

Level 2 Certificate in
Book-Keeping and Accounts
International Accounting Standards (IAS)



International
Qualifications from EDI

Syllabus

Effective for examinations to be held after 1 September 2010

INTRODUCTION

EDI is a leading international awarding body that was formed through the merger of the London Chamber of Commerce and Industry Examinations Board (LCCI) and GOAL a leading online assessment provider. EDI now delivers LCCI International Qualifications (LCCI IQ) through a network of over 5000 registered centres in more than 120 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 (IAS)

Aims

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

- an understanding of the basic principles underlying the recording of business transactions in accordance with the International Accounting Standards (IAS)
- the ability to prepare and interpret accounts for sole traders, partnerships, non-trading organisations and limited companies

Target Audience and Candidate Progression

This qualification is suitable for candidates who wish to understand bookkeeping and accounts in accordance to the International Accounting Standards. It is appropriate 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.

Structure of the qualification

The Level 2 Certificate in Book-keeping and Accounts (IAS) is a single unit qualification that consists of the range of topics detailed overleaf.

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. Inventory 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

Guided Learning Hours

EDI recommends that 140 - 160 Guided Learning Hours (GLHs) provide 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.

ASSESSMENT

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 financial statements 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 inventory valuation

- prepare control accounts for receivables and s
- correct errors in accounts and show the use of a Suspense Account
- demonstrate how to use financial statements for the purpose of the calculation and interpretation of ratios

Skills Assessed

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 financial statements for sole traders, partnerships, limited companies and non-trading organisations in appropriate format
- analyse and interpret data

Coverage of Syllabus Topics in Examinations

At least **two** 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

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.

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.

Certification

Successful candidates will be awarded the Level 2 Certificate in Book keeping and accounts based on the achievement of the percentages and grades below:

Pass	50%
Merit	60%
Distinction	75%

Recommended Reading List and Support Material

Reading List

Title	Author(s)	Publisher	ISBN Code
International Financial Reporting	Alan Melville	Pearson	0273730118
Financial Accounting International Edition	Jeffrey Waybright Robert Kemp	Pearson	0137067798
Advanced Accounting International Version	Floyd Beams Et al	Pearson	0131358057

These books are essential reading for all candidates.

Support Material

Model answers and past question papers are available from the LCCI website, www.lcci.org.uk. A Solutions Booklet to support the Passport to Success book is also available from the website.

How to offer this qualification

To offer this qualification you must be an LCCI IQ registered examination centre. To gain centre approval please contact Customer Support on 08700818008 between the hours of 0830 and 1700 (GMT) Monday to Friday or by email on centresupport@ediplc.com.

Alternatively you may contact your Regional LCCI Office or Co-ordinating Authority.

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
- The income statement
- The statement of financial position

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 income statement and upon the presentation of the asset on the statement of financial position

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 the depreciation expense account and the accumulated depreciation account

1.2.6 Prepare entries in the depreciation expense account including transfer to the income statement at the financial year end

1.2.7 Prepare entries in the accumulated 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 accruals
 - 1.3.2 Prepare end-of-period adjustments in expense accounts for accruals
 - 1.3.3 State the significance of prepaid expenses
 - 1.3.4 Prepare end-of-period adjustments in expense accounts for prepaid expenses
 - 1.3.5 Make adjustments for end-of-period accruals and prepayments in the income statement and statement of financial position
 - 1.3.6 Make adjustments in the statement of financial position for end-of-period 'outstanding' purchases, i.e. goods received but invoices still awaited
 - 1.3.7 State the significance of accrued income
 - 1.3.8 Make end-of-period adjustments in income account for accrued income
 - 1.3.9 State the significance of unearned income
 - 1.3.10 Make end-of-period adjustments in income account for the unearned income
 - 1.3.11 Make adjustments for end-of-period accrued income and unearned income in the income statement and statement of financial position
 - 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 allowance 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 an allowance for doubtful debts is made at the financial year end
- 1.4.4 State the difference between a specific allowance for doubtful debts and a general allowance for doubtful debts
- 1.4.5 Prepare the Allowance for Doubtful Debts Account for a number of years, and adjust the allowance at the end of each financial year
- 1.4.6 Demonstrate the effect that an allowance for doubtful debts has on the presentation of trade receivables on the statement of financial position

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 partnership goodwill and assets 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 financial statements**
 - 2.2.1 Demonstrate the distinction between the partnership income statement 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 on drawings in the appropriation account and in partners' current accounts
 - 2.2.6 Prepare a partnership statement of financial position 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 unrecorded partnership 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 unrecorded partnership goodwill necessary on the admission of a partner
 - 2.4.3 Record cash and other assets and liabilities introduced by the new partner

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| 2.5 Change in the ratio in which profits and losses are shared | 2.5.1 Make adjustments for unrecorded partnership 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 books |
| 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 trade receivables and the treatment of bad debts and discounts allowed |
| | 2.6.6 Prepare the entries for the settlement of partnership trade payables and the treatment of discounts received |
| | 2.6.7 Prepare the entries for the treatment of partnership 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 loan notes |
| | 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 irredeemable preferred share capital and ordinary share capital and the nature of the return 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. loan notes, bank loan.
- 3.1.6 Calculate the finance costs on amounts borrowed and recognise the amount calculated as a charge to the income statement

3.2 Preparation of financial Statements for a limited company

- 3.2.1 Prepare an income statement in vertical format to show the profit for the year of a company
- 3.2.2 Enter the payment of the company directors' fees and/or salaries in the income statement
- 3.2.3 Prepare the Statement of Changes in Equity
- 3.2.4 Calculate dividends by using the nominal % for irredeemable preferred 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 earnings for the year
- 3.2.7 Prepare a vertical statement of financial position in good format

- 3.2.8 Differentiate between current liabilities and non-current liabilities
- 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, retained earnings, share premium, revaluation
- 3.2.12 Present the non-current assets on the statement of financial position showing their cost, accumulated depreciation and net book value
- 3.2.13 Present the current assets in an orderly manner in the statement of financial position

4 Incomplete Records

Candidates must be able to:

4.1 Calculation of profit for the year 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

4.2 Factors in the production of detailed financial statements from incomplete records

- 4.1.3 Make adjustments for drawings and for new capital introduced in order to arrive at the profit for the year
- 4.2.1 Calculate a total revenue figure for a period from opening and closing trade receivables, 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 trade payables, cash paid to suppliers, discounts received, etc.
- 4.2.3 Construct expense accounts
- 4.2.4 Construct an income statement and a statement of financial position from incomplete records, for a sole trader

- 4.2.5 Construct an income statement (including appropriation) and a statement of financial position, from incomplete records, for a partnership

5 Manufacturing Accounts

Candidates must be able to:

- 5.1.1 Prepare manufacturing accounts in vertical and T-account format
 - 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 Inventory Valuation

Candidates must be able to:

- 6.1 Value inventory when a choice has to be made between cost and net realisable value
- 6.2 **Physical inventory count as a basis for inventory valuation**
 - 6.2.1 Show the effect on inventory valuation of goods in customers' hands, e.g. on sale or return and of customers' goods on our premises
 - 6.2.2 Calculate the value of inventory at the end of the reporting period/financial year when the physical inventory count occurs before or after the end of the reporting period/financial year
 - 6.2.3 In 6.2.2, adjustments will mainly be for sales, sales returns, purchases and purchases returns

6.3 Inventory losses	6.3.1 Calculate the cost of goods stolen from inventory
	6.3.2 Calculate the loss of inventory arising from fire, flood, etc.
	6.3.3 Record appropriate entries for an insurance claim arising from loss of, or damage to, inventory
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 cash in hand and cash at bank
7.2 The accumulated fund	7.2.1 Define the meaning of the term 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 calculate purchases and sales respectively
	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 Statement of financial position**
- 7.5.1 Present all the organisation's assets and liabilities on the statement of financial position
 - 7.5.2 Present lifetime subscriptions on the statement of financial position
 - 7.5.3 Present subscriptions in arrears and in advance on the statement of financial position

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 statement of financial position

- 8.3 Identify areas where control accounts are particularly appropriate e.g. trade receivables, trade payables, non-current assets, accumulated depreciation on non-current assets, inventory, 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 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 statement of financial position
- 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

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| 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 revenue | 10.4.1 | Calculate gross profit as a percentage of sales revenue (margin) and gross profit as a percentage of cost (mark up) |
| | 10.4.2 | Calculate profit for the year as a percentage of sales revenue |
| | 10.4.3 | Calculate profit for the year before finance costs/interest as a percentage of sales revenue |
| 10.5 Sales to capital employed | 10.5.1 | Understand the importance of measuring revenue generated for each £ of capital employed (investment) |
| | 10.5.2 | Calculate capital employed turnover i.e. revenue 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 |
| | 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 liquid/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 liquid/acid test ratio
- 10.8 Rate of inventory turnover**
 - 10.8.1 State the importance of inventory turnover
 - 10.8.2 Calculate average inventory
 - 10.8.3 Calculate annual rate of inventory turnover, expressed as number of times per year
 - 10.8.4 Calculate average time that goods are carried in inventory (inventory holding period) at the end of the financial year
- 10.9 Trade receivables' collection period**
 - 10.9.1 Calculate trade receivables' collection period
- 10.10 Trade payables' settlement period**
 - 10.10.1 Calculate trade payables' 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. income statement and statement of financial position

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Supporting learning
and performance