Level 3 Award in Preparing Financial Statements for a Sole Trader

LCCI

International Qualifications from EDI

Syllabus

Effective from: 1 September 2010

INTRODUCTION

Education Development International (EDI) is a leading international awarding body that was formed through the merger of the London Chamber of Commerce and Industry Examinations Board (LCCI) and a leading online assessment provider GOAL. EDI now delivers LCCI International qualifications (LCCI IQ) through a network of over 5000 registered centres in more than 120 countries worldwide. Our range of business-related qualifications is trusted and valued by employers worldwide and recognised by universities and professional bodies.

Level 3 Award in Preparing Financial Statements for a Sole Trader

Aims

The aims of the qualification are to:

- develop candidates' knowledge and understanding of the principles of preparing financial statements for a Sole Trader

- enable candidates to record transactions and make accounting adjustments relevant to the accounts of a Sole Trader

- enable candidates to prepare financial statements (Trading, Profit and Loss Account and Balance Sheet) for a Sole Trader

This qualification is accredited in the UK as EDI Level 3 Award in Preparing Financial Statements for a Sole Trader (QCF) 501/1246/6. This qualification has a credit value of 9.

Target Audience and Candidate Progression

This qualification is suitable for people who already have basic book-keeping skills but wish to develop and evidence their knowledge and skills at a higher level. It is particularly suitable for candidates specialising in cost and management accounting but would like to develop skills in financial accounting to support and broaden their progression or to gain recognition in another role. It is also useful for people currently working in accounting in the Small and Medium Enterprise (SME) sector but without a recognised qualification or for people returning to work in this sector.

Candidates pursuing this qualification should have book-keeping and accounting knowledge equivalent to LCCI Level 1 Certificate in Book-keeping.

This qualification can be taken as a standalone qualification or as a part of the Level 3 Specialised Diploma in Managerial Accounting or the Level 3 Specialised Diploma in Cost Accounting.

Level of English Required

There are no formal entry requirements for this qualification. However, candidates should have a minimum level of English equivalent to the LCCI Level 2 English for Business or JETSET 4 - (Council of Europe B1/Threshold) to meet the communication requirements for this qualification.

Structure of the qualification

The Level 3 Award in Understanding Financial Statements consists of the following three units:

1   Principles of Preparing Financial Statements for a Sole Trader

2   Record Transactions and Make Accounting Adjustments

3   Prepare Financial Statements for a Sole Trader

Guided Learning Hours

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

ASSESSMENT

Assessment Objectives

The examination will assess the candidate's ability to:
- demonstrate an understanding of the form and functions of the Trial Balance, Extended Trial Balance, Trading and Profit and Loss Account and the Balance Sheet
- demonstrate knowledge of the purpose of the Suspense Account and the types of errors that affect the agreement of the Trial Balance
- apply accounting concepts when making adjustments and maintaining financial records
- maintain financial records and make adjustments for fixed assets, stock, prepayments and accruals, and bad and doubtful debts
- prepare ledger accounts and a Trial Balance, using a Suspense Account where necessary
- prepare a Trading, Profit and Loss Account and a Balance Sheet
- prepare an Extended Trial Balance and draft financial statements from an Extended Trial Balance.

Assessment Format

The qualification is assessed by a written exam paper, which consists of three questions totalling 80 marks covering all three units within the syllabus. The time allowance for the exam is 2½ hours.   The exam is available on demand.

All exams must be carried out in accordance with the *Examination Guide for LCCI Centres* and the *Examination Regulations*, which is sent to centres with the exam papers.

Coverage of Units in the Examination

The written exam will cover the units as follows:

	Units	Approximate weighting of units within exam
1	Principles of Preparing Financial Statements for a Sole Trader	12%
2	Record Transactions and make Accounting Adjustments	50%
3	Prepare Financial Statements for a Sole Trader	38%

Answer Format

The answers required will be predominantly of a quantitative nature, but candidates will be expected to demonstrate their knowledge and understanding as required by the units.

Mark Allocation

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

Certification

Successful candidates will be awarded the Level 3 Award in Preparing Financial Statements for a Sole Trader based on the achievement of the marks and grades below:

Pass   60%   (48 marks)
Credit   70%   (56 marks)
Distinction   85%   (68 marks)

Centres will receive certificates within a maximum of 6 weeks of the receipt of the scripts at EDI.

Recommended Reading List and Support Materials

Reading List

Title	Authors(s)	Publisher	ISBN Code
Passport to Success: Level 2 Book-keeping and Accounts	EDI	Hodder	978-1-86247-111-2

Support Material

A Sample Paper and answers are available on the qualification page of the website. A Solutions Booklet to support the Passport to Success book is also available from the website. A Teachers' Toolkit will also available on the qualification page of the website – centres will need to login before they can access this.

How to offer this qualification

To offer this qualification you must be an LCCI IQ registered examination centre. To gain centre approval please contact Customer Support on 08700 818008 between the hours of 0830 and 1700 (GMT) Monday to Friday or by email on centresupport@ediplc.com

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

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Level 3   Principles of Preparing Financial Statements for a Sole Trader

Learning outcomes *The learner will:*	Assessment Criteria *The learner can:*	Indicative Content
1. Understand the form and function of the Trial Balance	1.1 Explain the purpose of the Trial Balance 1.2 Discuss of the limitations of the Trial Balance 1.3 Describe the types of error not exposed by the Trial Balance 1.4 Explain the procedures for tracing errors exposed by the Trial Balance	*Incapable of disclosing all errors;* *Error of Omission; Error of Commission; Error of Principle; Error of Original Entry; Compensating Error; Reversal of Entries*
2. Understand the purpose of the Suspense Account	2.1 Explain the purpose of a Suspense Account 2.2 Describe the type of errors that will result in an imbalance in the books of account	*Examples: incorrect posting on one side of the account; error in addition; posting the debit entry but omitting the credit; ledger balance on the wrong side of the Trial Balance*
3. Understand the form and function of the financial statements	3.1 Describe the format and the purpose of the Trading, Profit And Loss Account 3.2 Describe the format and the purpose of the Balance Sheet	
4. Understand the form and function of the Extended Trial Balance	4.1 Describe the format and purpose of the Extended Trial Balance 4.2 Explain the procedures used in preparing the Extended Trial Balance	

Level 3   Record Transactions and Make Accounting Adjustments

Learning outcomes *The learner will:*	Assessment Criteria *The learner can:*	Indicative Content
1 Apply accounting concepts	1.1 Apply appropriate accounting concepts when making accounting adjustments and maintaining financial records	*Consistency; Prudence; Accruals; Going Concern; Matching*
2 Reconcile trade debtors and trade creditors	2.1 Prepare Sales Ledger and Purchases Ledger Control Accounts	*Accounts to include: returns; discounts; contra items; bad debts; cheques received from debtors; cheques paid to creditors*
	2.2 Reconcile trade debtor and trade creditor balances per the subsidiary ledgers to the Sales Ledger and Purchases Ledger Control Account balances	
	2.3 Identify and report discrepancies exposed by the reconciliation process	
3 Account for fixed assets	3.1 Maintain a fixed asset register and record details of the acquisition, depreciation and disposal of fixed assets	
	3.2 Prepare the journal entries to account for the acquisition of fixed assets	
	3.3 Maintain accounts in the main ledger to record the capitalised cost of fixed assets.	
	3.4 Calculate depreciation charges	*Straight Line and Reducing Balance Methods only*
	3.5 Prepare the journal entries to support depreciation charges	
	3.6 Maintain accounts in the main ledger to record depreciation charges	*Accounts include: Depreciation Expense; Provision for Depreciation*
	3.7 Prepare the journal entries to account for the disposal of fixed assets	*Includes assets sold for cash, traded-in or exchanged*

		3.8	Maintain accounts in the main ledger to account for the disposal of fixed assets	*Accounts include: Fixed assets at Cost; Provision for Depreciation; Asset Disposal*
		3.9	Reconcile fixed assets per the fixed asset register to a physical count of fixed assets and report discrepancies exposed by the reconciliation process	
4	Account for the value of stock	4.1	Value stock in accordance with the requirements of SSAP 9	*Lower of cost and Net Realisable Value (NRV)*
		4.2	Adjust a stock valuation	*Adjustments include: goods on sales or return basis; customers' goods on the premises; profit mark-up; goods returned;*
		4.3	Maintain a stock account in the main ledger	
		4.4	Prepare the journal entries to transfer opening and closing stock to the Trading Account	
5	Account for prepayments and accruals	5.1	Calculate year end prepayment and accrual adjustments	*Expenses and revenues accruals and prepayments*
		5.2	Prepare the journal entries to account for prepayment and accrual adjustments	
		5.3	Process prepayment and accruals adjustments through appropriate accounts in the main ledger	*Accounts include: Accruals; Prepayments; general income and expense accounts*
6	Account for bad and doubtful debts	6.1	Prepare a journal entry to write off a bad debt	
		6.2	Maintain a bad debts account in the ledger	*Includes bad debts written off in part*
		6.3	Calculate a year end adjustment in respect of a provision for doubtful debts	*Adjustments for an increase or a decrease in the provision*
		6.4	Prepare the journal entry to support a provision for doubtful debts adjustment	*Includes specific and general provisions*
		6.5	Maintain a provision for doubtful debts account in the main ledger	

| 7 | Prepare ledger accounts for use in drafting financial statements | 7.1 | Prepare the journal entries to support the transfer of items of income and expense to the Trading, Profit And Loss Account at the year end | |
| | | 7.2 | Balance off, or close off, ledger accounts in preparation of their use in drafting financial statements | |

Level 3   Prepare Financial Statements for a Sole Trader

Learning outcomes *The learner will:*	Assessment Criteria *The learner can:*	Indicative Content
1 Prepare a Trial Balance	1.1 Prepare a Trial Balance from ledger accounts or from a list of ledger account balances 1.2 Introduce a Suspense Account balance to account for any imbalance in the books shown by the Trial Balance 1.3 Prepare the journal entries to correct errors and eliminate a Suspense Account balance	*Includes errors affecting the Trial Balance and errors not affecting the Trial Balance*
2 Make and apply accounting adjustments	2.1 Apply year end adjustments to a trial balance for the purpose of preparing the financial statements of a sole trader Adjustments to include: ▪ stock valuation ▪ prepayments and accruals ▪ depreciation and disposal of fixed assets ▪ bad and doubtful debts	
3 Prepare financial statements for a sole trader	3.1 Prepare a Trading, Profit And Loss Account 3.2 Prepare a Balance Sheet	*Vertical presentation of financial statements*
4 Prepare an extended trial balance	4.1 List ledger balances in Trial Balance format on an Extended Trial Balance 4.2 Prepare journal entries to correct errors and make accounting adjustments 4.3 Amend errors and apply accounting adjustments in the preparation of an Extended Trial Balance 4.4 Extend the Trial Balance	*Extended Trial Balance format includes columns for Ledger Balances; Journal Entries; Adjustments; Profit and Loss; Balance Sheet*

5	Draft financial statements (for a sole trader) from an extended trial balance	5.1	Use balances from the extended trial balance to draft the following financial statements: ▪ trading, profit and loss account ▪ balance sheet	

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