

Accounts Preparation II

Learning Area Overview



Welcome to this learning area overview for Accounts Preparation II, prepared by AAT.

In this overview we'll explain what Accounts Preparation II is all about, and how it fits into the bigger picture of the AAT Accounting Qualification.

We'll explore the main topics you can expect to cover, and how the knowledge and skills you'll pick up will be of practical use to you in the workplace.

Finally, we'll explain how this learning area relates to the others you've already studied, and those you'll study in the future.

What you'll learn in Accounts Preparation II

There are two main areas in Accounts Preparation II.

The first is incomplete records, which – as the name suggests – is where a business has not kept full accounting records.

What you'll have to do in this type of situation is use what information you have got to "restructure" various ledger accounts to find out what the missing figures are. Some of the ledger accounts you may be asked to rework in this way include the bank account, the capital account and the purchases, sales and VAT control accounts.

Working with incomplete records is an excellent way of testing whether you really understand how double entry bookkeeping works. This is because rather than just being able to record transactions as they occur, you often have to work backwards from final amounts to spot the different accounting entries that should actually have been made.



The other key area covered by Accounts Preparation II is preparing final accounts for both sole traders and partnerships. Final accounts are the end product of the accounting process. As a result, for this topic you'll need to use all of the accounting knowledge and skills you've gained so far.

With a sole trader business there's obviously only one owner to whom any final year end profit or loss belongs. With a partnership, however, there are at least two people sharing responsibility for owning and running the business. This means you need to think about how to recognise this joint ownership in the accounts, and how you should go about dividing up any profits and losses between the partners.

Although the simplest approach would be for the partners to share things equally, you'll soon discover that this is often not how things are set up. This situation can then lead to a lot of additional work as you need to calculate, and then account for, each individual partner's specific allocation.

A further aspect of partnerships which features in this learning area is dealing with the accounting entries necessary to record both the admission and retirement of a partner.

How Accounts Preparation II will help you in the workplace

Accounts Preparation II is likely to be most relevant to the workplace experience of two particular groups of AAT members.

The first group is those members who work in public practice for firms of accountants that specialise in producing financial accounts for unincorporated businesses – in other words, sole traders and partnerships. The second group is those members who actually work in the accounting function of one of these types of organisations.

Admittedly, this doesn't by any means cover the majority of AAT members. However, that doesn't mean the content of this learning area is unimportant.

Accounts Preparation II is very important because the knowledge and skills you'll need to produce final accounts for unincorporated businesses are very similar to those you'll use to produce final accounts for incorporated businesses (that is, companies).

Moreover, company accounts not only form the principal focus of the level 4 Financial Statements learning area, but they also represent the most common type of businesses accounts that AAT members as a whole are likely to come across through their work.

So you can see that Accounts Preparation II is valuable not only in its own right, but also as an essential stepping stone to everything to do with company accounts.

How Accounts Preparation II relates to other learning areas

Accounts Preparation II is one of the seven compulsory learning areas at level 3. The other compulsory learning areas are:

- Accounts Preparation I
- Cash Management
- Costs and Revenues
- Indirect Tax
- Professional Ethics in Accounting and Finance
- Spreadsheet Software.

We recommend you study for this learning area with, or after, Accounts Preparation I. The main topics in Accounts Preparation I are accounting for fixed assets and preparing an extended trial balance incorporating various accounting adjustments.

Although none of the other learning areas at level 3 are directly related to the two accounts preparation assessments, several of them have some degree of overlap in terms of knowledge and skills.

First, there's Cash Management, which introduces the principles of managing cash balances to ensure the ongoing liquidity of a business.

This learning area focuses on preparing cash budgets and helping you to understand the different options available to businesses for raising additional finance and investing surplus cash. Cash budgets are a form of accounting statement and, although they're prepared in a different way to financial accounts, they do rely on key elements of bookkeeping.

Next, there's Costs and Revenues, which builds directly on the Basic Costing learning area at level 2. The emphasis at level 3 is on being able to understand how organisations use cost and revenue information for decision-making purposes.

You'll also learn that businesses need accounting processes in place that can provide management with planning information to help monitor the increase of product and service costs.

Then there's Spreadsheet Software, which tests your ability to use software applications that record data in particular formats. In the majority of instances the data you analyse will be financial information extracted from an organisation's accounting records.

At levels 2 and 3 there are two financial accounting assessments at each level. At level 4 there's just one – Financial Statements – which will be the culmination of all that you've learned about bookkeeping and financial accounting, and focuses in particular on company accounts.