OBJECTIVES
The examination aims to test the candidates’ abilities to:
1. demonstrate knowledge of accounting procedures and practices and an understanding of accounting principles on which they are based;
2. apply such knowledge and understanding to familiar and novel situations;
3. analyze data and present information in an appropriate accounting form; and
4. evaluate a given scenario with reasoned explanations and make recommendations based on accounting information and principles.

THE EXAMINATION
The examination will consist of two papers of three hours each. Each paper will have two sections: Section A (60%) consisting of two compulsory questions of 30 marks each, and Section B (40%) a choice of two out of three questions of 20 marks each. Candidates are required to answer two questions from each section of both papers. The content of the syllabus will be tested on both papers.

THE SYLLABUS
Candidates are encouraged to keep abreast of the latest accounting developments in Hong Kong. Any definition or accounting practice which has become obsolete before the commencement of the teaching year of the syllabus (i.e. the September two years before the examination) will not be accepted in the examination.

Syllabus

Explanatory Notes

I. THE ACCOUNTING SYSTEM

1. Purposes of financial reporting
   (a) Users and their information needs
   (b) An introduction to the regulatory framework of accounting
2. Accounting principles and concepts
   (a) Meanings and implications of ‘true and fair view’ and ‘substance over form’
   (b) Meaning, importance, functions and shortcomings of: entity, going concern, stable monetary unit, historical cost, accrual, prudence, consistency, objectivity, timeliness, materiality, uniformity, relevance, disclosure

3. Books of accounts and records
   (a) Double-entry book-keeping
   (b) Books of original entries
   (c) Ledgers and their classifications
   (d) Information technology applications in accounting systems

4. Control systems
   (a) Trial balance
   (b) Control accounts and their reconciliation with personal ledgers
   (c) Bank reconciliation statement
   (d) Types of errors and their correction

II. FINANCIAL ACCOUNTING

1. Preparation of final accounts for the following types of business:
   — sole proprietorship
   — partnership
   — limited companies
   — non-trading organizations
2. Balancing day adjustments relating to the preparation of final accounts
   (a) Prepayments and accruals for revenue and expenses
   (b) Provisions for bad debts and discounts
   (c) Depreciation
      (i) Causes
      (ii) Methods: Straight-line
             Reducing-balance
             Sum-of-the-years-digits
             Units of production
             Revaluation
      (iii) Disposal of fixed assets

3. Accounting for changes in partnership
   (a) Valuation and accounting treatments of goodwill
   (b) Admission and/or retirement of partner(s)
   (c) Dissolution of partnership

4. Accounting for limited liability company
   (a) Types and raising of capital
      (Issues payable by instalments and forfeiture of shares are excluded.)
   (b) Limited company taking over a sole proprietorship or a partnership
   (c) Consolidated accounts (one subsidiary and acquisition method only)
   (d) Published accounts (Preparation is not required.)

5. Preparation of financial statements from incomplete records

III. ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS

1. Cash flow statement
   (a) Functions
   (b) Preparation of statement and notes
2. **Ratio analysis**
   (a) Calculation of accounting ratios
   (b) Uses and limitations of ratio analysis

3. **Evaluation of a firm’s profitability, liquidity, management efficiency, investment return, and financial stability**

### IV. AN INTRODUCTION TO MANAGERIAL ACCOUNTING

1. **Costing principles and systems**
   (a) Introducing managerial accounting
   (b) Costing for materials, labour and overheads
   (c) Preparation of manufacturing account
   (d) Costing systems: job, process, and activity-based costing
   (Costing of by-products and waste products is excluded.)
   (e) Marginal costing Vs absorption costing
   (f) Cost-volume-profit (CVP) analysis (marginal costing only)

2. **Standard costing**
   (a) Establishing cost standards
   (b) Variance analysis
       (Calculation of overhead and sales mix variances is excluded.)

3. **Budgeting**
   (a) Advantages and uses
   (b) Fixed Vs flexible budgets
   (c) Factors to consider in setting and revising budgets
   (d) Cash budgets
   (e) Budgeted profit and loss accounts and balance sheets
4. Investment appraisal

(a) Financial factors affecting investment decisions
   — ascertainment of future cash flows, payback, and accounting rate of return
   — net present value and internal rate of return (Calculation of IRR is not required.)

(b) Non-financial factors affecting investment decisions

V. ACCOUNTING THEORY

1. Income determination

(a) Concepts of revenue and its recognition
(b) Concepts of expenses and its measurement
(c) Extraordinary gains and losses: definition and examples
(d) Prior-period adjustments

2. Valuation of fixed assets

(a) Distinction between capital and revenue expenditure
(b) Valuation concepts and methods: historical cost Vs market value
(c) Concepts, reasons and methods of providing for depreciation
(d) Accounting for leases (lessee only)

3. Valuation of intangible assets

(a) Nature and characteristics of intangible assets such as patents, copyrights, franchises, research and development costs, trademark, etc.
(b) Valuation concepts and methods
(c) Accounting treatment

4. Valuation of stock

(a) Periodic Vs perpetual inventory system
(b) Stock valuation methods (based on historical cost valuation)
   — specific identification
   — average cost
Syllabus

Explanatory Notes

- first in, first out
- last in, first out
(c) The lower of cost or market (LCM)