

Victorian Certificate of Education

# ACCOUNTING

STUDY DESIGN



[www.vcaa.vic.edu.au](http://www.vcaa.vic.edu.au)

Authorised and published by the Victorian Curriculum and Assessment Authority  
Level 7, 2 Lonsdale Street, Melbourne VIC 3000

Accredited by the Victorian Registration and Qualifications Authority  
Level 4, 2 Lonsdale Street, Melbourne VIC 3000

ISBN: 978-1-925676-29-7

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# Important information

## Accreditation period

Units 1–4: 1 January 2019 – 31 December 2024

Implementation of this study commences in 2019.

## Other sources of information

The [VCAA Bulletin](#) is the only official source of changes to regulations and accredited studies. The Bulletin also regularly includes advice on VCE studies. It is the responsibility of each VCE teacher to refer to each issue of the Bulletin. The Bulletin is available as an e-newsletter via free subscription on the VCAA's website at: [www.vcaa.vic.edu.au](http://www.vcaa.vic.edu.au).

To assist teachers in developing courses, the VCAA publishes online the *Advice for teachers*, which includes teaching and learning activities for Units 1–4, and advice on assessment tasks and performance level descriptors for School-assessed Coursework in Units 3 and 4.

The current [VCE and VCAL Administrative Handbook](#) contains essential information on assessment processes and other procedures.

## VCE providers

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

## Copyright

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

# Introduction

## Scope of study

VCE Accounting explores the financial recording, reporting, analysis and decision-making processes of a sole proprietor small business. Students study both theoretical and practical aspects of accounting. They collect, record, report and analyse financial data, and report, classify, verify and interpret accounting information, using both manual methods and information and communications technology (ICT).

Students apply critical thinking skills to a range of business situations to model alternative outcomes and to provide accounting advice to business owners.

In business decision-making, financial as well as ethical considerations (incorporating social and environmental aspects) should be taken into account.

## Rationale

Accounting involves modelling, forecasting and providing advice to stakeholders through the process of collecting, recording, reporting, analysing and interpreting financial and non-financial data and accounting information. This data and information is communicated to internal and external stakeholders and is used to inform decision-making within the business with a view to improving business performance. Accounting plays an integral role in the successful operation and management of businesses.

VCE Accounting prepares students for a university or TAFE vocational study pathway to commerce, management and accounting, leading to careers in areas such as financial accounting, management accounting, forensic/investigative accounting, taxation, environmental accounting, management and corporate or personal financial planning.

## Aims

This study enables students to:

- acquire knowledge and skills to record financial data and report accounting information in a manner that is appropriate for the needs of the user
- develop an understanding of the role of accounting in the management and operation of a business
- develop skills in the use of ICT in an accounting system
- develop an understanding of ethical considerations in relation to business decision-making
- develop the capacity to identify, analyse and interpret financial data and accounting information
- develop and apply critical thinking skills to a range of business situations
- use financial and other information to improve the accounting decision-making within a business.

## Structure

The study is made up of four units.

Unit 1: Role of accounting in business

Unit 2: Accounting and decision-making for a trading business

Unit 3: Financial accounting for a trading business

Unit 4: Recording, reporting, budgeting and decision-making

Each unit deals with specific content contained in areas of study and is designed to enable students to achieve a set of outcomes for that unit. Each outcome is described in terms of key knowledge and key skills.

## Entry

There are no prerequisites for entry to Units 1, 2 and 3. Students must undertake Unit 3 and Unit 4 as a sequence. Units 1 to 4 are designed to a standard equivalent to the final two years of secondary education. All VCE studies are benchmarked against comparable national and international curriculum.

## Duration

Each unit involves at least 50 hours of scheduled classroom instruction.

## Changes to the study design

During its period of accreditation minor changes to the study will be announced in the [VCAA Bulletin](#). The Bulletin is the only source of changes to regulations and accredited studies. It is the responsibility of each VCE teacher to monitor changes or advice about VCE studies published in the Bulletin.

## Monitoring for quality

As part of ongoing monitoring and quality assurance, the VCAA will periodically undertake an audit of VCE Accounting to ensure the study is being taught and assessed as accredited. The details of the audit procedures and requirements are published annually in the [VCE and VCAL Administrative Handbook](#). Schools will be notified if they are required to submit material to be audited.

## Safety and wellbeing

It is the responsibility of the school to ensure that duty of care is exercised in relation to the health and safety of all students undertaking the study.

## Employability skills

This study offers a number of opportunities for students to develop employability skills. The *Advice for teachers* companion document provides specific examples of how students can develop employability skills during learning activities and assessment tasks.

## Legislative compliance

When collecting and using information, the provisions of privacy and copyright legislation, such as the Victorian *Privacy and Data Protection Act 2014* and *Health Records Act 2001*, and the federal *Privacy Act 1988* and *Copyright Act 1968*, must be met.

# Assessment and reporting

## Satisfactory completion

The award of satisfactory completion for a unit is based on the teacher's decision that the student has demonstrated achievement of the set of outcomes specified for the unit. Demonstration of achievement of outcomes and satisfactory completion of a unit are determined by evidence gained through the assessment of a range of learning activities and tasks.

Teachers must develop courses that provide appropriate opportunities for students to demonstrate satisfactory achievement of outcomes.

The decision about satisfactory completion of a unit is distinct from the assessment of levels of achievement. Schools will report a student's result for each unit to the VCAA as S (Satisfactory) or N (Not Satisfactory).

## Levels of achievement

### Units 1 and 2

Procedures for the assessment of levels of achievement in Units 1 and 2 are a matter for school decision. Assessment of levels of achievement for these units will not be reported to the VCAA. Schools may choose to report levels of achievement using grades, descriptive statements or other indicators.

### Units 3 and 4

The VCAA specifies the assessment procedures for students undertaking scored assessment in Units 3 and 4. Designated assessment tasks are provided in the details for each unit in VCE study designs.

The student's level of achievement in Units 3 and 4 will be determined by School-assessed Coursework (SAC) as specified in the VCE study design, and external assessment.

The VCAA will report the student's level of achievement on each assessment component as a grade from A+ to E or UG (ungraded). To receive a study score the student must achieve two or more graded assessments and receive S for both Units 3 and 4. The study score is reported on a scale of 0–50; it is a measure of how well the student performed in relation to all others who took the study. Teachers should refer to the current [VCE and VCAL Administrative Handbook](#) for details on graded assessment and calculation of the study score. Percentage contributions to the study score in VCE Accounting are as follows:

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

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

## Authentication

Work related to the outcomes of each unit will be accepted only if the teacher can attest that, to the best of their knowledge, all unacknowledged work is the student's own. Teachers need to refer to the current [VCE and VCAL Administrative Handbook](#) for authentication procedures.

# Characteristics of the study

## The International Accounting Standards Board (IASB) Conceptual Framework

The IASB's Conceptual Framework states six main qualitative characteristics that financial information should have in general purpose financial reports: relevance, faithful representation, comparability, verifiability, timeliness and understandability.

### Qualitative characteristics

#### Relevance

Relevant information is capable of making a difference to the decisions made by users. Relevance requires financial information to be related to an economic decision. Information is relevant to a decision if it helps users to form predictions about the outcomes of past, present or future events, and/or confirms or changes their previous evaluations by providing suitable feedback.

#### Faithful representation

The information reported must be a faithful representation of the real-world economic event it represents. The user is assured that the information presented is complete, free from material error and neutral (without bias).

#### Comparability

Comparability is the qualitative characteristic that enables users to identify and understand similarities in, and differences among, items. Information about an entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date.

#### Verifiability

Verifiability means the ability to ensure that different knowledgeable and independent observers can reach a consensus (arrive at the same conclusion) that a particular depiction of an event is faithfully represented. Verifiability is maintained by retention of source documents used to record the transaction and checked through auditing. The purpose of verifiability is to hold the accounting professional accountable for their work.

#### Timeliness

Timeliness means having information available to decision-makers in time to be capable of influencing their decisions. Having information available sooner, rather than later, can enhance its capacity to influence decisions, and a lack of timeliness can rob information of its potential usefulness. Generally, the older the information, the less useful it is.

#### Understandability

Understandability requires financial information to be comprehensible to users with reasonable knowledge of business and economic activities. To be understandable, information should be presented clearly and concisely.



## Accounting assumptions

### The accounting entity assumption

The records of assets, liabilities and business activities of the entity are kept completely separate from those of the owner of the entity as well as from those of other entities. A separate set of accounting records is maintained for each entity, and the financial statements prepared provide information on that entity only.

### The accrual basis assumption

Under the accrual basis of accounting, revenue is recognised in the period in which the expected inflow of economic benefits can be measured in a faithful and verifiable manner, that is, revenue is recognised when it is earned. Expenses are recognised when the consumption of goods and services can be measured, that is, expenses are recognised when they are incurred. Accrual basis profit for an accounting period is determined by subtracting expenses incurred for a period from revenue earned in that same period.

### The going concern assumption

Financial reports are prepared on the assumption that the existing entity will continue to operate into the future. It is assumed that the entity will not be wound up in the near future but will continue its activities.

### The period assumption

Reports are prepared for a particular period of time, such as a month or a year, in order to obtain comparability of results. Profit determination involves a process of recognising the revenue for a period and deducting the expenses incurred for that same period. A distinction can be made between assets, which will provide benefit to future reporting periods, and expenses that are totally consumed within one reporting period.

## Accounting elements

### Assets

An asset is a present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce future economic benefits.

Current assets are cash and other types of assets held primarily for the purpose of sale or trading, or are reasonably expected to be converted to cash, sold or consumed by a business within 12 months after the end of the reporting period.

Non-current assets are expected to be used by the business entity for a number of years and are not held for resale.

### Liabilities

A liability is a present obligation of the entity to transfer an economic resource as a result of past events.

Current liabilities are obligations of the entity that are reasonably expected to be settled within 12 months after the end of the reporting period.

Non-current liabilities are obligations of the entity that are not required to be settled within 12 months after the end of the reporting period.

### Owner's equity

Owner's equity is the residual interest in the assets of the entity after deducting all its liabilities.

## Revenues

Revenues are increases in assets or decreases in liabilities that result in increases in owner's equity, other than those relating to contributions from the owner. Revenue arises in the course of the ordinary activities of a business and includes items such as sales, fees, interest, dividends, royalties and rent.

## Expenses

Expenses are decreases in assets or increases in liabilities that result in a decrease in owner's equity, other than those relating to distributions to the owner. Expenses encompass losses as well as those expenses that arise in the course of the ordinary activities of the business. Expenses that arise in the course of the ordinary activities of the entity include, for example, cost of sales, wages and depreciation.

## Financial indicators

This table provides indicators that can be used to measure business performance in relation to profitability, liquidity and stability.

Financial indicator	Calculation	Expressed as	Change/Trend
Gross profit margin	$\frac{\text{Gross profit}}{\text{Net sales}} \times 100$	percentage	increase or decrease
Net profit margin	$\frac{\text{Net profit}}{\text{Net sales}} \times 100$	percentage	increase or decrease
Return on assets	$\frac{\text{Net profit}}{\text{Average total assets}} \times 100$	percentage	increase or decrease
Asset turnover	$\frac{\text{Net sales}}{\text{Average total assets}}$	times per period	faster or slower
Return on owner's investment	$\frac{\text{Net profit}}{\text{Average capital}} \times 100$	percentage	increase or decrease
Cash flow cover	$\frac{\text{Net cash flow from operating activities}}{\text{Average current liabilities}}$	times per period	faster or slower
Working capital ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	ratio current assets:1	increase or decrease
Quick asset ratio	$\frac{\text{Current assets} - (\text{inventory} + \text{prepayments})}{\text{Current liabilities}}$	ratio quick assets:1	increase or decrease
Debt ratio	$\frac{\text{Total Liabilities}}{\text{Total Assets}} \times 100$	percentage	increase or decrease
Inventory turnover	$\frac{\text{Average inventory}}{\text{Cost of goods sold}} \times 365$	number of days	faster or slower
Accounts payable turnover	$\frac{\text{Average accounts payable}}{\text{Net credit purchases (plus GST)}} \times 365$	number of days	faster or slower
Accounts receivable turnover	$\frac{\text{Average accounts receivable}}{\text{Net credit sales (plus GST)}} \times 365$	number of days	faster or slower

## Documents for a business

The following types of documents could be used by a business as records of financial transactions: cash receipt, cheque butt, sales invoice, purchase invoice, bank statement, memo, statement of account, Electronic Funds Transfer (EFT) receipt, order, credit note, shipping and order confirmation, delivery docket, and credit card receipt. These documents may be prepared manually or be computer generated. Many documents satisfy the requirements of a tax invoice, which contains specified items of information that are required for effective operation of the GST system.

## Goods and Services Tax (GST)

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

## Cost assignment methods for inventory

### First-In, First-Out (FIFO) method

#### Inventory gain

Inventory gains are to be determined by using the latest cost price recorded in the In column of the inventory card. This follows the qualitative characteristic of faithful representation.

#### Inventory loss

Inventory losses are to be determined by assuming the inventory lost on the date of the count is calculated by using the oldest cost price of available inventory on hand recorded in the inventory card.

#### Sales returns

The cost of each inventory item will be calculated by using the latest cost prices shown in the OUT column of the inventory card (reversing the last out).

#### Purchases returns

The cost of inventory returned to suppliers is to be calculated by using the cost price identified by the supplier's credit note.

### Identified Cost method

#### Inventory loss/gain

The number of inventory items and their cost will be revealed by a physical count.

#### Sales returns

The cost of each inventory item will be identified on the business document or inventory card.

#### Purchases returns

The cost of inventory returned to suppliers is to be calculated by using the cost price identified by the supplier's credit note.

#### Doubtful debts

An allowance for doubtful debts is created using a percentage of net credit sales. Bad debts are written off using the allowance method.

## Closing revenue accounts

Only one General Journal entry is required to close all revenues (including Sales Returns) to the Profit and Loss Summary account, resulting in one entry in the General Ledger account.

## Closing expense accounts

Only one General Journal entry is required to close all expenses to the Profit and Loss Summary account, resulting in one entry in the General Ledger account.

One General Journal entry is required to transfer the profit/loss from the Profit and Loss Summary account to the Capital account.

## Information and communications technology (ICT)

ICT is an essential aspect of business operations increasingly used to capture, analyse and convey information. Students are required to be aware of the use of spreadsheets, the internet and multimedia software in relation to accounting. Commercial accounting software packages may be used.

Each unit of VCE Accounting involves student application of ICT to record transactions; to create reports, graphical representations and visualisations; and to model alternative scenarios. As a guide, students would typically require a minimum of 15 hours scheduled class time per unit involving ICT to be able to achieve the outcomes of each unit.

Knowledge and use of spreadsheets is essential and should be integrated throughout Units 1 to 4. Spreadsheets are used in accounting practice in a variety of ways including recording inventory; preparing Income Statements, variance reports, budgets and other accounting information in various formats; numeric calculation; constructing graphical representations (including charts); comparing the results of alternative business options; and analysing data to assist in decision-making.

Financial modelling is used to make estimates of how future scenarios will influence the performance of a business through mathematical projections of the key variables affecting the business.

ICT is an important tool for modelling the potential consequences of different future scenarios when making business decisions. Modelling using ICT enables comparison and analysis of the potential consequences of different decisions. In contemporary society, it is essential that an accountant utilises critical and creative thinking skills to explore alternatives and to effectively communicate these to key stakeholders, such as business owners.

## Ethical considerations

The business decisions made by the owner will not only be influenced by financial considerations but also by other ethical considerations including those which are social and environmental in nature. In all consultations and communications, accountants are required to maintain their integrity, impartiality, objectivity and confidentiality.

# Unit 1: Role of accounting in business

This unit explores the establishment of a business and the role of accounting in the determination of business success or failure. In this, it considers the importance of accounting information to stakeholders. Students analyse, interpret and evaluate the performance of the business using financial and non-financial information. They use these evaluations to make recommendations regarding the suitability of a business as an investment.

Students record financial data and prepare reports for service businesses owned by sole proprietors.

Where appropriate, the accounting procedures developed in each area of study should incorporate the application of the Conceptual Framework and financial indicators to measure business performance, and take into account the range of ethical considerations faced by business owners when making decisions, including financial, social and environmental.

## Area of Study 1

### The role of accounting

Individuals should consider a range of factors before committing to or continuing in a business venture. In this area of study students investigate the reasons for establishing a business and possible alternatives to operating a business. They explore types of business ownership, factors that lead to the success or failure of a business, sources of business finance and ethical considerations. They develop an understanding of the role and importance of accounting in operating a business, and consider how accounting is used to provide information for making operational and investment decisions.

### Outcome 1

On completion of this unit the student should be able to describe the resources required to establish and operate a business, and select and use accounting reports and other information to discuss the success or otherwise of the business.

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

#### Key knowledge

- reasons for establishing a business
- resources required to establish a business such as internal and external sources of finance
- the role of professionals such as accountants, business advisors and professional organisations in providing advice to achieve business success
- factors that lead to the success or failure of a business
- alternative investment opportunities to establishing a business
- types of ownership structures such as sole proprietor, partnership, private company and public company
- the accounting elements: assets, liabilities, owner's equity, revenues and expenses
- current and non-current assets, and current and non-current liabilities
- price setting methods such as recommended retail price, mark-up and cost-volume-profit analysis
- accounting reports and information used to assist in judging the success or failure of a business
- ethical considerations when making decisions in relation to establishing or operating a business.

**Key skills**

- use correct accounting terminology
- research information from a range of sources
- discuss alternative investment opportunities to establishing a business
- describe the sources of finance available to a business
- distinguish between current and non-current assets, and current and non-current liabilities
- discuss factors affecting the level of success or failure of a business
- apply and use different methods of price setting
- describe and use accounting information presented in written reports and graphical representations to make a judgment on the success or failure of a business
- apply theoretical knowledge to actual and simulated situations
- discuss ethical considerations faced by business owners when making business decisions.

## Area of Study 2

### Recording financial data and reporting accounting information for a service business

In this area of study students investigate the role of accounting in generating financial data and accounting information. They use the accrual method for determining profit for a service business operating as a sole proprietor with cash and credit transactions.

Students use both manual methods and ICT to record financial data and report accounting information. They apply accounting assumptions and qualitative characteristics, and use business documents and indicators to measure business performance in order to consider the success or failure of the business.

There are many indicators to measure the performance of a business. Some are financial, such as the amount of profit earned compared with investment or total sales made in a given period, while others are based on non-financial information, such as the speed with which invoices are paid, number of customers visiting a store in a given period, or trends in consumer preferences.

### Outcome 2

On completion of this unit the student should be able to identify and record financial data, report and explain accounting information for a service business, and suggest and apply appropriate financial and non-financial indicators to measure business performance.

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

**Key knowledge**

- accounting assumptions and qualitative characteristics
- documents used by a business to record financial transactions
- the nature of cash and credit transactions
- the two-fold effect of transactions on the accounting equation
- the distinction between cash and profit
- materials and supplies required by a service business
- indicators of business performance (financial and non-financial)

- the purpose and use of special journals:
  - Sales Journal
  - Purchases Journal
  - Cash Receipts Journal
  - Cash Payments Journal
- internal control procedures to safeguard resources against theft and fraud
- classified accounting reports for a service business:
  - Cash Flow Statement
  - Income Statement
  - Balance Sheet
- graphical representations of accounting information
- ethical considerations when recording and reporting transactions.

### Key skills

- use correct accounting terminology
- explain and apply relevant qualitative characteristics and accounting assumptions
- apply theoretical knowledge to simulated situations
- identify, classify and record financial data manually and through the use of ICT
- explain and apply appropriate internal control procedures
- analyse the effect of financial transactions on the accounting equation
- prepare accounting reports manually and using ICT, including spreadsheets, for a service business
- use ICT, including spreadsheets, to construct appropriate graphical representations
- discuss ethical considerations faced by business owners when recording and reporting transactions.

## Assessment

The award of satisfactory completion for a unit is based on whether the student has demonstrated the set of outcomes specified for the unit. Teachers should use a variety of learning activities and assessment tasks that provide a range of opportunities for students to demonstrate the key knowledge and key skills in the outcomes.

The areas of study, including the key knowledge and key skills listed for the outcomes, should be used for course design and the development of learning activities and assessment tasks. Assessment must be a part of the regular teaching and learning program and should be completed mainly in class and within a limited timeframe.

All assessments at Units 1 and 2 are school-based. Procedures for assessment of levels of achievement in Units 1 and 2 are a matter for school decision.

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

Suitable tasks for assessment in this unit may be selected from the following:

- a folio of exercises (manual methods and ICT)
- structured questions (manual methods and ICT)
- an assignment including use of ICT
- a case study including use of ICT
- a classroom presentation including use of ICT
- a feasibility investigation of a business venture including use of ICT.

Where teachers allow students to choose between tasks they must ensure that the tasks they set are of comparable scope and demand.

# Unit 2: Accounting and decision-making for a trading business

In this unit students develop their knowledge of the accounting process for sole proprietors operating a trading business, with a focus on inventory, accounts receivable, accounts payable and non-current assets. Students use manual processes and ICT, including spreadsheets, to prepare historical and budgeted accounting reports.

Students analyse and evaluate the performance of the business relating to inventory, accounts receivable, accounts payable and non-current assets. They use relevant financial and other information to predict, budget and compare the potential effects of alternative strategies on the performance of the business. Using these evaluations, students develop and suggest to the owner strategies to improve business performance.

Where appropriate, the accounting procedures developed in each area of study should incorporate application of the Conceptual Framework, financial indicators and ethical considerations for business owners when making business decisions, including financial, social and environmental.

## Area of Study 1

### Accounting for inventory

The strategic management of inventory is a key factor in the success or failure of a trading business. In this area of study students investigate use of both the First-In, First-Out (FIFO) and Identified Cost inventory cost assignment methods to record and report the movements of inventory through the business. Using both methods, students discuss the effect of relevant financial and non-financial factors, including ethical considerations, on the outcomes of decisions taken in relation to inventory.

### Outcome 1

On completion of this unit the student should be able to record and report for inventory and discuss the effect of relevant financial and non-financial factors, and ethical considerations, on the outcome of business decisions.

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

#### Key knowledge

- characteristics of a trading business
- accounting assumptions and qualitative characteristics as applicable
- documents used by a business to record financial transactions
- indicators to measure business performance in relation to inventory
- the accounting elements: assets, liabilities, owner's equity, revenues and expenses
- current and non-current assets and current and non-current liabilities
- the purpose and use of special journals:
  - Sales Journal
  - Purchases Journal
  - Cash Receipts Journal
  - Cash Payments Journal



- the purpose and use of inventory cards using the First-In, First-Out (FIFO) and Identified Cost methods for recording:
  - inventory sold
  - inventory purchased
  - inventory returned to suppliers
  - inventory returned by customers
  - drawings of inventory by the owner
  - inventory used for advertising
  - inventory loss/gain
- historical and budgeted classified accounting reports for a trading business:
  - Cash Flow Statement
  - Income Statement
  - Balance Sheet
- reporting of inventory and the impact it has on the Cash Flow Statement, Income Statement and Balance Sheet
- strategies for effective inventory management such as physical count, inventory rotation, expected inventory levels, range of complementary goods, delivery and handling procedures and internal controls to prevent theft and fraud
- the potential impact of alternative inventory management strategies on business performance
- ethical considerations when undertaking decision-making related to inventory.

#### Key skills

- use correct accounting terminology
- explain and apply relevant qualitative characteristics and accounting assumptions
- identify, classify and record financial data
- manually record transactions in the special journals and inventory cards
- use ICT, including spreadsheets, to record transactions and construct appropriate graphical representations
- distinguish between current and non-current assets, and current and non-current liabilities
- prepare historical and budgeted accounting reports for a trading business using manual methods and ICT
- apply theoretical knowledge to simulated situations
- discuss the ethical considerations faced by business owners related to inventory
- discuss the effect of alternative inventory management strategies on the performance of the business.

## Area of Study 2

### Accounting for and managing accounts receivable and accounts payable

Managing accounts receivable and accounts payable successfully is essential to maintaining an adequate cash flow for a business. In this area of study students record and report transactions relating to accounts receivable and accounts payable. They examine strategies for managing credit transactions and use indicators, such as accounts receivable turnover and accounts payable turnover, to analyse decisions related to these areas. Students also take account of ethical considerations involved in managing accounts receivable and accounts payable and the effects of these on business performance.

## Outcome 2

On completion of this unit the student should be able to record and report for accounts receivable and accounts payable, and analyse and discuss the effect of relevant decisions on the performance of the business including the influence of ethical considerations.

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

### Key knowledge

- accounting assumptions and qualitative characteristics
- documents used by a business to record financial transactions
- indicators to measure business performance in relation to accounts receivable and accounts payable
- the purpose and use of special journals:
  - Sales Journal
  - Purchases Journal
  - Cash Receipts Journal
  - Cash Payments Journal
- transactions involving accounts receivable and accounts payable records:
  - sales
  - purchases
  - returns, both sales and purchases
  - bad debts
  - settlement discounts (GST to be excluded)
- reporting of accounts receivable and accounts payable in the Cash Flow Statement, Income Statement and Balance Sheet
- strategies for effective management of accounts payable and accounts receivable
- the use of both manual methods and ICT to model and analyse the potential financial outcomes of decisions relating to accounts receivable and accounts payable
- non-financial factors and their impact on business performance in relation to accounts receivable and accounts payable
- ethical considerations when dealing with accounts receivable and accounts payable.

### Key skills

- use correct accounting terminology
- explain and apply relevant qualitative characteristics and accounting assumptions
- apply theoretical knowledge to simulated situations
- identify, classify and manually record financial data
- manually prepare accounting reports for a trading business
- use ICT, including spreadsheets, to record transactions, model the effects of alternative strategies and construct appropriate graphical representations in relation to accounts receivable and accounts payable
- use ICT, including spreadsheets, to model and analyse potential financial outcomes in relation to accounts receivable and accounts payable
- discuss alternative strategies in relation to accounts receivable and accounts payable
- discuss the ethical considerations of financial decisions in relation to accounts receivable and accounts payable.

## Area of Study 3

### Accounting for and managing non-current assets

In this area of study students develop an understanding of the accounting processes for non-current assets and the issues that can arise when determining a valuation for a non-current asset. Students calculate and apply depreciation using the straight-line method and undertake recording and reporting of depreciation.

### Outcome 3

On completion of this unit the student should be able to record and report for non-current assets and depreciation.

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

#### Key knowledge

- accounting assumptions and qualitative characteristics
- documents used by a business to record financial transactions
- indicators to measure business performance in relation to non-current assets
- valuation of a non-current asset
- straight-line method of depreciation
- reporting depreciation in the Income Statement and Balance Sheet
- strategies for effective non-current asset management, including the use of asset registers
- ethical considerations faced by business owners when purchasing and managing non-current assets.

#### Key skills

- use correct accounting terminology
- explain and apply relevant qualitative characteristics and accounting assumptions
- apply theoretical knowledge to simulated situations
- identify, classify, record and report financial data and information using manual processes and ICT, including spreadsheets
- determine the valuation of a non-current asset
- select and justify strategies to improve the business performance in relation to management of non-current assets.

## Assessment

The award of satisfactory completion for a unit is based on whether the student has demonstrated the set of outcomes specified for the unit. Teachers should use a variety of learning activities and assessment tasks that provide a range of opportunities for students to demonstrate the key knowledge and key skills in the outcomes.

The areas of study, including the key knowledge and key skills listed for the outcomes, should be used for course design and the development of learning activities and assessment tasks. Assessment must be a part of the regular teaching and learning program and should be completed mainly in class and within a limited timeframe.

All assessments at Units 1 and 2 are school-based. Procedures for assessment of levels of achievement in Units 1 and 2 are a matter for school decision.

For this unit students are required to demonstrate three outcomes. As a set these outcomes encompass the areas of study in the unit.

Suitable tasks for assessment in this unit may be selected from the following:

- a folio of exercises utilising manual methods and ICT
- structured questions utilising manual methods and ICT
- an assignment including use of ICT
- a case study including use of ICT
- a classroom presentation, role-play or debate
- a report utilising ICT.

Where teachers allow students to choose between tasks they must ensure that the tasks they set are of comparable scope and demand.

# Unit 3: Financial accounting for a trading business

This unit focuses on financial accounting for a trading business owned by a sole proprietor, and highlights the role of accounting as an information system. Students use the double entry system of recording financial data and prepare reports using the accrual basis of accounting and the perpetual method of inventory recording.

Students develop their understanding of the accounting processes for recording and reporting and consider the effect of decisions made on the performance of the business. They interpret reports and information presented in a variety of formats and suggest strategies to the owner to improve the performance of the business.

Where appropriate, the accounting procedures developed in each area of study should incorporate the application of the Conceptual Framework, financial indicators to measure business performance, as well as the ethical considerations of business owners when making decisions, including financial, social and environmental.

## Area of Study 1

### Recording and analysing financial data

In this area of study students focus on identifying and recording financial data for a business. They use double entry accounting to record data and generate accounting information in the form of accounting reports and graphical representations. This information is used to assist the owner in making informed decisions about the operation of the business. Students should also consider strategies to improve the performance of the business, taking into account the ethical considerations relevant to the business owner.

### Outcome 1

On completion of this unit the student should be able to record financial data using a double entry system; explain the role of the General Journal, General Ledger and inventory cards in the recording process; and describe, discuss and analyse various aspects of the accounting system, including ethical considerations.

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

#### Key knowledge

- accounting assumptions and qualitative characteristics as applicable
- documents used by a business to record financial transactions
- the accounting elements: assets, liabilities, owner's equity, revenues and expenses
- classification of assets and liabilities into categories of current and non-current
- the effect of transactions on the accounting equation
- characteristics of the General Ledger with T-form accounts for manual recording
- the GST Clearing account
- the General Journal and General Ledger and their use in recording transactions, both manually and using ICT, including:
  - establishment of a double entry system
  - cash payments (GST on settlement discounts excluded)
  - cash receipts (GST on settlement discounts excluded)

- credit sales of inventory
- credit purchases of inventory
- sales returns from accounts receivable
- purchase returns to accounts payable
- inventory write-down
- inventory loss or gain
- correction of errors
- inventory used for advertising purposes (GST excluded)
- drawings of inventory by the owner (GST excluded)
- contribution of non-current assets at fair value by the owner
- the purpose and preparation of the pre-adjustment Trial Balance
- inventory cards using the First-In, First-Out (FIFO) and Identified Cost methods for:
  - inventory sold
  - inventory purchased
  - inventory returned
  - drawings of inventory by the owner
  - inventory used for advertising
  - inventory loss or gain
  - inventory write-down
- inventory valuation:
  - product and period costs
  - the lower of cost and net realisable value (NRV)
- internal control procedures to safeguard resources against theft and fraud
- financial indicators: inventory turnover, accounts payable turnover, accounts receivable turnover
- non-financial information available to assist analysis and decision-making in relation to inventory, accounts receivable and accounts payable
- strategies to improve the management of inventory, accounts receivable and accounts payable
- ethical considerations when making business decisions in relation to operating a trading business.

**Key skills**

- use correct accounting terminology
- explain and apply relevant qualitative characteristics and accounting assumptions
- apply theoretical knowledge to simulated situations
- identify and manually record financial data in the General Journal, General Ledger and inventory cards
- use ICT to record financial data in the General Journal, General Ledger and inventory cards and to construct graphical representations
- distinguish between current and non-current assets, and current and non-current liabilities
- explain the purpose of a Trial Balance
- explain and apply appropriate internal control procedures
- analyse the effect of financial transactions on the accounting equation
- distinguish between product and period costs in relation to inventory valuation
- use ICT, including spreadsheets, to model and analyse the effect of alternative inventory valuation methods and cost assignment methods

- evaluate the effect of alternative inventory valuation methods and cost assignment methods on the accounting equation
- discuss strategies to improve the management of inventory, accounts receivable and accounts payable
- discuss ethical considerations involved in decisions made by owners of trading businesses.

## Area of Study 2

### Preparing and interpreting accounting reports

The preparation of financial reports at the end of the reporting period provides information to be used as a basis for planning and decision-making by the business owner. Students develop their understanding of the accounting processes and complete those processes that are applicable to the end of a reporting period for a trading business. They apply the accrual method of accounting to the preparation of accounting reports and draw a distinction between cash and profit, considering the implications of these differences when using reports to make decisions. Students undertake an analysis of accounting reports and interpret the information, taking into account relevant ethical considerations, in order to evaluate the performance of the business.

### Outcome 2

On completion of this unit the student should be able to record transactions and prepare, interpret and analyse accounting reports for a trading business.

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

#### Key knowledge

- accounting assumptions and qualitative characteristics as applicable
- documents used by a business to record financial transactions
- the recording of transactions using manual methods and ICT including spreadsheets
- the process of balancing General Ledger accounts for assets, liabilities and owner's equity
- the recording of closing entries for revenue and expenses in the General Journal and in the General Ledger
- the preparation of the Profit and Loss Summary account in the General Ledger with transfer of profit or loss to the Capital account in the General Journal and the General Ledger
- the recording of the transfer of drawings to the Capital account in the General Journal and General Ledger
- characteristics and use of classified accounting reports:
  - Cash Flow Statement
  - Income Statement
  - Balance Sheet
- the effect of transactions on the accounting reports
- the distinction between cash and profit
- financial indicators and non-financial information used to measure business performance
- graphical representations related to preparing and interpreting accounting reports
- strategies to improve business performance
- ethical considerations in relation to recording and reporting of accounting information.

**Key skills**

- use correct accounting terminology
- explain and apply relevant qualitative characteristics and accounting assumptions
- apply theoretical knowledge to simulated situations
- identify and record financial data manually in the General Journal and the General Ledger and manually prepare accounting reports
- use ICT, including spreadsheets, to record transactions in the General Journal and the General Ledger and prepare accounting reports
- construct appropriate graphical representations to assist with the analysis of classified accounting reports and other information to evaluate the performance of a business
- analyse the effect of financial transactions on the accounting reports
- distinguish between cash and profit
- discuss ethical considerations in relation to the recording and reporting of accounting information.

## School-based assessment

### Satisfactory completion

The award of satisfactory completion for a unit is based on whether the student has demonstrated the set of outcomes specified for the unit. Teachers should use a variety of learning activities and assessment tasks to provide a range of opportunities for students to demonstrate the key knowledge and key skills in the outcomes.

The areas of study and key knowledge and key skills listed for the outcomes should be used for course design and the development of learning activities and assessment tasks.

### Assessment of levels of achievement

The student's level of achievement in Unit 3 will be determined by School-assessed Coursework. School-assessed Coursework tasks must be a part of the regular teaching and learning program and must not unduly add to the workload associated with that program. They must be completed mainly in class and within a limited timeframe.

Where teachers provide a range of options for the same School-assessed Coursework task, they should ensure that the options are of comparable scope and demand.

The types and range of forms of School-assessed Coursework for the outcomes are prescribed within the study design. The VCAA publishes *Advice for teachers* for this study, which includes advice on the design of assessment tasks and the assessment of student work for a level of achievement.

Teachers will provide to the VCAA a numerical score representing an assessment of the student's level of achievement. The score must be based on the teacher's assessment of the performance of each student on the tasks set out in the following table.

### Contribution to final assessment

School-assessed Coursework for Unit 3 will contribute 25 per cent to the study score.



Outcomes	Marks allocated	Assessment tasks
<p><b>Outcome 1</b></p> <p>Record financial data using a double entry system; explain the role of the General Journal, General Ledger and inventory cards in the recording process; and describe, discuss and analyse various aspects of the accounting system, including ethical considerations.</p>	60	<p>The student's performance in each outcome will be assessed using one or more of the following:</p> <ul style="list-style-type: none"> <li>• structured questions (manual and ICT-based)</li> <li>• folio of exercises (manual and ICT-based)</li> <li>• a case study (manual and ICT-based)</li> <li>• a report (written, oral or ICT-based).</li> </ul>
<p><b>Outcome 2</b></p> <p>Record transactions and prepare, interpret and analyse accounting reports for a trading business.</p>	40	
<b>Total marks</b>	100	<b>At least 30 marks must be allocated to ICT-based assessment</b>

## External assessment

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

# Unit 4: Recording, reporting, budgeting and decision-making

In this unit students further develop their understanding of accounting for a trading business owned by a sole proprietor and the role of accounting as an information system. Students use the double entry system of recording financial data, and prepare reports using the accrual basis of accounting and the perpetual method of inventory recording. Both manual methods and ICT are used to record and report.

Students extend their understanding of the recording and reporting process with the inclusion of balance day adjustments and alternative depreciation methods. They investigate both the role and importance of budgeting in decision-making for a business. They analyse and interpret accounting reports and graphical representations to evaluate the performance of a business. From this evaluation, students suggest strategies to business owners to improve business performance.

Where appropriate, the accounting procedures developed in each area of study should incorporate application of the Conceptual Framework and financial indicators to measure business performance, as well as the ethical considerations of business owners when making decisions, including financial, social and environmental.

## Area of Study 1

### Extension of recording and reporting

In this area of study students further develop their understanding of the recording and reporting of financial data in the General Journal and General Ledger by focusing on balance day adjustments and the alternative methods of depreciating for non-current depreciable assets. Students prepare accounting reports using manual methods and ICT. They consider the effect of balance day adjustments on the accounting reports, and the implications of using alternative methods of depreciation on the accounting reports and on the performance of the business. They also examine ethical considerations that may affect the recording and reporting of financial data and business performance.

### Outcome 1

On completion of this unit the student should be able to record financial data and balance day adjustments using a double entry system, report accounting information using an accrual-based system and evaluate the effect of balance day adjustments and alternative methods of depreciation on accounting reports.

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

#### Key knowledge

- accounting assumptions and qualitative characteristics as applicable
- documents used by a business to record financial transactions
- indicators and other relevant information to measure business performance: financial and non-financial
- the recording of transactions in the General Journal and General Ledger and preparation of classified accounting reports using manual methods and ICT
- the purchase of non-current depreciable assets for cash and financed by a loan
- methods of depreciation: straight-line and reducing balance

- the implications of alternative methods of depreciation on accounting reports
- the recording and reporting on the disposal of a non-current depreciable asset
- the recording and reporting of balance day adjustments:
  - prepaid expenses (asset approach) with GST being recorded at the time of payment
  - accrued expenses with GST being recorded at the time of payment
  - the payment of accrued expenses in the subsequent reporting period
  - unearned revenue (liability approach) with no GST recorded at the time of the deposit
  - accrued revenue with GST being recorded at the time of receipt
  - receipt of accrued revenue in the subsequent reporting period
- the creation of an allowance for doubtful debts using the Income Statement approach
- the writing off of bad debts using the allowance method in the subsequent period
- the purpose and preparation of an adjusted Trial Balance
- characteristics and use of classified accounting reports:
  - Cash Flow Statement
  - Income Statement
  - Balance Sheet
- the effect of transactions on the accounting reports
- ethical considerations in relation to business decision-making and the recording and reporting of financial information.

**Key skills**

- use correct accounting terminology
- explain and apply relevant qualitative characteristics and accounting assumptions
- apply theoretical knowledge to simulated situations
- identify and record financial data and report accounting information
- manually record transactions in the General Journal and General Ledger and prepare accounting reports
- use ICT, including spreadsheets, to record transactions, prepare accounting reports and construct graphical representations
- prepare an adjusted Trial Balance
- analyse the effect of financial transactions on the accounting reports
- use ICT, including spreadsheets, to model and analyse alternative depreciation methods
- compare alternative methods of depreciating non-current assets and justify the method selected
- evaluate the effect of alternative methods of depreciating non-current assets on accounting reports
- analyse the effect of balance day adjustments on accounting reports
- analyse and interpret classified accounting reports, graphical representations and other information to evaluate the performance of a business
- discuss and evaluate ethical considerations in relation to business decision-making and the recording and reporting of financial information.

## Area of Study 2

### Budgeting and decision-making

Business owners must plan for future activities if they are to successfully manage the business. Preparing budgeted accounting reports provides the owner with information that will assist in managing and developing strategies to improve business performance. Students prepare and analyse budgeted accounting reports, both manually and using ICT, and suggest strategies to improve the performance of the business. They also discuss and evaluate the ethical considerations associated with business decision-making and business improvement.

### Outcome 2

On completion of this unit the student should be able to prepare budgeted accounting reports and variance reports for a trading business using financial and other relevant information, and model, analyse and discuss the effect of alternative strategies on the performance of a business.

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

#### Key knowledge

- accounting assumptions and qualitative characteristics
- indicators and other relevant information to measure business performance: financial and non-financial
- the characteristics and use of classified budgeted accounting reports:
  - Budgeted Cash Flow Statement
  - Budgeted Income Statement
  - Budgeted Balance Sheet
- the use of variance reports and trends for Cash Flow Statements and Income Statements
- the distinction between cash and profit
- the analysis of historical and budgeted accounting reports, including a consideration of the limitations of analysis, to develop strategies to improve business performance
- graphical representations related to preparing and interpreting budgeted accounting reports
- strategies to improve business performance
- ethical considerations in relation to business decision-making and the strategies used to improve business performance.

#### Key skills

- use applicable accounting terminology
- explain and apply relevant qualitative characteristics and accounting assumptions
- apply theoretical knowledge to simulated situations
- manually prepare classified budgeted accounting reports and variance reports
- use ICT, including spreadsheets, to prepare and analyse classified budgeted accounting reports and variance reports, and construct graphical representations
- use ICT, including spreadsheets, to model and analyse the financial effects of alternative strategies to improve business performance
- analyse and interpret classified historical, budgeted and variance reports, graphical representations and other information to evaluate the performance of a business
- discuss strategies to improve the performance of a business
- discuss and evaluate ethical considerations in relation to business decision-making and the strategies used to improve business performance.

## School-based assessment

### Satisfactory completion

The award of satisfactory completion for a unit is based on whether the student has demonstrated the set of outcomes specified for the unit. Teachers should use a variety of learning activities and assessment tasks to provide a range of opportunities for students to demonstrate the key knowledge and key skills in the outcomes.

The areas of study and key knowledge and key skills listed for the outcomes should be used for course design and the development of learning activities and assessment tasks.

### Assessment of levels of achievement

The student's level of achievement in Unit 4 will be determined by School-assessed Coursework. School-assessed Coursework tasks must be a part of the regular teaching and learning program and must not unduly add to the workload associated with that program. They must be completed mainly in class and within a limited timeframe.

Where teachers provide a range of options for the same School-assessed Coursework task, they should ensure that the options are of comparable scope and demand.

The types and range of forms of School-assessed Coursework for the outcomes are prescribed within the study design. The VCAA publishes *Advice for teachers* for this study, which includes advice on the design of assessment tasks and the assessment of student work for a level of achievement.

Teachers will provide to the VCAA a numerical score representing an assessment of the student's level of achievement. The score must be based on the teacher's assessment of the performance of each student on the tasks set out in the following table.

### Contribution to final assessment

School-assessed Coursework for Unit 4 will contribute 25 per cent to the study score.

Outcomes	Marks allocated	Assessment tasks
<p><b>Outcome 1</b></p> <p>Record financial data and balance day adjustments using a double entry system, report accounting information using an accrual-based system and evaluate the effect of balance day adjustments and alternative methods of depreciation on accounting reports.</p>	50	<p>The student's performance in each outcome will be assessed using one or more of the following:</p> <ul style="list-style-type: none"> <li>structured questions (manual and ICT-based)</li> <li>folio of exercises (manual and ICT-based)</li> <li>a case study (manual and ICT-based)</li> <li>a report (written, oral or ICT-based).</li> </ul>
<p><b>Outcome 2</b></p> <p>Prepare budgeted accounting reports and variance reports for a trading business using financial and other relevant information, and model, analyse and discuss the effect of alternative strategies on the performance of a business.</p>	50	
<b>Total marks</b>	100	<b>At least 30 marks must be allocated to ICT-based assessment</b>

## External assessment

The level of achievement for Units 3 and 4 is also assessed by an end-of-year examination.

### Contribution to final assessment

The examination will contribute 50 per cent to the study score.

## End-of-year examination

### Description

The examination will be set by a panel appointed by the VCAA. All the key knowledge and key skills that underpin the outcomes in Units 3 and 4 are examinable.

Students will not be required to calculate financial indicators, use ICT or prepare graphical representations in the examination.

### Conditions

The examination will be completed under the following conditions:

- Duration: two hours.
- Date: end-of-year, on a date to be published annually by the VCAA.
- VCAA examination rules will apply. Details of these rules are published annually in the [VCE and VCAL Administrative Handbook](#).
- The examination will be marked by assessors appointed by the VCAA.

### Further advice

The VCAA publishes specifications for all VCE examinations on the VCAA website. Examination specifications include details about the sections of the examination, their weighting, the question format/s and any other essential information. The specifications are published in the first year of implementation of the revised Unit 3 and 4 sequence together with any sample material.