidates may be asked to prepare accounts or statements for the first process and/or any subsequent process)
- 2.6 Account for joint products apportioning joint costs on the basis of physical units, sales value or net sales value
- 2.7 Interpret the results of joint product accounting
- 2.8 Explain the terms marginal costing and absorption costing
- 2.9 Prepare profit statements applying both absorption and marginal costing (including the over/under absorption of overhead in absorption costing)
- 2.10 Reconcile reported profits between absorption and marginal costing and explain the difference

3 Cost-volume-profit (CVP) analysis

Candidates must be able to:

- 3.1 Calculate the contribution/sales (C/S) ratio for a single product and the weighted C/S ratio for a mix of products
- 3.2 Explain and calculate the break-even point in both single product and multi-product situations
- 3.3 Explain and calculate the margin of safety
- 3.4 Apply CVP analysis in given situations

- 3.5 Construct the following charts for a single product:
- conventional break-even
 - contribution break-even
 - profit-volume (PV)
- 3.6 Read the break-even point and the margin of safety from a chart
- 3.7 Discuss the assumptions and limitations of CVP analysis

4 Budgetary planning and control

Candidates must be able to:

- 4.1 Explain the difference between a forecast and a budget
- 4.2 Explain budgetary planning and control and the benefits expected to accrue from the use of budgets
- 4.3 Explain the meaning and importance of the principal budget factor
- 4.4 Prepare the following budgets:
- Sales
 - Production
 - Materials usage
 - Materials purchases
 - Machine utilisation
 - Direct labour
 - Production overheads
 - Profit/loss
 - Cash

(Questions will involve greater complexity than at Level 2)

- 4.5 Explain the reasons for preparing a cash budget and suggest ways to deal with cash surplus or deficit
- 4.6 Distinguish between fixed and flexible budgets
- 4.7 Suggest bases for flexing budgets
- 4.8 Use the high/low method to identify cost behaviour with or without price changes

- 4.9 Prepare a flexed budget, compare with actual costs/revenue and interpret the variances
- 4.10 Calculate and use absorption rates from a traditional production overhead budget
- 4.11 Calculate and use absorption rates from an activity based production overhead budget

5 Standard costing and variances

Candidates must be able to:

- 5.1 Explain the meaning of standard cost and differentiate between the types of standard: ideal and attainable
- 5.2 Explain factors to be considered in setting the following standards: material prices, labour and overhead rates, labour efficiency, material quantities and losses/wastage
- 5.3 Calculate the total sales variance and analyse this to selling price and sales volume variances using absorption or marginal costing
- 5.4 Calculate the total direct material variance and analyse this to price and usage variances where the price variance is based upon issues
- 5.5 Calculate the direct material price variance based upon purchases and state the advantages of using this approach
- 5.6 Analyse the direct material usage variance to mix and yield variances
- 5.7 Explain and use the standard hour as a measure of output for a department or a mix of products
- 5.8 Calculate the total direct labour variance and analyse this to rate and efficiency variances
- 5.9 Calculate an idle time variance where appropriate

- 5.10 Calculate the total variable production overhead variance and analyse this to expenditure and efficiency
- 5.11 Calculate the total fixed production overhead variance and analyse this, when using absorption costing, to expenditure and volume variances
- 5.12 Analyse the fixed production overhead volume variance to efficiency and capacity variances
- 5.13 Explain the relationship between overhead variances and overhead over/under absorption
- 5.14 Reconcile budgeted and actual profit using appropriate variances
- 5.15 Use given cost variances to calculate standard or actual production costs
- 5.16 Explain and illustrate how standard costs and variances can be used for cost control, including the use of control charts
- 5.17 Interpret variances and possible relationships between them
- 5.18 Calculate ratios of production volume (activity), production efficiency and capacity

6 Accounting systems

Candidates must be able to:

- 6.1 Distinguish between integrated and non-integrated accounting systems
- 6.2 Explain the importance, and demonstrate the use, of control accounts with particular emphasis on raw materials, work-in-progress, finished goods and production overheads
- 6.3 Post entries in a ledger, or prepare journal entries, for an integrated system using absorption or marginal costing and historic or standard costing
- 6.4 Post entries or prepare journal entries as in 6.3 but for a non-integrated system

- 6.5 Explain and demonstrate the need for reconciliation in a non-integrated system
- 6.6 Prepare a profit reconciliation statement in a non-integrated system



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Level 3 Management Accounting



Syllabus

Effective for examinations to be held after 1 January 2008

Vision Statement

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Level 3 Management Accounting

Aims

The aims of this qualification are to enable candidates to develop:

- the ability to critically analyse information for both short term and long term decision making
- the ability to use management accounting information for the purposes of planning and control of cash and other resources within business organisations and an understanding of factors affecting the planning and control process
- an understanding of business performance measures, and the relevance and impact of transfer pricing.

Assessment Objectives

The examination will assess the candidate's ability to:

- analyse information in a variety of decision making situations and explain the basis for the analysis and the validity of the techniques used
- demonstrate knowledge and understanding of short-term planning and control principles, techniques and processes
- use and interpret business performance measures and transfer prices

Target Audience and Candidate Progression

This qualification is suitable for candidates who work, or aspire to work, in the more advanced areas of accountancy. The complex business world of today makes Management Accounting a necessity for all types of managers. Organisations must attempt to acquire and utilise their resources in the best way possible, and managers need reliable accounting data to anticipate the future and control day-to-day activity. There is an increasing demand for employees who are capable of providing such important information.

Candidates attempting this qualification must be totally familiar with the basic cost accounting principles, methods and terminology as contained in the LCCI IQ Level 2 Cost Accounting syllabus or equivalent. It is recommended that a pass is obtained at this level before progressing to this qualification.

Level of English Required

Candidates should have a standard of English equivalent to LCCI IQ Level 2 English for Business.

Syllabus topics

1. Short term cost behaviour
2. Cost/volume/profit (CVP) analysis
3. Short term decision making
4. Budgetary planning and control
5. Cash and working capital management
6. Standard costing and variances
7. Long term decision making
8. Performance evaluation and transfer pricing

Examination format

The time allowance for the examination is 3 hours. The paper will consist of 5 compulsory questions. All questions will carry equal marks.

At least **1** question based on each of the following topics will appear in each examination:

3. Short Term Decision Making
7. Long Term Decision Making

Guided Learning Hours

EDI recommends that 140-160 Guided Learning Hours (GLHs) is a suitable course duration for an 'average' candidate at this level. This figure includes direct contact hours as well as other time when candidates' work is being supervised by teachers. Ultimately, however, it is up to training centres to determine the appropriate course duration based on their candidates' ability and level of existing knowledge. EDI experience indicates that the number of GLHs can vary significantly from one training centre to another.

Candidate Performance Measurement

Pass Mark Information

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Credit	60%
Distinction	75%

Mark Allocation

A positive marking approach is used; although candidates will be penalised for initial calculation errors, they will gain marks for consequential 'own figures' as long as the correct use of principles has been demonstrated.

Recommended Reading List and Support Material

Reading List

Title	Author(s)	Publisher	ISBN Code
How to Pass Management Accounting Third Level	D Frederick and R Lyall	LCCIEB	1 86247 020 0

Support Material

A specimen paper with answers is available from the LCCI IQ website.

Syllabus Topic	Items Covered
1 Short term cost behaviour	<p>Candidates must be able to:</p> <ol style="list-style-type: none"> 1.1 Define given costs as variable, semi-variable, stepped or fixed 1.2 Separate costs into fixed and variable elements according to their behaviour and characteristics 1.3 Use the high/low method to identify cost behaviour with or without price changes 1.4 Calculate costs per period or unit from fixed, variable, semi-variable or stepped patterns 1.5 Forecast costs using the high/low method 1.6 Explain the effect of time on cost behaviour
2 Cost/Volume/Profit (CVP) analysis	<p>Candidates must be able to:</p> <ol style="list-style-type: none"> 2.1 Calculate the contribution/sales (C/S) ratio for a single product and the weighted C/S ratio for a mix of products 2.2 Explain and calculate the break-even point in both single product and multi-product situations 2.3 Explain and calculate the margin of safety 2.4 Apply CVP analysis in given situations 2.5 Construct the following charts for a single product or multiple products: <ul style="list-style-type: none"> • Conventional break-even • Contribution break-even • Profit-volume (PV) 2.6 Read the break-even point and the margin of safety from a chart 2.7 Discuss the assumptions and limitations of CVP analysis

3 Short term decision making

Candidates must be able to:

- 3.1 Explain the terms marginal costing and absorption costing
- 3.2 Prepare statements in both marginal and absorption form as the basis for decision making
- 3.3 Discuss the usefulness of both marginal costing and absorption costing as the basis for decision making
- 3.4 Explain the key terms used in decision making e.g.
 - Sunk cost
 - Differential/incremental cost.
 - Opportunity cost
 - Avoidable cost
 - Relevant cost
- 3.5 Explain and identify limiting factors within an organisation
- 3.6 Calculate the contribution per unit of the limiting factor, and recommend the product mix to maximise profits
- 3.7 Discuss other factors that may influence the product mix decision in limiting factor situations
- 3.8 Solve linear programming problems using the graphical method
- 3.9 Evaluate sub-contracting alternatives with or without limiting factors
- 3.10 Use relevant cost principles for special order decisions
- 3.11 Identify products or departments that may be considered for closure, differentiating between general and specific fixed costs
- 3.12 Discuss the limitations of short term decision making techniques
- 3.13 Calculate a selling price for a product or service from a given price/demand relationship

- 3.14 Calculate a selling price for a product or service to achieve a given profit margin

4 Budgetary planning and control.

Candidates must be able to:

- 4.1 Explain the difference between a forecast and a budget
- 4.2 Explain budgetary planning and control and the benefits expected to accrue from the use of budgets
- 4.3 Explain the meaning and importance of the principal budget factor
- 4.4 Discuss factors influencing the choice of budget period
- 4.5 Prepare the following budgets
- Sales
 - Production
 - Materials usage
 - Materials purchases
 - Direct labour
 - Profit/loss
 - Balance sheet
- 4.6 Distinguish between fixed and flexible budgets
- 4.7 Suggest bases for flexing budgets
- 4.8 Prepare a flexed budget, compare with actual costs/revenues and interpret the variances
- 4.9 Discuss alternative approaches to budgeting, e.g. zero-based budgeting, rolling/continuous budgets, and activity based budgeting
- 4.10 Discuss the human behavioural aspects of budgeting

4 Cash and working capital management

Candidates must be able to:

- 5.1 Explain why liquidity and cash flow management are important for the successful operation of any business
- 5.2 Prepare detailed cash budgets on a monthly or 3-monthly basis
- 5.3 Discuss the implications of, and ways to deal with, a cash surplus/deficit
- 5.4 Define working capital and explain why its management is important in the day-to day operation of any business
- 5.5 Prepare working capital budgets
- 5.6 Show the effects of sales and production expansion or contraction upon working capital requirements
- 5.7 Reconcile profit budgets and cash budgets and explain why this reconciliation is important
- 5.8 Calculate and interpret ratios for stock turnover, debtor collection, creditor settlement and liquidity
- 5.9 Use given ratios to calculate elements of working capital
- 5.10 Explain and calculate the working capital cycle

6 Standard costing and variances

Candidates must be able to:

- 6.1 Explain the meaning of standard cost and differentiate between the types of standard: ideal and attainable
- 6.2 Calculate the total sales variance and analyse this to selling price and sales volume variances using absorption and marginal costing
- 6.3 Calculate the total direct material variance and analyse this to price and usage variances where the price variance is based upon issues
- 6.4 Explain and use the standard hour as a measure of output for a department or a mix of products

- 6.5 Calculate the total direct labour variance and analyse this to rate and efficiency variances
- 6.6 Calculate the total fixed production overhead variance and analyse this when using absorption costing, to expenditure and volume variances
- 6.7 Analyse the fixed production overhead volume variance to efficiency and capacity variances
- 6.8 Reconcile budgeted and actual profit using appropriate variances
- 6.9 Use given cost and sales variances to calculate standard or actual production costs or revenues
- 6.10 Explain and illustrate how standard costs and variances can be used for cost control including the use of control charts
- 6.11 Interpret variances and possible relationships between them
- 6.12 Calculate ratios of production volume (activity), production efficiency and capacity
- 6.13 Explain the use of *ex-ante* and *ex-post* standards
- 6.14 Calculate and interpret planning and operational variances

7 Long term decision making

Candidates must be able to:

- 7.1 Explain the difference between long term and short term decision making
- 7.2 Identify relevant and irrelevant costs in capital investment appraisal
- 7.3 Prepare capital investment appraisals using the traditional techniques of payback and/or accounting rate of return
- 7.4 Evaluate the effectiveness of these traditional techniques, and identify their limitations
- 7.5 Explain what is meant by discounted cash flow (DCF), and explain how discounting overcomes the main limitation of traditional techniques

- 7.6 Explain net present value (NPV) and internal rate of return (IRR) discounting methods
- 7.7 Calculate the net present value (NPV) of a proposed capital investment
- 7.8 Calculate the internal rate of return (IRR) of a proposed capital investment
- 7.9 Compare IRR and NPV methods and explain why the two techniques do not necessarily rank projects in the same order
- 7.10 Calculate the discounted payback of a proposed capital investment
- 7.11 Calculate a profitability index, and explain its significance
- 7.12 Calculate and use a weighted average cost of capital
- 7.13 Apply elementary aspects of risk analysis including sensitivity analysis and expected value using probabilities
- 7.14 Incorporate elementary aspects of the impact of inflation in capital investment appraisals
- 7.15 Interpret the results of capital investment appraisals

8 Performance evaluation and transfer pricing

Candidates must be able to:

- 8.1 Explain why an organisation may wish to decentralise and describe the advantages and disadvantages of decentralisation
- 8.2 Define and contrast cost centres, profit centres and investment centres
- 8.3 Evaluate centres on the basis of ratios and in particular be able to calculate return on capital employed (ROCE) and residual income (RI)
- 8.4 Contrast ROCE with RI and describe the strengths and weaknesses of the two ratios
- 8.5 Calculate and interpret profitability and use of assets ratios
- 8.6 Discuss the use of the balanced scorecard approach to performance evaluation

- 8.7 Calculate and interpret both financial and non-financial performance measures in various organisations
- 8.8 Explain why transfer pricing is necessary and the objectives that should be met
- 8.9 Calculate and use market and cost based transfer prices and evaluate the consequences for buyers, sellers and the group as a whole, of the different methods



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