

Detailed competency map:

Knowledge requirements

(AAT examination)

Fields of competency

The items listed are shown with an indicator of the minimum acceptable level of competency, based on a three-point scale as follows:

1. Awareness

The candidate demonstrates familiarity with the concept in question; can define it in overview terms and can relate the importance or relevance of the concept to the activities of an accounting technician.

2. Knowledge

This builds upon awareness. The candidate is able to explain the concept; describe and discriminate between its component parts and describe their inter-relationships; recognize instances of the concept; and describe processes, theories and judgement issues; without necessarily being able to perform in those areas with professional skill.

3. Application

This builds upon knowledge. The candidate is able to execute or implement knowledge; apply the knowledge to real world situations. In so doing, the candidate displays to a satisfactory degree of the level of competence reasonably to be expected of an accounting technician at career entrance level.

Paper 1: Fundamentals of accounting and computerized accounts

Aim: This paper aims:

- (i) to develop and assess candidates' knowledge, comprehension and application of the basic accounting concepts and principles; including the ability to apply these to record business transactions; and to prepare and interpret basic financial reports
- (ii) to develop and assess candidates' ability to use available accounting software to record business transactions and to generate financial reports

Content (Fundamentals of accounting)

Unit of competency	Activity required to demonstrate competence (Performance indicators)	Level of competence required
Understanding of the role of accounting within a business enterprise	▪ Define accounting	2
	▪ Describe the function of both financial and management accounting	2
	▪ Identify the users of accounting information and their respective information needs	2
	▪ Explain the qualitative characteristics of accounting information	2
Identifying and understanding of the types of financial statements and the purposes of each type	▪ Identify the types of financial statements produced by both financial and management accounting	1
	▪ Describe the purposes of each type of financial statements	2
Understanding of the relationship between business activities and business transactions	▪ Identify principal types of business activities	2
	▪ Explain how each type of business activity is recorded as a business transaction	2
Understanding of the double entry accounting system	▪ Describe and classify business transaction into: <ul style="list-style-type: none"> ○ assets ○ liabilities ○ equity ○ revenues ○ expenses 	3
	▪ Distinguish between capital and revenue expenditure	2
	▪ Explain the profit impact of incorrect classification between capital and revenue items	2
	▪ Apply the accounting equation ($A = E + L$)	3

Understanding of the principles of accounting	<ul style="list-style-type: none"> ▪ Explain the following accounting concepts, principles and conventions: <ul style="list-style-type: none"> ○ going concern ○ accrual ○ consistency ○ materiality ○ prudence ○ business entity ○ accounting period ○ historic cost ○ measurement ○ realization ○ substance over form 	2
Understanding of the accounting treatment of non-current assets	▪ Define non-current assets	2
	▪ Explain depreciation and the reasons for providing for it	2
	▪ Calculate depreciation using various methods	3
	▪ Explain the factors to be considered in formulating depreciation policy	2
	▪ Demonstrate the accounting entries for providing depreciation and for disposing of non current assets	3
	▪ Explain and record the revaluation of assets	3
Understanding of the accounting treatment of current assets	▪ Define current assets	2
	▪ Define inventories	2
	▪ Explain the difference between perpetual and periodic inventory systems	2
	▪ Explain and justify the valuation of inventories at the lower of cost and net realizable value using FIFO, LIFO, and average cost methodologies	2
	▪ Prepare the accounting entries for inventory transactions	3
	▪ Define receivables	2
	▪ Explain bad debts and the provision for doubtful debts	2
	▪ Prepare the accounting entries for receivables transactions	3
Understanding of the records of original entry	<ul style="list-style-type: none"> ▪ Describe the functions of the following records of original entry: <ul style="list-style-type: none"> ○ cash book ○ petty cash journal ○ sales and returns journal ○ purchase and returns journal ○ general journal 	2
Applying the accounting equation to business transactions and prepare a trial balance	<ul style="list-style-type: none"> ▪ Prepare the following records of original entry from source records: <ul style="list-style-type: none"> ○ cash book ○ petty cash journal ○ sales and returns journal ○ purchase and returns journal ○ general journal 	3
	▪ Post journals to general and subsidiary ledgers	3
	▪ Describe the function of control accounts	2

	<ul style="list-style-type: none"> ▪ Prepare control accounts for receivables and payables ledgers and control accounts 	3
	<ul style="list-style-type: none"> ▪ Reconcile control accounts and subsidiary ledgers 	3
	<ul style="list-style-type: none"> ▪ Explain the purpose of preparing a bank reconciliation statement 	2
	<ul style="list-style-type: none"> ▪ Prepare a bank reconciliation 	3
	<ul style="list-style-type: none"> ▪ Describe types of accounting errors 	2
	<ul style="list-style-type: none"> ▪ Describe the purpose of a suspense account 	2
	<ul style="list-style-type: none"> ▪ Prepare journal entries to correct errors 	3
	<ul style="list-style-type: none"> ▪ Extract a trial balance from ledger accounts 	3
Applying period end adjustments	<ul style="list-style-type: none"> ▪ Prepare the accounting entries for the following period end adjustments: <ul style="list-style-type: none"> ○ accrued expenses ○ prepaid expenses ○ inventory ○ depreciation ○ bad/doubtful debts ○ income in arrears/in advance 	3
Preparing financial statements from incomplete records	<ul style="list-style-type: none"> ▪ Identify the incomplete information for preparation of financial statements 	3
	<ul style="list-style-type: none"> ▪ Using “substitution” technologies, prepare financial statements from available information 	3
Understanding of accounting for, and presentation of financial statements for various common types of business entity	<ul style="list-style-type: none"> ▪ Define a sole trader and prepare a trading and profit and loss account and a balance sheet from a trial balance for a sole trader 	3
	<ul style="list-style-type: none"> ▪ Explain the characteristics of clubs and societies and prepare a receipts and payments account, an income and expenditure account, and a balance sheet for a club or society 	3
	<ul style="list-style-type: none"> ▪ Explain the characteristics of a partnership and prepare an income statement, an appropriation account and a balance sheet for a partnership incorporating: interest on partners’ capital; partners’ salaries; interest on partners’ drawings; sharing of profits and losses: <ul style="list-style-type: none"> ○ distinguish between and prepare partners capital and current accounts ○ record admission and retirement of partners and prepare the balance sheet for a new partnership ○ describe the nature of partnership goodwill and explain its accounting treatment 	3
	<ul style="list-style-type: none"> ▪ Explain the characteristics of a limited liability company and: <ul style="list-style-type: none"> ○ explain the nature and purpose of share capital reserves and debentures ○ record the issue of shares and debentures ○ record interim and final dividends ○ prepare an income statement, appropriation account and balance sheet 	3

	<ul style="list-style-type: none"> ▪ Explain the characteristics of a manufacturing business and: <ul style="list-style-type: none"> ○ prepare a manufacturing account and an income statement showing prime cost; cost of goods produced; transfer price of finished goods ○ prepare a balance sheet ○ calculate the unrealized profit on finished goods ○ explain the use of transfer prices for goods transferred from a factory to a warehouse 	3
Analyzing and appraising financial statements	<ul style="list-style-type: none"> ▪ Explain the use of ratio analysis 	2
	<ul style="list-style-type: none"> ▪ Calculate the following ratios: <ul style="list-style-type: none"> ○ gross margin ○ net margin ○ return on owners equity ○ return on capital employed ○ current turnover ○ current ○ quick (acid test) ○ inventory turnover ○ debtors collection period ○ creditors repayment period ○ gearing ○ interest cover ○ dividend cover ○ dividend yield ○ earnings per share ○ price earnings 	3
	<ul style="list-style-type: none"> ▪ Demonstrate the significance of, and reasons for, changes in ratios over time; and differences in ratios between entities; in respect of: <ul style="list-style-type: none"> ○ profitability ○ short term liquidity ○ long term solvency ○ investment ratio 	3

Content (Computerized accounts)

Unit of competency	Activity required to demonstrate competence (Performance indicators)	Level of competence required
Establishing a simple accounting system using available accounting software	<ul style="list-style-type: none"> ▪ Set up information relating to entity 	3
	<ul style="list-style-type: none"> ▪ Create master files 	3
	<ul style="list-style-type: none"> ▪ Create a chart of accounts 	3
	<ul style="list-style-type: none"> ▪ Create and input opening balances 	3
	<ul style="list-style-type: none"> ▪ Create the following files and accounts: <ul style="list-style-type: none"> ○ new general ledger accounts ○ new customer/supplier files ○ new inventory items ○ a non-current asset register 	3

Recording and processing data using available accounting software	<ul style="list-style-type: none"> ▪ Record and process the following business transactions: <ul style="list-style-type: none"> ○ sales and returns ○ purchases and returns ○ receipts ○ payments ○ accounts receivable and accounts payable ○ inventory inwards and outwards ○ accruals, prepayments, depreciation, provision for doubtful clients, taxation, error corrections ○ detailed non-current asset information ○ purchase and disposal of non current assets 	3
Producing relevant accounting reports and financial statements using available accounting software	<ul style="list-style-type: none"> ▪ Produce the following accounting reports and financial statements: <ul style="list-style-type: none"> ○ chart of account ○ sales analysis, sales journal ○ purchases analysis, purchases journal ○ receipts and payments analysis ○ general journal ○ bank reconciliation ○ general ledger ○ trial balance ○ inventory analysis ○ receivables ageing ○ debtors statements ○ history and balance of account ○ customer/supplier transaction details ○ transactions of a particular type for a given period ○ fixed assets register (including details of additions and disposals) ○ profit and loss account, balance sheet, cash flow statement 	3
Understanding of risks inherent in using available accounting software for producing accounting reports and financial statements	<ul style="list-style-type: none"> ▪ Identify potential risks 	2
	<ul style="list-style-type: none"> ▪ Describe actions to mitigate risks identified 	2

Paper 2: Business communication and organization and management

Aim: This paper aims:

- (i) to develop and assess a broad range of skills used to communicate effectively in business situations
- (ii) to introduce candidates to the basic principles of management, develop a basic understanding of business structures, and the operation of the various functional units within organizations

Content (Business communication)

Unit of competency	Activity required to demonstrate competence (Performance indicators)	Level of competence required
Understanding of the basic concepts of communication	<ul style="list-style-type: none"> ▪ Define communication 	1
	<ul style="list-style-type: none"> ▪ Identify the elements in the communication process: <ul style="list-style-type: none"> ○ sender ○ message ○ encoding ○ channel ○ receiver ○ decoding ○ feedback 	1
	<ul style="list-style-type: none"> ▪ Describe the importance of the you-attitude: <ul style="list-style-type: none"> ○ differentiate between the you-attitude and the I-attitude ○ describe how to develop the you-attitude 	2
Understanding of the different means of communication	<ul style="list-style-type: none"> ▪ Distinguish between the different means of communication: <ul style="list-style-type: none"> ○ reading ○ writing ○ speaking ○ listening 	2
	<ul style="list-style-type: none"> ▪ Compare the advantages and effectiveness of the four types of communication 	2
Understanding of effective communication techniques	<ul style="list-style-type: none"> ▪ Identify the common barriers that impede communication: <ul style="list-style-type: none"> ○ barriers in the world around us ○ barriers between people ○ barriers made by words ○ barriers caused by cultural differences 	1
	<ul style="list-style-type: none"> ▪ Explain how effective communication can be achieved: <ul style="list-style-type: none"> ○ create a favourable environment ○ observe the dress code ○ use a proper channel ○ understand the audience's background ○ organize thoughts/ideas logically ○ focus on specific topics 	2

	<ul style="list-style-type: none"> ○ encourage feedback from the audience 	
	<ul style="list-style-type: none"> ▪ Discuss Maslow’s Hierarchy of Needs 	1
Recognizing of the source of written materials	<ul style="list-style-type: none"> ▪ Identify the various sources of written materials 	1
	<ul style="list-style-type: none"> ▪ Develop the ability to extract relevant information from a wide range of documents and resources 	3
Understanding of the forms of communication within an organization	<ul style="list-style-type: none"> ▪ Explain the different forms of communication: <ul style="list-style-type: none"> ○ internal and external ○ verbal and written ○ upward and downward ○ vertical and lateral 	3
Understanding the writing process	<ul style="list-style-type: none"> ▪ Explain and demonstrate the stages in the writing process: <ul style="list-style-type: none"> ○ brainstorming ○ defining goals and audience ○ conducting research ○ planning ○ drafting ○ revising ○ proof-reading 	3
	<ul style="list-style-type: none"> ▪ Identify and eliminate common problems in writing: <ul style="list-style-type: none"> ○ wordiness ○ the overuse of passive sentences ○ excessive use of “s” and commas ○ choppiness ○ subjectivity ○ negativity ○ clichés ○ lack of variety 	3
	<ul style="list-style-type: none"> ▪ Apply unity and clarity in writing effective sentences 	3
	<ul style="list-style-type: none"> ▪ Explain the rules of paragraphing and use topic sentences in writing clear paragraphs 	3
Ability to compose clear, concise and professional business writing	<ul style="list-style-type: none"> ▪ Demonstrate knowledge of business jargon and abbreviations 	3
	<ul style="list-style-type: none"> ▪ Discuss the advantages and disadvantages of presenting information from diagrams, charts, tables and graphs in writing 	2
	<ul style="list-style-type: none"> ▪ Use an appropriate tone: <ul style="list-style-type: none"> ○ the four “P”s: personal/polite/positive/professional 	3
Ability to convey accurate and concrete information in written business communications	<ul style="list-style-type: none"> ▪ Discuss and distinguish the differences between the following business communication: <ul style="list-style-type: none"> ○ business letter ○ memo ○ agenda/minutes ○ report ○ proposal ○ e-mail ○ fax message 	2

	<ul style="list-style-type: none"> ▪ Demonstrate clear understanding of the definition and application of the various jargon in the above business correspondence 	3
Writing different forms of external business communication effectively	<ul style="list-style-type: none"> ▪ Explain the nature and features of business letters: <ul style="list-style-type: none"> ○ enquiry letter ○ letter of request ○ letter placing an order ○ collection letter ○ sales and promotion letter ○ complaint letter ○ letter of recommendation ○ letter of appreciation ○ letter of congratulations ○ letter of condolence 	3
	<ul style="list-style-type: none"> ▪ Distinguish the tone and format of the above types of letters 	3
	<ul style="list-style-type: none"> ▪ Compose effective and concise written documents and correspondence 	3
	<ul style="list-style-type: none"> ▪ Prepare responses for the following business correspondence: <ul style="list-style-type: none"> ○ enquiry letter ○ letter of request ○ letter placing an order ○ complaint order 	3
Writing effective internal business communication	<ul style="list-style-type: none"> ▪ Discuss the nature and needs for writing the various kinds of documents for internal communication: <ul style="list-style-type: none"> ○ memorandum ○ agenda and minutes ○ report ○ proposal ○ notice 	2
	<ul style="list-style-type: none"> ▪ Discuss the degree of formality used in a memorandum 	2
	<ul style="list-style-type: none"> ▪ Write clear and effective memorandums for routine enquiries, responses, policies, directives and indirect messages 	3
	<ul style="list-style-type: none"> ▪ Describe facts and incidents concisely and clearly 	3
Producing short reports that are informative, accurate and timely	<ul style="list-style-type: none"> ▪ Define the purpose of a report 	1
	<ul style="list-style-type: none"> ▪ Distinguish between the various kinds of reports: <ul style="list-style-type: none"> ○ formal/informal report ○ long/short report ○ proposal ○ recommendation report ○ evaluation report 	1
	<ul style="list-style-type: none"> ▪ Outline the report-writing process and explain the importance of objectivity in report writing 	2
	<ul style="list-style-type: none"> ▪ Prepare a complete report: <ul style="list-style-type: none"> ○ identify the different styles of report and the features in a report ○ understand the pros and cons of including diagrams, pictures, data, tables in a report ○ discuss the importance of design and layout of a 	3

	<ul style="list-style-type: none"> report <ul style="list-style-type: none"> ○ gather and select information and summarize relevant data from research material ○ evaluate the quality of the report 	
Understanding of the nature and requirements for a business meeting	<ul style="list-style-type: none"> ▪ Explain the functions of a meeting/conference 	1
	<ul style="list-style-type: none"> ▪ Describe the process for calling a productive and effective meeting 	1
	<ul style="list-style-type: none"> ▪ Identify the features of a meeting: <ul style="list-style-type: none"> ○ people ○ purpose ○ venue 	1
	<ul style="list-style-type: none"> ▪ Prepare an agenda and minutes 	3
	<ul style="list-style-type: none"> ▪ Consolidate materials into effective, concise presentation materials for the meeting 	3
	<ul style="list-style-type: none"> ▪ Describe the problems of a meeting: <ul style="list-style-type: none"> ○ group-think ○ hidden agenda ○ interpersonal conflicts 	2
	<ul style="list-style-type: none"> ▪ Evaluation the quality and effectiveness of a meeting 	3

Content (Organization and management)

Unit of competency	Activity required to demonstrate competence (Performance indicators)	Level of competence required
Knowledge of the importance of effective organizational management to achieve the aims of an organization	<ul style="list-style-type: none"> ▪ Describe the various levels of management and the function and inter-relationship of each 	2
	<ul style="list-style-type: none"> ▪ Outline alternative approaches by management to problem solving and decision making 	2
	<ul style="list-style-type: none"> ▪ Describe and distinguish the various types and levels of planning undertaken by organizations 	2
	<ul style="list-style-type: none"> ▪ Describe the concepts of authority, accountability and responsibility 	1
	<ul style="list-style-type: none"> ▪ Describe the basic elements of organization design and the advantages/disadvantages of differing structures 	1
	<ul style="list-style-type: none"> ▪ Identify common quality management techniques 	1
Knowledge of the characteristics of effective control systems in organizations	<ul style="list-style-type: none"> ▪ Describe the need for control in organizations 	1
	<ul style="list-style-type: none"> ▪ Describe the characteristics of effective control systems in organizations 	1
	<ul style="list-style-type: none"> ▪ Explain financial and non-financial methods of control 	1
Understanding of the basic concepts of marketing and marketing mix	<ul style="list-style-type: none"> ▪ Define marketing 	1
	<ul style="list-style-type: none"> ▪ Define and understand the relationships between: <ul style="list-style-type: none"> ○ segmentation ○ targeting ○ positioning 	1
	<ul style="list-style-type: none"> ▪ Understand the different marketing mix: <ul style="list-style-type: none"> ○ product ○ price 	1

	<ul style="list-style-type: none"> ○ place ○ promotion 	
Knowledge of market research tools	<ul style="list-style-type: none"> ▪ Identify the different types of research data 	1
	<ul style="list-style-type: none"> ▪ Describe the steps in the market research process 	1
	<ul style="list-style-type: none"> ▪ Explain how businesses analyze and use marketing information 	2
Understanding of the key elements of production and operations management in a manufacturing business	<ul style="list-style-type: none"> ▪ Describe the key elements of products and operations management 	2
	<ul style="list-style-type: none"> ▪ Explain the role of strategic production analysis 	2
	<ul style="list-style-type: none"> ▪ Describe the concept of total quality management 	2
Understanding of the key elements of management in a service organization	<ul style="list-style-type: none"> ▪ Describe the distinctive features of a service organization 	1
	<ul style="list-style-type: none"> ▪ Explain the importance of strategic planning in service organizations 	2
	<ul style="list-style-type: none"> ▪ Describe the importance of service quality 	2
Understanding of the role of financial management in organizations	<ul style="list-style-type: none"> ▪ Explain the critical role of financial management in the overall management of an organization 	2
	<ul style="list-style-type: none"> ▪ Explain the key financial decisions an organization needs to make 	2
	<ul style="list-style-type: none"> ▪ Describe different forms of financial planning and sources of finance 	1
	<ul style="list-style-type: none"> ▪ Explain the role of the accounting function in relation to financial analysis, reporting and control 	2
Understanding of the role of the human resource management function in an organization	<ul style="list-style-type: none"> ▪ Explain the importance of human resource management 	1
	<ul style="list-style-type: none"> ▪ Describe: <ul style="list-style-type: none"> ○ staff planning ○ employee recruitment ○ selection ○ induction ○ training ○ development ○ appraisal 	1
Understanding of the unique characteristics of international business	<ul style="list-style-type: none"> ▪ Describe the importance and relevance of conducting business across national borders 	1
	<ul style="list-style-type: none"> ▪ Explain the unique characteristics of international business: <ul style="list-style-type: none"> ○ regulatory requirements ○ terminology ○ cultural diversity 	2

Paper 3: Management accounting

Aim: This paper aims to develop and assess the understanding of both the principles of cost and management accounting and the application of these principles

Content

Unit of competency	Activity required to demonstrate competence (Performance indicators)	Level of competence required
Comparing cost, management and financial accounting	<ul style="list-style-type: none"> Explain and differentiate the purposes of cost accounting, management accounting and financial accounting 	2
	<ul style="list-style-type: none"> Appreciate the role of cost accounting in a management information system 	1
	<ul style="list-style-type: none"> Appreciate the importance of financial and non-financial information for planning, control and decision-making purposes 	1
Understanding of cost classification, cost concepts, and costing terminology	<ul style="list-style-type: none"> Recognize the variety of cost units, cost centres and profit centres 	1
	<ul style="list-style-type: none"> Understand the nature and purpose of cost classification 	1
	<ul style="list-style-type: none"> Appreciate the importance of cost accumulation 	1
	<ul style="list-style-type: none"> Differentiate between direct and indirect costs; fixed and variable costs; period and product costs; controllable and uncontrollable costs; avoidable and unavoidable costs; etc 	2
	<ul style="list-style-type: none"> Identify cost classification for decision-making and planning 	2
	<ul style="list-style-type: none"> Appreciate cost behaviour patterns including linear, curvi-linear and step functions 	1
	<ul style="list-style-type: none"> Appreciate the importance of unit costs for both financial and management decision making 	1
Understanding of materials cost as an element of finished goods	<ul style="list-style-type: none"> Describe the methods and procedure of store-keeping, stocktaking and inventory control 	2
	<ul style="list-style-type: none"> Explain and illustrate the perpetual inventory system and its procedures documentation 	2
	<ul style="list-style-type: none"> Explain and illustrate the methods available for pricing stores issues and for inventory valuation 	2
Understanding of labour cost as an element of finished goods	<ul style="list-style-type: none"> Appreciate the basic features and functions of direct and indirect labour costs 	1
	<ul style="list-style-type: none"> Explain the impact of different remuneration methods on the cost of finished goods 	2
	<ul style="list-style-type: none"> Appreciate the process of labour cost accounting 	1

Understanding of overhead costs as an element of finished goods	▪ Appreciate the nature of overhead costs	1
	▪ Explain and illustrate the problems and procedures of identifying, analyzing, allocating and absorbing overhead costs	2
	▪ Explain the different bases for overhead absorption rates	2
	▪ Compute overhead absorption rate	3
	▪ Differentiate and calculate plant-wide overhead rates and departmental overhead rates	3
	▪ Explain and illustrate the principles and methods of treatment of under and over-absorption of overhead costs	3
Understanding of job costing	▪ Explain the flow and accumulation of costs when using job costing	2
	▪ Describe the purpose and content of a job cost sheet	2
	▪ Demonstrate the methods for accumulating costs for products and services	3
Understanding of contract costing	▪ Identify appropriate units for accumulation of control costs	1
	▪ Demonstrate the preparation of a control cost account	3
	▪ Explain the treatment of profit/loss on contracts including uncompleted contracts	2
	▪ Demonstrate the accounting entries used in accumulating costs under contracts	3
Understanding of process costing	▪ Demonstrate the application and identification of cost units	3
	▪ Demonstrate the accounting entries and special features of process cost accounts	3
	▪ Explain and determine the equivalent units and cost per equivalent unit	3
	▪ Demonstrate how costs are assigned to equivalent units using process costing	3
	▪ Demonstrate the cost accounting methods used in cost processes, process losses and work in progress	3
	▪ Explain the difference between joint product and by-product costing	2
Understanding of the principal features of activity based costing (ABC)	▪ Define activity cost pools and provide examples	1
	▪ Compare and illustrate ABC and traditional product costing systems	2
	▪ Demonstrate how activity bases are used to assign cost pools to units produced	3
	▪ Outline the benefits and limitations of ABC	2
	▪ Explain the differences between, and the effect of, using full absorption costing, marginal costing and activity based costing for the allocation of costs to products	3

Understanding of the need for, and benefits of, budgeting	▪ Explain the objectives of budgetary planning and control systems	2
	▪ Identify and apply techniques for forecasting revenue and expenditure	3
	▪ Prepare operational, cash and capital expenditure budgets	3
	▪ Explain the differences between fixed budgets, flexible budgets and reforecasts	2
	▪ Calculate variances and identify their cases	3
	▪ Explain and illustrate the concept of zero-based budgeting	3
Understanding of standard costing	▪ Explain the uses and limitations of standard costing	2
	▪ Identify and determine different standards; basic, ideal, attainable and current standards	3
	▪ Identify and calculate sales and cost variances	3
	▪ Prepare standard product cost and analyze different types of variances between standard and actual product costs	3
	▪ Identify the significance of, and inter-relationship between, variances	2
Analyzing cost-volume-profit (CVP) relationships	▪ Calculate and explain the usefulness of contribution margin and contribution margin ratio	3
	▪ Determine the sales volume required to earn a desired level of operating income	3
	▪ Identify the purposes of break-even analysis	2
	▪ Illustrate and determine the margin of safety	2
	▪ Use CVP relationships to evaluate a new marketing strategy	3
	▪ Identify assumptions underlying CVP analysis	2
	▪ Prepare a CVP graph	3

Paper 4: Business economics and financial mathematics

Aim: This paper aims

- (i) to develop and assess the understanding candidates have of the basic principles of economics in relation to the economic management of the Hong Kong Special Administrative Region (HKSAR) and other countries
- (ii) to introduce candidates to, and assess their understanding and application of, the basic principles and techniques of business mathematics used in making decisions and inferences in the business world

Content (Business economics)

Unit of Competency	Activity Required to Demonstrate Competence (Performance Indicators)	Level of Competence Required
Understanding of the principal features of the economic environment in which business operates	<ul style="list-style-type: none"> ▪ Describe the economic concepts of: <ul style="list-style-type: none"> ○ scarcity ○ choice ○ opportunity cost ○ allocation of resources 	1
Using economic theory to understand the working of HKSAR and other economies	<ul style="list-style-type: none"> ▪ Describe and differentiate the concepts of market economy, planned economy and mixed economy 	2
	<ul style="list-style-type: none"> ▪ Explain demand, supply, market equilibrium and price elasticity 	2
	<ul style="list-style-type: none"> ▪ Identify instances in the HKSAR economy of demand, supply, market equilibrium and price elasticity in action 	2
	<ul style="list-style-type: none"> ▪ Explain the theory of production and identify concepts of: <ul style="list-style-type: none"> ○ cost/revenue determination ○ diminishing returns ○ economies of scale ○ long and short run production ○ factor market and income distribution 	2
	<ul style="list-style-type: none"> ▪ Describe and relate to HKSAR, the 4 types of market structure and the respective profit maximization strategies: <ul style="list-style-type: none"> ○ monopoly ○ oligopoly ○ perfect competition ○ monopolistic competition 	2
	<ul style="list-style-type: none"> ▪ Describe: <ul style="list-style-type: none"> ○ market and economic efficiency ○ market failure ○ public policies 	2

Understanding of macroeconomic theory and its impact on the economic policies of HKSAR	▪ Explain the circular flow of income	2
	▪ Describe measures of economic activity	2
	▪ Describe the concepts of investment, consumption, and savings	2
	▪ Describe how fiscal and monetary policies achieve macroeconomic goals	2
	▪ Describe the causes of unemployment, inflation, and economic growth	2
	▪ Describe the difference between free trade and protectionism	2
	▪ Describe both the processes for, and importance of, managing: <ul style="list-style-type: none"> ○ exchange rates ○ balance of payments ○ international trade 	2

Content (Financial mathematics)

Unit of competency	Activity required to demonstrate competence (Performance indicators)	Level of competence required
Understanding of the principal concepts used in financial mathematics	<ul style="list-style-type: none"> ▪ Calculate and explain the use of: <ul style="list-style-type: none"> ○ simple interest ○ compound interest ○ net present value ○ internal rate of return ○ annuities 	3
Understanding of the principal concepts used in statistical analysis	<ul style="list-style-type: none"> ▪ Describe the following statistical terms: <ul style="list-style-type: none"> ○ descriptive statistics ○ inferential statistics ○ samples ○ parameters ○ census 	2
	<ul style="list-style-type: none"> ▪ Describe the process of statistical analysis 	2
	<ul style="list-style-type: none"> ▪ Describe and use the following sampling techniques and identify the advantages, disadvantages and differences between each: <ul style="list-style-type: none"> ○ convenience sampling ○ judgement samples ○ quota sampling ○ simple random sampling ○ systematic random sampling ○ stratified random sampling ○ cluster random sampling 	3

Understanding of the collection and presentation of statistical data	<ul style="list-style-type: none"> ▪ Identify sources of data and types of data 	1
	<ul style="list-style-type: none"> ▪ Describe and be able to use various methods of collecting data: <ul style="list-style-type: none"> ○ direct observation ○ interviewing ○ postal questionnaire ○ abstraction from published statistics ○ internet 	3
	<ul style="list-style-type: none"> ▪ Describe and use frequency distribution for grouping and tabulation of data 	3
	<ul style="list-style-type: none"> ▪ Demonstrate the use of graphical representation: <ul style="list-style-type: none"> ○ bar charts ○ pie charts ○ histograms ○ frequency polygons ○ stem and leaf display 	3
Understanding of statistical analysis in business situations	<ul style="list-style-type: none"> ▪ Calculate the following statistical measures: <ul style="list-style-type: none"> ○ mean ○ median ○ mode ○ range ○ quartile deviation ○ interquartile range ○ standard deviation ○ variance ○ co-efficient of variation 	3
	<ul style="list-style-type: none"> ▪ Calculate and explain the concepts of sampling distribution of the mean: <ul style="list-style-type: none"> ○ standard error ○ confidence intervals for means and proportions ○ hypothesis testing for means and proportions 	3
	<ul style="list-style-type: none"> ▪ Calculate required sample sizes of achieve a desired level of accuracy 	3
	<ul style="list-style-type: none"> ▪ Calculate and explain the characteristics of index numbers: <ul style="list-style-type: none"> ○ price indices ○ quantity indices ○ current index number 	3
	<ul style="list-style-type: none"> ▪ Describe the four components of time series: <ul style="list-style-type: none"> ○ trend ○ cyclical variation ○ seasonal variation ○ irregular variation 	3

Paper 5: Principles of taxation

Aim: This paper aims to develop and assess both the understanding of the fundamental principles of Hong Kong taxation and the application of those principles

Content

Unit of competency	Activity required to demonstrate competence (Performance indicators)	Level of competence required
Understanding of the operation of the Hong Kong taxation system and the chargeability to Hong Kong income tax	<ul style="list-style-type: none"> ▪ Distinguish between different classifications of taxes 	1
	<ul style="list-style-type: none"> ▪ Describe the characteristics of the Hong Kong taxation system 	1
	<ul style="list-style-type: none"> ▪ Describe the sources of Hong Kong tax law and how the tax statutes are interpreted 	1
	<ul style="list-style-type: none"> ▪ Describe the functions of different units of the Inland Revenue Department 	1
	<ul style="list-style-type: none"> ▪ Describe the structure, powers and functions of the Board of Inland Revenue 	1
	<ul style="list-style-type: none"> ▪ Describe the structure, powers and functions of the Board of Review 	1
	<ul style="list-style-type: none"> ▪ Describe and distinguish the scope of charge of different sources of income tax: <ul style="list-style-type: none"> ○ property tax ○ salaries tax ○ profits tax 	2
Understanding of the computation of property tax liabilities of owners of land/buildings situated in Hong Kong	<ul style="list-style-type: none"> ▪ Identify the persons and properties subject to property tax 	2
	<ul style="list-style-type: none"> ▪ Compute the assessable value and net assessable value 	3
	<ul style="list-style-type: none"> ▪ Compute the amount of property tax and provisional property tax 	3
	<ul style="list-style-type: none"> ▪ Distinguish the circumstances where income from letting of property is subject to property tax or profits tax 	2
	<ul style="list-style-type: none"> ▪ Explain the statutory requirements of retention of rent records 	2
Understanding of the computation of salaries tax liabilities of individuals	<ul style="list-style-type: none"> ▪ Describe the factors to be considered in determining the locality of income of: <ul style="list-style-type: none"> ○ employment ○ office ○ pension 	2
	<ul style="list-style-type: none"> ▪ Distinguish between employment and profession 	1
	<ul style="list-style-type: none"> ▪ Explain the differences between the treatment of: <ul style="list-style-type: none"> ○ Hong Kong offices and non-Hong Kong offices ○ Hong Kong employment and non-Hong Kong employment 	1
	<ul style="list-style-type: none"> ▪ Identify the different types of income exempt from salaries tax 	1

	<ul style="list-style-type: none"> ▪ Identify the basis period 	1
	<ul style="list-style-type: none"> ▪ Explain the meaning of accrual of income and determine the date of accrual of different kinds of income 	2
	<ul style="list-style-type: none"> ▪ Describe different kinds of income to be included as income from employment or office 	2
	<ul style="list-style-type: none"> ▪ Describe and compute taxable benefits, including: <ul style="list-style-type: none"> ○ rent free or subsidized accommodation ○ holiday journey ○ share options ○ education expenses of a child of an employee ○ benefits-in-kind 	3
	<ul style="list-style-type: none"> ▪ Compute assessable income, net assessable income and net chargeable income 	3
	<ul style="list-style-type: none"> ▪ Compute provisional salaries tax payable 	2
	<ul style="list-style-type: none"> ▪ Explain the procedures and treatment for relating back lump sum receipts 	2
	<ul style="list-style-type: none"> ▪ Explain the conditions for any expenditure to be deducted from the assessable income 	2
	<ul style="list-style-type: none"> ▪ Describe the conditions for the deduction of concessionary deductions 	2
	<ul style="list-style-type: none"> ▪ Explain the conditions for the deduction of personal allowances 	2
Understanding of the computation of profits tax liabilities of businesses of an individual, partnership or corporation	<ul style="list-style-type: none"> ▪ Define the meanings of persons, trade and profession business 	1
	<ul style="list-style-type: none"> ▪ Describe the badges of trade 	2
	<ul style="list-style-type: none"> ▪ Define the meaning of profits arising in or derived from Hong Kong and identify the factors to be considered in determining the source of profit 	2
	<ul style="list-style-type: none"> ▪ Distinguish between capital and revenue receipts and capital and revenue expenditure 	2
	<ul style="list-style-type: none"> ▪ Explain different kinds of deemed trading receipts chargeable to profits tax 	2
	<ul style="list-style-type: none"> ▪ Identify different kinds of income to be excluded in calculating profits tax 	1
	<ul style="list-style-type: none"> ▪ Explain the conditions for the deduction of various types of expenses under profits tax in general 	2
	<ul style="list-style-type: none"> ▪ Identify the various types of non-deductible expenditure under profits tax 	1
	<ul style="list-style-type: none"> ▪ Identify different acceptable methods of the valuation of inventory 	1
	<ul style="list-style-type: none"> ▪ Explain the principal of <i>Sharkey v Wernher</i> 	2
	<ul style="list-style-type: none"> ▪ Compute the amount of profits tax and provisional profits tax 	3
	<ul style="list-style-type: none"> ▪ Explain the conditions for the deduction of specific expenses under profits tax, including: <ul style="list-style-type: none"> ○ special contributions to recognized occupational retirement schemes ○ expenditure on research and development ○ expenditure on refurbishment of building ○ expenditure on prescribed fixed assets ○ technical education payment ○ patent and know-how purchase costs 	2

	<ul style="list-style-type: none"> ▪ Determine when income from business should be assessed 	1
	<ul style="list-style-type: none"> ▪ Determine the basis period for different circumstances 	2
	<ul style="list-style-type: none"> ▪ Explain the requirements and conditions for hold over of payment of provisional profits tax 	2
	<ul style="list-style-type: none"> ▪ Explain the treatment of losses for different kinds of businesses 	2
	<ul style="list-style-type: none"> ▪ Compute the profit/loss shared by each partner 	3
	<ul style="list-style-type: none"> ▪ Explain the person who is liable to pay the tax under partnership 	1
	<ul style="list-style-type: none"> ▪ Explain the treatment of share of profit/loss where there is a change in a partnership 	3
	<ul style="list-style-type: none"> ▪ Explain the treatment of losses of a partnership 	3
Understanding of the computation of depreciation allowances	<ul style="list-style-type: none"> ▪ Explain the meaning of plant and machinery and identify items which are plant and machine 	1
	<ul style="list-style-type: none"> ▪ Compute depreciation allowances under the pooling system and non-pooling system 	3
	<ul style="list-style-type: none"> ▪ Explain the meaning of an industrial building and identify a building/structure which is treated as an industrial building 	2
	<ul style="list-style-type: none"> ▪ Compute the industrial building allowance 	3
	<ul style="list-style-type: none"> ▪ Explain the meaning of commercial building and identify a building/structure which is treated as a commercial building 	2
	<ul style="list-style-type: none"> ▪ Compute the commercial building allowance 	3
Understanding of the computation of tax payable under personal assessment	<ul style="list-style-type: none"> ▪ Explain the persons who are eligible to elect for personal assessment 	1
	<ul style="list-style-type: none"> ▪ Explain the requirements and conditions for electing personal assessment 	2
	<ul style="list-style-type: none"> ▪ Compute the tax payable under personal assessment in respect of: <ul style="list-style-type: none"> ○ an individual ○ husband and wife 	3
Understanding of the administration of taxes under the Inland Revenue Ordinance	<ul style="list-style-type: none"> ▪ Explain the powers of the following officers of the Inland Revenue Department: <ul style="list-style-type: none"> ○ assessor ○ inspector ○ assistant commissioner ○ commissioner 	1
	<ul style="list-style-type: none"> ▪ Explain the obligations of a taxpayer and an employer 	1
	<ul style="list-style-type: none"> ▪ Explain the requirements and procedures for lodging a valid objection by a taxpayer 	3
	<ul style="list-style-type: none"> ▪ Explain the procedures at the Inland Revenue Department upon receipt of a valid objection 	2
	<ul style="list-style-type: none"> ▪ Explain the requirements of a valid appeal against the Commissioner of Inland Revenue's determination to the Board of Review 	3
	<ul style="list-style-type: none"> ▪ Explain how the Board of Review hears and disposes of an appeal 	1

	<ul style="list-style-type: none"> ▪ Explain the procedures required to lodge an appeal to the: <ul style="list-style-type: none"> ○ Court of First Instance ○ Court of Appeal ○ Court of Final Appeal 	1
	<ul style="list-style-type: none"> ▪ Explain the right of a taxpayer to make an error or omission claim 	3
	<ul style="list-style-type: none"> ▪ Explain the powers of the Inland Revenue Department in respect of the demand of payment of tax under objection or appeal 	2
	<ul style="list-style-type: none"> ▪ Explain the powers of the Inland Revenue Department in the recovery of tax 	2
	<ul style="list-style-type: none"> ▪ Explain the procedures for claiming repayment of tax 	1
	<ul style="list-style-type: none"> ▪ Explain the penalties to be imposed by the Inland Revenue Department in respect of an offence committed by the taxpayer 	2
	<ul style="list-style-type: none"> ▪ Explain the procedures for raising an assessment to additional tax under section 82A 	2
	<ul style="list-style-type: none"> ▪ Explain the requirements of a valid appeal against the assessment to additional tax under section 82A 	2

Paper 6: Fundamentals of business law

Aim: This paper aims to develop and assess the basic knowledge of business law applicable to HKSAR.

Content

Unit of competency	Activity required to demonstrate competence (Performance indicators)	Level of competence required
Understanding of the principle features of the legal environment	<ul style="list-style-type: none"> ▪ Describe the need for law 	1
	<ul style="list-style-type: none"> ▪ Describe the constitutional framework applying in Hong Kong society 	2
	<ul style="list-style-type: none"> ▪ Describe the formal sources of law in Hong Kong 	1
	<ul style="list-style-type: none"> ▪ Describe the system of courts and administration of justice in Hong Kong 	1
	<ul style="list-style-type: none"> ▪ Explain the concept of precedent 	2
Understanding of the general principles of liability	<ul style="list-style-type: none"> ▪ Describe the following concepts: <ul style="list-style-type: none"> ○ liability ○ negligence (including professional negligence) ○ defamation ○ the remedy of damages 	2
Understanding of the basic concepts of contract law	<ul style="list-style-type: none"> ▪ Explain the following terms relating to the formation of a contract: <ul style="list-style-type: none"> ○ offer ○ acceptance ○ consideration ○ intention ○ legality ○ exemption clauses 	2
	<ul style="list-style-type: none"> ▪ Describe the effects of different means of communication of acceptance of contracts 	2
	<ul style="list-style-type: none"> ▪ Explain the distinction between commercial and social contracts 	2
	<ul style="list-style-type: none"> ▪ Discuss the following concepts: <ul style="list-style-type: none"> ○ mistake ○ misrepresentation ○ agency 	2
	<ul style="list-style-type: none"> ▪ Explain the range of remedies for breach of contract, including fundamental breaches of contracts 	2
Understanding of the provisions of consumer laws in Hong Kong	<ul style="list-style-type: none"> ▪ Explain the scope of the Sales of Goods Ordinance 	2
	<ul style="list-style-type: none"> ▪ Explain the key provisions of the Sales of Goods Ordinance 	2
	<ul style="list-style-type: none"> ▪ Describe the provisions of the Unconscionable Contracts Ordinance 	2

Understanding of the ownership and governance structures of different types of businesses	<ul style="list-style-type: none"> ▪ Compare the ownership and governance structure of: <ul style="list-style-type: none"> ○ sole traders ○ partnerships ○ companies ○ joint ventures 	2
	<ul style="list-style-type: none"> ▪ Explain the liability attaching to partners 	2
	<ul style="list-style-type: none"> ▪ Explain the concept of limited liability 	2
	<ul style="list-style-type: none"> ▪ Describe the process of registration for a company 	2
	<ul style="list-style-type: none"> ▪ Describe the accounting and audit requirements for companies 	2
	<ul style="list-style-type: none"> ▪ Describe the key provisions to be included in joint venture agreements 	1
Understanding of the nature, definition and purpose of a bill of exchange; the concept of negotiability of bills of exchange; and the duties and liabilities of the parties concerned	<ul style="list-style-type: none"> ▪ Define a bill of exchange and a negotiable instrument and demonstrate awareness of the purpose of a bill of exchange 	1
	<ul style="list-style-type: none"> ▪ Define a cheque and distinguish it from other bills of exchange 	1
	<ul style="list-style-type: none"> ▪ Identify the parties to a bill of exchange and a cheque 	1
	<ul style="list-style-type: none"> ▪ Explain the concept of negotiability and describe the process of negotiation 	1
	<ul style="list-style-type: none"> ▪ Outline the different types of indorsement 	1
	<ul style="list-style-type: none"> ▪ Describe how a bill of exchange and a cheque can be dishonoured 	1
	<ul style="list-style-type: none"> ▪ Explain the liabilities of parties to a dishonoured bill of exchange and a dishonoured cheque 	1
	<ul style="list-style-type: none"> ▪ Explain the effect of a forged or unauthorized signature of a bill of exchange 	1
	<ul style="list-style-type: none"> ▪ Explain the purpose and describe the different types of crossing in cheques 	1
	<ul style="list-style-type: none"> ▪ Outline the duties and liabilities of a bank with respect to cheques 	1
	<ul style="list-style-type: none"> ▪ List the statutory protection available to the paying bank and collecting bank with respect to cheques 	1

Paper 7: Financial accounting

Aim: This paper aims to develop and assess the understanding and application of the principles and mechanics of financial accounting

Content

Unit of competency	Activity required to demonstrate competence (Performance indicators)	Level of competence required
Understanding of the need for and function of financial reporting standards	<ul style="list-style-type: none"> ▪ Describe the structure of the financial regulatory system and its relationship to financial statements 	1
	<ul style="list-style-type: none"> ▪ Identify the nature and role of organizations that set accounting standards and guidelines 	1
	<ul style="list-style-type: none"> ▪ Describe the Hong Kong Financial Reporting Standards and their application to external financial reports 	1
	<ul style="list-style-type: none"> ▪ Explain the need for generally accepted accounting principles (GAAP) 	1
Understanding of the disclosure and presentation requirements of financial statements	<ul style="list-style-type: none"> ▪ Explain the requirements of relevant accounting standards and legislation relating to the disclosures required in financial statements 	2
	<ul style="list-style-type: none"> ▪ Demonstrate the disclosures required in various financial statements: <ul style="list-style-type: none"> ○ income statement ○ statement of changes in equity ○ balance sheet ○ cash flow statement ○ statement of significant accounting policies ○ other notes to the financial statements 	3
Understanding of the treatment and disclosure of changes in accounting policies and accounting estimates and errors	<ul style="list-style-type: none"> ▪ Define accounting policies, accounting estimates and prior period errors 	2
	<ul style="list-style-type: none"> ▪ Explain the principles of the selection and consistent application of an appropriate accounting policy 	2
	<ul style="list-style-type: none"> ▪ Explain the accounting treatments and disclosures of changes in accounting estimates 	2
	<ul style="list-style-type: none"> ▪ Explain the accounting treatments and disclosures of prior period errors 	2
Understanding of the significance of events after the balance sheet date on an entity's profit and loss for a period and financial position at the year end	<ul style="list-style-type: none"> ▪ Define events after the balance sheet date 	2
	<ul style="list-style-type: none"> ▪ Define and identify adjusting and non-adjusting events after the balance sheet date 	2

Understanding of the nature of related parties	<ul style="list-style-type: none"> ▪ Explain the significance of disclosing related party transactions 	2
	<ul style="list-style-type: none"> ▪ Define a related party and identify the key elements in determining related party relationships and transactions 	2
Understanding of the accounting treatment for property, plant and equipment	<ul style="list-style-type: none"> ▪ Define an item of property, plant and equipment 	2
	<ul style="list-style-type: none"> ▪ Discuss the recognition and derecognition criteria for property, plant and equipment 	2
	<ul style="list-style-type: none"> ▪ Describe the cost elements and the initial measurement of property, plant and equipment 	2
	<ul style="list-style-type: none"> ▪ Describe the requirements of the subsequent measurement of property, plant and equipment: <ul style="list-style-type: none"> ○ the cost model and revaluation model of determining the carrying value ○ the depreciation charges ○ the impairment losses 	3
	<ul style="list-style-type: none"> ▪ Describe the presentation and disclosure requirements of an item of property, plant and equipment 	2
Understanding of the accounting treatment for investment properties	<ul style="list-style-type: none"> ▪ Define an investment property and its distinction with an item of property, plant and equipment 	2
	<ul style="list-style-type: none"> ▪ Discuss the recognition and derecognition criteria for an investment property 	2
	<ul style="list-style-type: none"> ▪ Describe the cost elements and the initial measurement of an investment property 	2
	<ul style="list-style-type: none"> ▪ Describe the requirements of the subsequent measurement of an investment property, including the cost model and fair value model of determining the carrying value 	3
	<ul style="list-style-type: none"> ▪ Describe the presentation and disclosure requirements of investment properties 	2
Understanding of the accounting treatment for leases	<ul style="list-style-type: none"> ▪ Demonstrate awareness of the accounting issues concerned with finance lease and operating lease 	2
	<ul style="list-style-type: none"> ▪ Explain the nature and classification of leases 	2
	<ul style="list-style-type: none"> ▪ Apply the required accounting treatments to operating leases and finance leases in the financial statements of the lessee and lessor 	3
	<ul style="list-style-type: none"> ▪ Describe the disclosure requirements for both lessees and lessors 	2
Understanding of the accounting treatment for intangible assets	<ul style="list-style-type: none"> ▪ Describe intangible assets 	2
	<ul style="list-style-type: none"> ▪ Outline on the problems relating to accounting for intangible assets 	2
	<ul style="list-style-type: none"> ▪ Describe the necessary disclosures for intangible assets 	2
	<ul style="list-style-type: none"> ▪ Define research and development 	2
	<ul style="list-style-type: none"> ▪ Describe the necessary disclosures for research and development expenditure 	2

Understanding of the accounting treatment of revenue and costs associated with construction contracts	<ul style="list-style-type: none"> ▪ Define construction contracts and describe the criteria of combining and segmenting construction contracts 	2
	<ul style="list-style-type: none"> ▪ Discuss the appropriate accounting practice with respect to the recognition of measurement of revenue and costs of construction contracts 	2
	<ul style="list-style-type: none"> ▪ Explain how the profit or loss on a construction contract is recognized 	2
	<ul style="list-style-type: none"> ▪ Discuss the appropriate accounting practice of valuation of construction contracts and compute the value to be included in the periodic financial statements 	2
	<ul style="list-style-type: none"> ▪ Describe the requirements of the presentation and disclosure of information regarding construction contracts in financial statements 	2
Understanding of the accounting treatments and disclosures of provisions, contingent assets and liabilities	<ul style="list-style-type: none"> ▪ Define and identify provisions, contingent liabilities and contingent assets 	2
	<ul style="list-style-type: none"> ▪ Explain the recognition and measurement of a provision and changes in provisions 	3
	<ul style="list-style-type: none"> ▪ Describe the disclosure requirements of provisions, contingent assets and contingent liabilities 	2
Understanding of income measurement and revenue recognition	<ul style="list-style-type: none"> ▪ Demonstrate awareness of the issues in revenue recognition 	2
	<ul style="list-style-type: none"> ▪ Identify revenue transactions and determine the measurement of revenue 	2
	<ul style="list-style-type: none"> ▪ Discuss the revenue recognition and measurement criteria for: <ul style="list-style-type: none"> ○ sale of goods ○ rendering of services ○ interest, royalties and dividends 	2
	<ul style="list-style-type: none"> ▪ Describe the disclosure requirements of revenue transactions 	2
Understanding of the accounting treatment and disclosures for government grants	<ul style="list-style-type: none"> ▪ Definition of government grant and government assistance 	2
	<ul style="list-style-type: none"> ▪ Understand the recognition, presentation and disclosures requirements of government grant 	2
Understanding of the accounting treatment and disclosures for borrowing costs	<ul style="list-style-type: none"> ▪ Define borrowing costs and describe the criteria for capitalization of borrowing costs 	2
	<ul style="list-style-type: none"> ▪ Describe the disclosure requirements of borrowing costs 	2
Preparing financial statements for limited liability companies	<ul style="list-style-type: none"> ▪ Prepare financial statements in accordance with the requirements of the Hong Kong Companies Ordinance, accounting standards, and general accepted accounting principles incorporating the: <ul style="list-style-type: none"> ○ income statement (profit and loss account) ○ balance sheet ○ statement of changes in equity ○ cash flow statement 	3

	<ul style="list-style-type: none"> ○ notes to the financial statements 	
	<ul style="list-style-type: none"> ▪ Prepare a cash flow statement for a single company using the direct and indirect methods with supporting notes in the format as specified in the accounting standard 	3
Understanding of the regulatory framework of consolidated financial statements	<ul style="list-style-type: none"> ▪ Describe the requirements of the Hong Kong Companies Ordinance and relevant Hong Kong reporting standards in relation to the preparation and disclosures of consolidated financial statements 	1
	<ul style="list-style-type: none"> ▪ Define a parent, a subsidiary, a group, minority interests and consolidated financial statement 	1
Identifying the nature of an investment in an associate	<ul style="list-style-type: none"> ▪ Define an associate 	1
	<ul style="list-style-type: none"> ▪ Explain the meaning of significant influence 	1
Identify the nature of an interest in a joint venture	<ul style="list-style-type: none"> ▪ Define joint venture and differentiate between investments in a joint venture and other types of investments 	1
	<ul style="list-style-type: none"> ▪ Identify the major types of joint venture: <ul style="list-style-type: none"> ○ jointly controlled operations ○ jointly controlled assets ○ jointly controlled entities 	1
Analyzing and evaluating the cash flow of an entity	<ul style="list-style-type: none"> ▪ Evaluate the sources and application of the cash flows of an entity using cash flow statement 	3
	<ul style="list-style-type: none"> ▪ Evaluate the cash position of an entity using a cash flow statement 	3
Calculating and interpreting significant ratios for financial statement analysis	<ul style="list-style-type: none"> ▪ Explain the objectives of ratio analysis 	2
	<ul style="list-style-type: none"> ▪ Discuss the uses of financial ratios 	2
	<ul style="list-style-type: none"> ▪ Calculate and interpret the following categories of accounting ratios: <ul style="list-style-type: none"> ○ liquidity ratios ○ profitability ratios ○ management efficiency ratios ○ capital structure ratios ○ investment ratios 	3
	<ul style="list-style-type: none"> ▪ Discuss the limitations of ratio analysis 	2
	<ul style="list-style-type: none"> ▪ Apply financial ratios to appraise and communicate the position and prospects of a business 	3
	<ul style="list-style-type: none"> ▪ Apply ratios in cross-sectional comparison and trend analysis 	3

Paper 8: Principles of auditing and management information systems

Aim: This paper aims:

- (i) to develop and assess the principles of auditing as required in the regulatory, legal and reporting framework in Hong Kong
- (ii) to develop and assess the understanding of information as a key resource to organization and the appreciation of how management information systems can create value and improve the competitive advantage of an organization

Content (Auditing)

Unit of competency	Activity required to demonstrate competence (Performance indicators)	Level of competence required
Understanding of the nature of auditing	<ul style="list-style-type: none"> ▪ Identify the objectives, nature and benefits of the audit process 	1
	<ul style="list-style-type: none"> ▪ Distinguish between auditing and accounting 	2
	<ul style="list-style-type: none"> ▪ Identify the types of audits 	1
	<ul style="list-style-type: none"> ▪ Distinguish between external auditors and internal auditors 	1
	<ul style="list-style-type: none"> ▪ Outline the responsibilities of auditors under the Hong Kong Companies Ordinance 	1
	<ul style="list-style-type: none"> ▪ Explain the concept of 'true and fair' 	2
	<ul style="list-style-type: none"> ▪ Explain management's responsibilities in preparing financial statements 	2
	<ul style="list-style-type: none"> ▪ Describe auditors' responsibilities to verify financial statements and discover material errors, irregularities and illegal acts 	1
	<ul style="list-style-type: none"> ▪ Describe auditors' responsibilities to consider fraud in an audit of financial statement 	1
	<ul style="list-style-type: none"> ▪ Describe auditors' liability to clients and third parties 	1
Understanding of audit evidence	<ul style="list-style-type: none"> ▪ Explain the nature of audit evidence 	2
	<ul style="list-style-type: none"> ▪ Describe the four audit evidence decisions that the auditor must make to prepare an audit programme: <ul style="list-style-type: none"> ○ audit procedures ○ sample size ○ items to select ○ timing 	1
	<ul style="list-style-type: none"> ▪ Determine the factors affecting the persuasiveness of audit evidence: <ul style="list-style-type: none"> ○ relevance ○ competence ○ reliability ○ sufficiency ○ timeliness 	2
	<ul style="list-style-type: none"> ▪ Explain the following procedures for obtaining audit evidence: <ul style="list-style-type: none"> ○ inspection ○ observation 	2

	<ul style="list-style-type: none"> ○ enquiry and confirmation ○ computation ○ analytical procedures 	
	<ul style="list-style-type: none"> ▪ Define the following types of audit tests: <ul style="list-style-type: none"> ○ procedures to obtain an understanding of internal control ○ tests of controls ○ substantive tests of transactions ○ analytical procedures ○ tests of details of balances 	1
	<ul style="list-style-type: none"> ▪ Explain the concept of representative sampling 	1
	<ul style="list-style-type: none"> ▪ Distinguish between statistical and non-statistical sampling 	1
	<ul style="list-style-type: none"> ▪ Select representative samples 	3
Awareness of issues relating to the audit of computer based systems	<ul style="list-style-type: none"> ▪ Explain how the use of computer based systems affects the audit of business organizations 	2
	<ul style="list-style-type: none"> ▪ Describe computer based internal controls and their impact on evidence accumulation 	2
Understanding of audit planning and documentation	<ul style="list-style-type: none"> ▪ Discuss the importance of adequate audit planning 	1
	<ul style="list-style-type: none"> ▪ Explain the purpose of obtaining an engagement letter and discuss the contents of an engagement letter 	2
	<ul style="list-style-type: none"> ▪ Explain the purposes of audit work papers 	2
Understanding of materiality and risk	<ul style="list-style-type: none"> ▪ Understand the concept of materiality to the audit process 	2
	<ul style="list-style-type: none"> ▪ Define risk in auditing 	1
Understanding of internal control	<ul style="list-style-type: none"> ▪ Discuss the nature of internal control and its importance to both management and the auditor 	2
	<ul style="list-style-type: none"> ▪ Describe the following with regard to internal control: <ul style="list-style-type: none"> ○ management's responsibility ○ reasonable assurance ○ inherent limitations 	2
	<ul style="list-style-type: none"> ▪ Identify: <ul style="list-style-type: none"> ○ control environment ○ control procedures 	2
Understanding of the requirements for completing an audit from the perspective of a company	<ul style="list-style-type: none"> ▪ Explain the purpose and content of a management representation letter 	1
	<ul style="list-style-type: none"> ▪ Explain the communication with the audit committee and/or management 	1
	<ul style="list-style-type: none"> ▪ Describe the requirement for, and meaning of, the auditor's report 	2
	<ul style="list-style-type: none"> ▪ Explain a standard unqualified audit report 	2
	<ul style="list-style-type: none"> ▪ Evaluate circumstances that require the auditor to express a qualified opinion 	2

Content (Management information systems)

Unit of competency	Activity required to demonstrate competence (Performance indicators)	Level of competence required
Understanding of the nature and value of information systems	<ul style="list-style-type: none"> Understand the value of information as a key resource and asset of an organization 	2
	<ul style="list-style-type: none"> Recognize the strategic significance of information systems as a tool in enhancing the competitive advantage of the organization 	1
	<ul style="list-style-type: none"> Explain and illustrate different types of information systems: transaction processing systems (TPS), management information systems (MIS), decision support systems (DSS), expert systems (ES), executive information systems (EIS) and enterprise resource planning systems (ERP) 	2
	<ul style="list-style-type: none"> Explain the different information needs and managerial decisions at different organizational levels: strategic, tactical and operational 	2
	<ul style="list-style-type: none"> Understand how information systems contribute to the success of strategy implementation and their relationships 	1
Knowledge of the information technology applications	<ul style="list-style-type: none"> Understand the nature and characteristics of e-commerce and e-business as a strategic business tool 	1
	<ul style="list-style-type: none"> Explain the different types of networks used in organizations: internet, intranet, and extranet 	1
	<ul style="list-style-type: none"> Understand the roles of knowledge management systems (KMS), business intelligence systems (BIS), data warehouse (DW), data mining (DM), online analytical processing (OLAP) and artificial intelligence (AI) in enhancing the value of information in contemporary organizations 	2
Understanding of the role of electronic commerce	<ul style="list-style-type: none"> Describe the role of e-commerce in the Hong Kong business environment 	1
	<ul style="list-style-type: none"> Describe the role of e-commerce in the global business environment 	1
	<ul style="list-style-type: none"> Identify key security and control issues relating to common e-commerce transactions 	1
Knowledge of the issues and process involved in selecting a management information system	<ul style="list-style-type: none"> Outline the methodology followed in selecting a management information system or computer package 	1
	<ul style="list-style-type: none"> Describe the method for evaluating different products 	1

Understanding of risks to security of management information	<ul style="list-style-type: none"> ▪ Describe key risks and threats to information systems 	2
	<ul style="list-style-type: none"> ▪ Describe general controls applied to information technology activities: <ul style="list-style-type: none"> ○ physical ○ organizational ○ procedural 	2