

General Certificate of Education (International)  
Advanced Level and Advanced Subsidiary Level

**Syllabus**

ACCOUNTING 9706

For examination in June and November 2010

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# ACCOUNTING

## GCE Advanced Subsidiary Level and GCE Advanced Level 9706

for examination in June and November 2010

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### Exclusions

This syllabus must not be offered in the same session with any of the following syllabuses:

7110 Principles of Accounts

9372 Principles of Accounting (Singapore)



# 1 INTRODUCTION

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- 1.1 The aim of this syllabus is to enable Centres to develop Accounting courses that are suitable for Advanced Level candidates and for those seeking a more limited study of the subject.
- 1.2 There are three pathways available to candidates (in all cases subject to the correct examination entry being submitted):
- (a) Those candidates who wish to take the whole of the Advanced Level qualification at the end of a course of study take all four papers together.
  - (b) Those candidates who aim only for an Advanced Subsidiary Level qualification take only Papers 1 and 2.
  - (c) Candidates who wish to follow a **staged** assessment route to the A Level qualification take the Advanced Subsidiary Level first. Subject to satisfactory performance, they then need take only the two Supplement papers in order to complete the A Level.
- 1.3 No previous study of the subject is assumed by the syllabus. It is, however, desirable.

# 2 AIMS

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- 2.1 The syllabus is intended to encourage courses that will enable students to:
- (a) develop an ability to apply accounting concepts, principles and practices;
  - (b) understand the role of accounting as an information system for monitoring, problem-solving and decision making and the place of accounting in changing economic, social and technological environments;
  - (c) develop a critical and analytical approach to examining and evaluating accounting policies and practices;
  - (d) develop skills of communication, analysis, interpretation and presentation of both qualitative and quantitative accounting information.

### **3 ASSESSMENT OBJECTIVES**

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3.1 Candidates are expected to:

- 1 DEMONSTRATE KNOWLEDGE AND UNDERSTANDING of the accounting procedures and practices in the specified content and the principles on which these are based;
- 2 APPLY knowledge and understanding of accounting procedures, practices and principles to familiar and novel situations;
- 3 SELECT, ORDER, ANALYSE and PRESENT information in an appropriate accounting form;
- 4 PRESENT REASONED EXPLANATIONS, understand implications and communicate them in a clear and logical manner;
- 5 MAKE JUDGEMENTS, recommendations and decisions based on accounting information and principles.

3.2 The Multiple Choice components (Papers 1 and 3) will seek to test Assessment Objectives 1, 2 and 3.

The written papers (Papers 2 and 4) will also seek to test mainly Assessment Objectives 1, 2 and 3, but to a lesser extent will also test Assessment Objectives 4 and 5.

## SYLLABUS OVERVIEW

| Theme   | Topic  | AS Level       | Advanced Level                         |
|---|--|----------------|--|
| <b>THE ACCOUNTING SYSTEM</b>                  | <b>A</b> Recording Financial Information     | Examined at AS | May be examined at A Level             |
|   | <b>B</b> Accounting Principles               | Examined at AS | May be examined at A Level             |
|   | <b>C</b> Control Systems                     | Examined at AS | May be examined at A Level             |
| <b>FINANCIAL ACCOUNTING</b>                   | <b>D</b> Preparation of Financial Statements | Examined at AS | Includes additional content at A Level |
|   | <b>E</b> Capital (Equity)                    | Examined at AS | Includes additional content at A Level |
|   | <b>F</b> Business Purchase                   | -              | Examined at A Level                    |
|   | <b>G</b> Published Company Accounts          | -              | Examined at A Level                    |
| <b>FINANCIAL REPORTING AND INTERPRETATION</b> | <b>H</b> Interpretation and Analysis         | Examined at AS | Includes additional content at A Level |
|   | <b>I</b> Company Financing                   | -              | Examined at A Level                    |
| <b>ELEMENTS OF MANAGERIAL ACCOUNTING</b>      | <b>J</b> Costing Principles and Systems      | Examined at AS | Includes additional content at AL      |
|   | <b>K</b> Budgeting                           | -              | Examined at A Level                    |
|   | <b>L</b> Standard Costing                    | -              | Examined at A Level                    |
|   | <b>M</b> Investment Appraisal                | -              | Examined at A Level                    |

## 4 SCHEME OF ASSESSMENT

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### ADVANCED SUBSIDIARY LEVEL

| Paper | Type                             | Duration     | Number of questions | Maximum mark on paper | Approx. weight (% of total marks for syllabus) |
|-------|----------------------------------|--------------|---------------------|-----------------------|--|
| 1     | Multiple Choice (AS Topics)      | 1 hour       | 30                  | 30                    | 30   |
| 2     | Structured Questions (AS Topics) | 1 hr 30 mins | 3                   | 90                    | 70   |

The first question in Paper 2 will always be based on the final accounts of sole traders or partnerships.

### ADVANCED LEVEL

| Paper | Type                                | Duration     | Number of questions | Maximum mark on paper | Approx weight (% of total marks for syllabus) |
|-------|-------------------------------------|--------------|---------------------|-----------------------|---|
| 1     | Multiple Choice (AS Topics)         | 1 hour       | 30                  | 30                    | 15  |
| 2     | Structured Questions (AS Topics)    | 1 hr 30 mins | 3                   | 90                    | 35  |
| 3     | Multiple Choice (Supplement Topics) | 1 hour       | 30                  | 30                    | 15  |
| 4     | Problem Solving (Supplement Topics) | 2 hours      | 3                   | 120                   | 35  |

Papers 1 and 2 for Advanced Level are the same as Papers 1 and 2 for Advanced Subsidiary Level.

Each item on Paper 3 will test a topic in the A Level Supplement part of the syllabus, but may also require a knowledge and understanding of the AS Level syllabus.

Each of the three questions in Paper 4 will test a topic or topics in the A Level Supplement part of the syllabus, but may also require a knowledge and understanding of the AS Level syllabus.

**Please turn over**

## 5 CURRICULUM CONTENT

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### AS LEVEL

| Content   | Notes of Amplification  |
|---|---|
| <b>THE ACCOUNTING SYSTEM</b>  |   |
| <b>A. Recording Financial Information</b>   |   |
| The recording and processing of accounting data based on the double-entry system of accounting. | <p>Double entry bookkeeping, journal entries, accruals (other payables), prepayments (other receivables), bad debts and the provision for doubtful debts.</p> <p>The distinction between capital and revenue incomes and expenditures and the treatment of tangible fixed (non-current) assets including their depreciation, disposal and revaluation.</p> <p>The treatment of current assets, current liabilities, long-term (non-current) liabilities, capital (equity) and reserves.</p> |
| <b>B. Accounting Principles</b>   |   |
| The recognition and application of accounting concepts.   | <p>The principles, concepts and conventions which underlie the accounting process including going concern, matching, accruals (other payables), prepayments (other receivables), consistency and materiality.</p> <p>The importance of a true and fair view, and of prudence and substance over form.</p> <p>The use of the business entity, historical cost and revaluation as features of the recording system.</p>   |
| <b>C. Control Systems</b>   |   |
| Principles of accounting control systems.   | The Trial Balance, Bank Reconciliations, Suspense accounts, Control accounts and the Correction of Errors and consequent adjustments to the Profit and Loss Account (Income Statement) and Balance Sheet.   |

**A LEVEL**

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**Content**

**Notes of Amplification**

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**THE ACCOUNTING SYSTEM**

Knowledge of all the material in the AS Level syllabus is assumed at A Level (but will not be tested in detail).

**AS LEVEL**

| Content   | Notes of Amplification   |
|---|--|
| <b>FINANCIAL ACCOUNTING</b>   |  |
| <b>D. Preparation of Financial Statements</b>   |  |
| The periodic determination of profit (or earnings) and overall financial position based on historical cost data and generally accepted accounting principles and policies, conventions and practices which relate to: | This section covers the preparation of final accounts (financial statements), namely: Manufacturing, Trading, Departmental, Profit and Loss Accounts (Income Statements), Appropriation Accounts, and Balance Sheets, in good style and format.  |
| (a) Sole Traders and Private Limited Companies  | Manufacturing, Trading, Departmental, Profit and Loss Accounts (Income Statements) and Balance Sheets. <ul style="list-style-type: none"> <li><i>The Published accounts of PLCs are <b>not</b> examined at AS level</i></li> </ul>   |
| (b) Partnerships  | Only the preparation of Partnership Appropriation accounts, Current accounts and Capital accounts will be tested at AS level.<br><br>For example, clubs and societies.   |
| (c) non-profit making (not for profit) organisations  |  |
| (d) accounts prepared from incomplete records or where financial records are deficient or erroneous   |  |
| A general knowledge and understanding of the accepted principles and application of Stock Valuation (Inventory), Depreciation and Goodwill (Intangible Assets) as it applies to the above.                            | <p><b>Stock valuation</b></p> <p>The calculation of closing stock valuations (inventory) using the FIFO, LIFO and AVCO methods (perpetual and periodic).</p> <p>The effect of different methods of stock valuation (inventory) on profit and the stock valuation in the Balance Sheet.</p> <p>The different characteristics of, and the appropriateness of, using FIFO, LIFO and AVCO.</p> <p>The principle of applying the lower of cost or net realisable value when valuing closing stock (inventory).</p> <ul style="list-style-type: none"> <li><i>Questions will <b>not</b> be set on long-term contracts.</i></li> </ul> <p><b>Depreciation</b></p> <p>The causes of depreciation: physical deterioration, economic factors, obsolescence, inadequacy and the passage of time.</p> <p>The terminology used in accounting for depreciation: cost, useful asset life, residual (scrap) value.</p> <p>The reasons for accounting for depreciation and the application of relevant accounting concepts.</p> |

**Financial Accounting for AS Level is continued on page 10**

**A LEVEL**

| Content   | Notes of Amplification  |
|---|---|
| <b>FINANCIAL ACCOUNTING</b>   |   |
| <b>D. Preparation of Financial Statements</b>                               |   |
| Knowledge of all the material in the AS Level syllabus opposite is assumed. | As for the AS Level syllabus opposite, plus:  |
| Cash Flow Statements  | The preparation of cash flow statements in good style and format and in accordance with current accounting standards such as FRS1 and IAS7.   |
| Partnership Changes   | <p>The internal final accounts (financial statements) of Limited Companies.</p> <p>Changes in partnership – incoming and outgoing partners.<br/> Changes in profit sharing ratio.<br/> Dissolution of partnership.<br/> Effects of asset and liability revaluation.</p> <p>Goodwill (Intangible Assets) adjustments in partners' capital accounts</p> <p>(i) with the introduction of a goodwill (intangible assets) account in the firm's books, and</p> <p>(ii) when no goodwill (intangible assets) account is to be introduced.</p> |

## AS LEVEL

| Content | Notes of Amplification |
|---------|------------------------|
|---------|------------------------|

## AS FINANCIAL ACCOUNTING (continued)

The calculation of depreciation: reducing balance, straight-line and revaluation methods.

The calculation of profit or loss on disposal of fixed (non-current) assets; ledger accounts and journal entries for fixed (non-current) assets, depreciation and disposal; the application of relevant accounting concepts.

**Goodwill (Intangible Assets)**

The concept and treatment of goodwill (intangible assets) as it applies to Sole Traders and Limited Companies. **(Partnership treatment of goodwill (intangible assets) is in A Level only)**

***A knowledge of taxation is not required.***

*Questions will **not** be set on any aspects of:*

- *Brand names (may be referred to at A level)*
- *Container accounts*
- *Joint ventures*
- *Royalties*
- *Investment accounts involving the apportionment of income and capital*
- *Piecemeal dissolution of partnership, or the rule in Garner versus Murray*
- *Bills of exchange*
- *Group or Consolidated accounts*
- *Hire purchase accounts or branch and consignment accounts are also excluded.*

**Please turn over**

**AS LEVEL**

| Content                              | Notes of Amplification  |
|--------------------------------------|---|
| <b>E. Capital</b>                    |   |
| The raising of capital.              | <p>The main types of share capital: ordinary shares; preference shares (cumulative, non-cumulative, participating and redeemable).</p> <p>The principles of overdrafts; trade credit and factoring; loans and debentures.</p> <p>The effect on the Balance Sheet of the issue of shares.</p> <p>The effect on the Balance Sheet of bonus and rights issues.</p> <ul style="list-style-type: none"> <li>• <i>Questions will <b>not</b> be set on forfeiture of shares, redemption and purchase of own shares by a company, or on convertible loan stock.</i></li> <li>• <i>Questions will <b>not</b> be set involving the detailed procedure or book-keeping entries for share issues.</i></li> <li>• <i>Questions will <b>not</b> be set on the published accounts of Limited Companies.</i></li> </ul> |
| <b>F. Business Purchase</b>          | This topic is <b>NOT</b> in the AS Level syllabus.  |
| <b>G. Published Company Accounts</b> | This topic is <b>NOT</b> in the AS Level syllabus.  |

**A LEVEL**

| Content   | Notes of Amplification  |
|---|---|
| <b>E. Capital (Equity)</b>  |   |
| The whole of the AS Level syllabus opposite, plus the following:  | As for the AS Level syllabus opposite, plus the following:  |
| (a) Premium on redemption of shares and the Capital redemption reserve.   | The effect on the Balance Sheet of the redemption of shares, capital reductions and reconstructions.  |
| (b) Repayment of share capital.   | Revenue and capital reserves.   |
| (c) Redemption and purchase of own shares.  | <ul style="list-style-type: none"> <li>• <i>Questions will <b>not</b> be set on forfeiture of shares.</i></li> </ul>  |
| (d) Repayment of debentures.  |   |
| (e) Convertible loan stock.   | A knowledge of share issues, capital reductions and reconstructions.  |
| (f) Distributable profits.  | <ul style="list-style-type: none"> <li>• <i>Questions will <b>not</b> be set involving the detailed procedure or book-keeping entries required in the Journal or in ledger accounts for share issues, capital reductions or reconstructions.</i></li> </ul>   |
| <b>F. Business Purchase</b>   |   |
| The purchase of an unincorporated business by a limited company.  | An appreciation of return on investment; calculation of goodwill (intangible assets) and negative goodwill (intangible assets); purchase of a business by issue of shares, debentures, and by cash.   |
| The purchase of assets, and the assumption of liabilities of one business by another, or by a new company which buys one or more existing businesses. |   |
| Merger of unincorporated businesses to form a partnership.  | Mergers by means of combining or purchasing assets and liabilities.   |
| Evaluating a business with a view to acquiring it.  | Valuation of a business by book value and net equity methods.   |
| <b>G. Published Company Accounts</b>  |   |
| Principles governing the disclosure requirements of company annual reports covering:  | The main disclosure requirements relating to published corporate reports.   |
| (a) Report of the Directors;  | Disclosure of accounting policies.  |
| (b) Income Statement (Profit and Loss Account);   | Familiarity with the requirements to disclose details concerning fixed assets, depreciation.  |
| (c) Balance Sheet;  | Treatment of intangible assets.   |
| (d) Cash Flow Statement.  | <ul style="list-style-type: none"> <li>• <i>Questions which rely wholly or mainly on the Companies Acts concerning the format of published accounts will <b>not</b> be set.</i></li> <li>• <i>Questions will <b>not</b> be set on corporate governance, reports of audit committees, remuneration committees, interim reports, segmental information and foreign exchange.</i></li> </ul> |
| (e) Statement of total recognised gains and losses.   |   |

**AS LEVEL**

| Content   | Notes of Amplification  |
|---|---|
| <b>FINANCIAL REPORTING AND INTERPRETATION</b>         |   |
| <b>H. Interpretation and Analysis</b>                 |   |
| Users of financial statements.                        | The differing requirements for information of user groups including management, shareholders, employees, potential investors, creditors/trade payables, government, public and environmental bodies.  |
| Calculation of ratios.                                | See ratios given on pages 20-22.<br>Ratios to aid the appraisal of profitability, liquidity and efficiency.<br><br>The calculation of the following specific ratios:<br><br>Return on capital employed<br>Gross profit and net profit (profit (before tax) for the year) as a percentage of turnover<br>Sales (Revenue) to capital employed<br>Expense ratios<br>Sales (Revenue) to fixed assets<br>Current ratio<br>Liquid (acid test) ratio<br>Stock (Inventory) turnover (times and days)<br>Debtor (Trade Receivables) collection period (days)<br>Creditor (Trade Payables) payment period (days). |
| Analysis and interpretation of accounting information | The presentation, analysis and interpretation of accounting information as an aid to decision making by user groups; inter-firm comparisons and trend analyses.   |
| Limitations of accounting information                 | The limitations of accounting information. The difficulties of comparison presented by subjectivity, time lapse, monetary measurement and other external factors.   |
| <b>I. Company Financing</b>                           | This topic is <b>NOT</b> in the AS Level syllabus.  |

**A LEVEL**

| Content | Notes of Amplification |
|---------|------------------------|
|---------|------------------------|

**FINANCIAL REPORTING AND INTERPRETATION****H. Interpretation and Analysis**

Builds on the whole of the AS Level syllabus opposite; questions may be set on all ratios in the Syllabus (both AS and A Level). See ratios given on pages 20-22. Ratios to aid the appraisal of financial structure; gearing and Stock Exchange ratios.

**I. Company Financing**

The financing of companies including capital gearing, capital structures, and loan capital. The bases of modern financial reporting and its limitations. Rights and bonus issues. An understanding of the disclosure standards adopted by quoted companies. A basic knowledge of the following standards and how these standards relate to topics in the syllabus.

| <i>IAS</i> | <i>Topic</i>   | <i>FRS/<br/>SSAP</i> |
|------------|--|----------------------|
| IAS 1      | Presentation of Financial Statements                     | FRS3                 |
| IAS 2      | Inventories (stocks)<br>*(not long term contracts)       | SSAP9*               |
| IAS 7      | Cash flow statements                                     | FRS1                 |
| IAS 8      | Accounting Policies                                      | FRS18                |
| IAS 10     | Events after balance sheet date                          | SSAP17               |
| IAS 16     | Property, plant and equipment                            | FRS15                |
| IAS 18     | Revenue  |                      |
| IAS 23     | Borrowing costs  |                      |
| IAS 32     | Financial Instruments: presentation and disclosure       | FRS4                 |
| IAS 33     | Earnings per share                                       | FRS14                |
| IAS 35     | Discontinuing operations                                 | FRS3                 |
| IAS 36     | Impairment of assets                                     | FRS11                |
| IAS 37     | Provisions, contingent liabilities and contingent assets | FRS12                |
| IAS 38     | Intangible assets  | FRS10                |
| IAS 39     | Financial Instruments: recognition and measurement       | FRS13                |

**AS LEVEL**

| Content   | Notes of Amplification  |
|---|---|
| <b>ELEMENTS OF MANAGERIAL ACCOUNTING</b>            |   |
| <b>J. Costing Principles and Systems</b>            |   |
| Cost accounting for material, labour and overheads. | The elements of cost: cost classification and ascertainment of fixed, variable and semi-variable costs, stepped costs, total costs, unit costs and sunk costs.  |
| Marginal (Variable) Costing                         | <p>Making simple business decisions using marginal costing.</p> <p>The concept of contribution and its application to the calculation of sales (revenue), cost and profit data.</p> <p>The calculation of the break-even point, contribution to sales (revenue) ratio and margin of safety, the preparation and use of break-even graphs and contribution to sales (revenue) (profit/volume) graphs.</p> <p>The advantages and limitations of cost-volume-profit analysis.</p> <p>The evaluation and interpretation of cost-volume-profit data and its value as a support for management decision making.</p> |
| Absorption (Total) Costing                          | <p>Making simple business decisions using absorption costing.</p> <p>The classification of direct and indirect material and labour costs, other direct expenses and overhead expenditure.</p> <p>The allocation and apportionment of overhead expenditure between production and service departments and the calculation of overhead absorption rates; under absorption and over absorption of overheads.</p> <p>The uses and limitations of marginal costing and absorption costing.</p> <p>Stock (inventory) valuation using absorption and marginal cost principles.</p>                                   |
| Costing systems                                     | <p>Costing systems as used for job, unit, and batch costing, including the calculation of stock (inventory) values.</p> <ul style="list-style-type: none"> <li>• <i>Questions will <b>not</b> be set on process costing.</i></li> </ul>   |
| <b>K. Budgets</b>                                   | This topic is <b>NOT</b> in the AS Level syllabus.  |
| <b>L. Standard Costing</b>                          | This topic is <b>NOT</b> in the AS Level syllabus.  |

**A LEVEL**

| Content | Notes of Amplification |
|---------|------------------------|
|---------|------------------------|

**ELEMENTS OF MANAGERIAL ACCOUNTING****J. Costing Principles and Systems**

A knowledge of all the material in the AS Level syllabus opposite, plus:

Process costing, including by-products and waste products and the calculation of work in progress.

Process costing involving normal wastage and joint products, but not involving more than three processes.

Stock (Inventory) valuations using absorption and marginal costing principles.

Relevant costs and the preparation of costing reports for use in decision-making circumstances. Availability of materials and labour and limiting factors relating to production and capacity.

**K. Budgets**

Advantages of using budgets.

The preparation of the following budgets:

- Master budget – budgeted profit and loss accounts (income statements) and balance sheets
- Production
- Purchases
- Expenditure
- Debtors (Trade receivables)
- Creditors (Trade payables)
- Cash
- Sales.

Principal budget factors and the flexing of budgets.

Behavioural aspects of budgeting.

Limitations of budgets.

**L. Standard Costing**

Establishing cost standards for unit costs, and variance analysis involving usage and price variances.

Types of cost standard. Standard hours and calculation of a standard unit price. Calculation of sales volume and price variances; materials usage and price variances; labour efficiency and rate variances.

- The calculation of overhead and sales mix variances is **not** required. Questions will **not** be set on standard costing involving several processes through which a product may pass.

**AS LEVEL**

| <b>Content</b>                 | <b>Notes of Amplification</b>                      |
|--------------------------------|--|
| <b>M. Investment Appraisal</b> | This topic is <b>NOT</b> in the AS Level syllabus. |

**A LEVEL**

| <b>Content</b>   | <b>Notes of Amplification</b>  |
|--|--|
| <b>M. Investment Appraisal</b>   |  |
| The elements of investment appraisal including discounted cash flow methods. | <p>Capital investment appraisal to include:</p> <ul style="list-style-type: none"> <li>Ascertainment of future net cash flows</li> <li>Payback</li> <li>Discounted payback</li> <li>Accounting rate of return (ARR).</li> </ul> <p>Discounting methods for calculating the net present value and internal rate of return. Discount factors will be given.</p> <p>Advantages and disadvantages of using different methods of investment appraisal.</p> <p>Treatment of working capital required.<br/>Capital rationing and selection of appropriate projects. (Discount factors will be given.)</p> |
| Other factors affecting investment decisions.                                | Critical changes in initial outlay and future net cash flows.  |
| Sensitivity analysis.  |  |

**SUMMARY OF COMMONLY USED RATIOS (AS and A Level)****1. PROFITABILITY RATIOS**

(i) Gross Profit Ratio margin (also known as Gross Profit percentage)

$$= \frac{\text{Gross Profit}}{\text{Net Sales (Revenue)}} \times 100$$

$$\text{Mark up} = \frac{\text{G.P.}}{\text{C.O.S.}} \times 100$$

(ii) Net Profit Ratio (also known as Net Profit percentage) =  $\frac{\text{NPBI}}{\text{Net Sales (Revenue)}} \times 100$

can also be expressed as  $\frac{\text{Net Profit}}{\text{Net Sales (Revenue)}} \text{ (after interest)}$

*[Uses NPBI – Net Profit before interest, i.e. add back interest]*

(iii) Return on Capital Employed =  $\frac{\text{NPBI}}{\text{Capital Employed}} \times 100$

*[Capital Employed = Issued Shares + Reserves + Long Term Liabilities (Non-Current Liabilities)]*

(iv) Return on Equity =  $\frac{\text{Net Profit after Preference Dividends}}{\text{Equity}} \times 100$

*[Equity = Issued Ordinary Shares + Reserves]*

(v) Return on Total Assets =  $\frac{\text{NPBI}}{\text{Total Assets}} \times 100$

*[Total Assets = Fixed Assets (Non-Current Assets) + Current Assets]*

(vi)  $\frac{\text{Operating Expenses}}{\text{Sales (Revenue)}} \times 100$

(vii) Fixed Asset (Non-Current Asset) Turnover =  $\frac{\text{Net Sales (Revenue)}}{\text{Total Net Book Value of Fixed Assets (Non-Current Assets)}}$

**2. LIQUIDITY**

$$(i) \text{ Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$(ii) \text{ Liquid Ratio} = \frac{\text{Current Assets} - \text{Stock (Inventory)}}{\text{Current Liabilities}}$$

(Also known as 'Acid Test' or 'Quick Ratio')

$$(iii) \text{ Debtors Turnover} = \frac{\text{Debtors (Trade Receivables)}}{\text{Credit Sales}} \times 365 \text{ days}$$

(Also known as Average Collection Period)

$$(iv) \text{ Creditors Turnover} = \frac{\text{Creditors (Trade Payables)}}{\text{Credit Purchases}} \times 365 \text{ days}$$

(Also known as Average Payment Period)

$$(v) \text{ Stock Turnover} = \frac{\text{Average Stock (Inventory)}}{\text{Cost of Goods Sold}} \times 365 \text{ days}$$

(Also known as Inventory Turnover)

$$\text{Or Rate of Stock Turn} = \frac{\text{Cost of Goods Sold}}{\text{Average Stock (Inventory)}} \text{ (answer given in times)}$$

**A Level ONLY**

$$(vi) \text{ Working Capital Cycle (in days)} = \text{Debtors Turnover (in days)} + \text{Stock Turnover (in days)} - \text{Creditors Turnover (in days)}$$

Or

$$\text{Working Capital Cycle (in days)} = \text{Average Collection Period} + \text{Inventory Turnover (in days)} - \text{Average Payment Period}$$

$$(vii) \frac{\text{Net Working Assets}}{\text{Sales (Revenue)}} \times 100$$

$$\begin{aligned} \text{(Net Working Assets)} &= \text{Stocks plus Trade Debtors less Trade Creditors} \\ &= \text{Inventories plus Trade Receivables less Trade Payables} \end{aligned}$$

$$(viii) \text{ Income Gearing} = \frac{\text{Profit before Interest and Tax (PBIT)}}{\text{Interest Expense}} \times 100$$

$$(ix) \text{ Gearing Ratio} = \frac{\text{Fixed Cost Capital}}{\text{Total Capital}}$$

Which is:

$$\frac{\text{Long Term Liabilities (Non-Current Liabilities)} + \text{Preference Share Capital}}{\text{Issued Ordinary Share Capital} + \text{All Reserves} + \text{Long Term Liabilities (Non-Current Liabilities)} + \text{Preference Shares}}$$

**3. INVESTMENT RATIOS (STOCK EXCHANGE RATIOS) A LEVEL ONLY**

$$(i) \text{ Earnings per share} = \frac{\text{Net Profit} - \text{Preference Share Dividend}}{\text{No. of issued Ordinary Shares}}$$

$$(ii) \text{ Price Earnings Ratio} = \frac{\text{Market Price per share}}{\text{Earnings per share}}$$

$$(iii) \text{ Dividend yield} = \frac{\text{Dividend paid and proposed}}{\text{Market Price of share}}$$

$$(iv) \text{ Dividend cover} = \frac{\text{Profit available to pay ordinary dividend}}{\text{Ordinary dividend paid}}$$

$$(v) \text{ Dividend per share} = \frac{\text{Ordinary dividend paid}}{\text{Number of issued ordinary shares}}$$

**4. CASH FLOW RATIOS**

$$(i) \frac{\text{Operating Cash Flow}}{\text{Sales (Revenue)}} \times 100$$

$$(ii) \frac{\text{Operating Cash Flow}}{\text{Current Liabilities}} \times 100$$

$$(iii) \frac{\text{Operating Cash Flow}}{\text{Interest Expense}} \times 100$$

$$(iv) \frac{\text{Operating Cash Flow less Interest, Taxation and Preference Dividend}}{\text{Ordinary Shareholders Dividend}} \times 100$$

- Ratios should be calculated using year-end balances where appropriate, unless the question specifies the use of average figures.
- Ratios should be calculated to the number of decimal places required by the question.

## RESOURCE LIST

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This is **NOT** a list of prescribed texts, but merely an attempt to provide a range of alternatives from which teachers may like to choose.

### Student Textbooks

| Author                       | Title   | Publisher            | ISBN       | Date |
|------------------------------|---|----------------------|------------|------|
| Harold Randall               | <i>Accounting: A Level and AS Level</i><br><i>*Endorsed Textbook*</i> | CUP                  | 0521539935 | 2004 |
| David Cox                    | <i>Business Accounts</i>  | Osborne              | 1872962580 | 1999 |
| Ian Harrison                 | <i>Introducing Accounting for AS</i>                                  | Hodder and Stoughton | 0340873051 | 2004 |
| Ian Harrison                 | <i>Advanced Accounting for A2</i>                                     | Hodder and Stoughton | 0340873124 | 2004 |
| Ian Harrison                 | <i>The Complete A-Z Accounting Handbook</i>                           | Hodder and Stoughton | 0340691247 | 2003 |
| Ian Harrison                 | <i>A Level Study Guide: Accounting</i>                                | Letts                | 1857583906 | 1996 |
| Riad Izhar and Janet Hontoir | <i>Accounting, Costing and Management</i>                             | Oxford UP            | 0198328230 | 2001 |
| Harold Randall               | <i>A Level Accounting (3rd edn)</i>                                   | Letts Educational    | 1858051622 | 1996 |
| Frank Wood                   | <i>A Level Accounting</i>   | FT Prentice Hall     | 0273631616 | 1998 |

### Teacher's Resources

|                              |   |                      |             |      |
|------------------------------|---|----------------------|-------------|------|
| Catherine Coucom             | <i>Professional Development for Teachers: Teaching and Assessing Skills in Accounting</i> | CUP                  | 0521543673  | 2005 |
| Ian Harrison                 | <i>The Complete A-Z Accounting</i>  | Hodder and Stoughton | 0340 872667 | 2005 |
| Frank Wood and Alan Sangster | <i>Business Accounting 1 (10<sup>th</sup> Edition)</i>                                    | Prentice Hall        | 0273681494  | 2005 |
| Frank Wood and Alan Sangster | <i>Business Accounting 2 (10<sup>th</sup> Edition)</i>                                    | Prentice Hall        | 0273693107  | 2005 |

**Online Resources:**

- 1 [http://www.osbornebooks.co.uk/pdf/resources\\_accounting.pdf](http://www.osbornebooks.co.uk/pdf/resources_accounting.pdf) If problems are experienced with this site, select <http://www.osbornebooks.co.uk/resources.html> then select Student Resources, Select Accounting and Finance and the Select Accounting Documents.pdf)
- 2 <http://www.nrbarton.co.uk/Bookkeeping/index.html>
- 3 <http://accounting10.tripod.com/content.htm>
- 4 <http://www.askltd.com/askjava/Intro.htm>
- 5 <http://www.staffs.ac.uk/schools/business/bsadmin/staff/s5/mscproj/defn.htm>
- 6 <http://www.bized.ac.uk/compact/ratios/>
- 7 <http://www.bized.ac.uk/stafsup/options/accounting/index.htm>
- 8 <http://www.accountingeducation.com/links/index.cfm> (useful to focus searching to relevant areas)
- 9 <http://www.carolworld.com/> (Company Annual Reports Online site; commercial final accounts)
- 10 <http://www.bbc.co.uk/schools/gcsebitesize/business/finance/index.shtml> (covers aspects of the syllabus)
- 11 <http://www.business-studies.co.uk/accounts.htm> (Business Studies but some relevant resources for Accounting)
- 12 [http://www.tutor2u.net/revision\\_notes\\_accounting.asp](http://www.tutor2u.net/revision_notes_accounting.asp) (Business Studies but relevant resources for Accounting)
- 13 <http://www.learnice.org.uk/Login.aspx?ReturnUrl=%2fDefault.aspx> (Business Studies but some relevant resources for Accounting)
- 14 <http://www.accaglobal.com/publications/studentaccountant/technician/> (ACCA Student Accountant site with some relevant articles)

**International Standards:**

- 15 <http://www.iasplus.com/index.htm> (Click on the standards button in the heading and then scroll down)
- 16 <http://www.answers.com> (Then insert the relevant IAS in the heading)
- 17 [http://en.wikipedia.org/wiki/Main\\_Page](http://en.wikipedia.org/wiki/Main_Page) (Use the search facility to find individual IAS e.g. IAS 1: Presentation of Financial Statements. Wikipedia is also available in other languages – scroll down to the languages section on the Main Page.)

## INTERNATIONAL STANDARDS TERMINOLOGY

The following list has been collated to help Centres prepare for the introduction of international standards to CIE accounting syllabuses. It is anticipated that standards which are well known, and are relevant to the level of study, will be brought into question papers, mark schemes and associated documents.

Centres are encouraged to apply the new terminology to their teaching and learning materials so that candidates sitting for examination will be aware of the terms. Candidates will not be penalised for using different terms.

| <b>International usage</b>   | <b>Current CIE/UK usage</b>   |
|--|---|
|  |   |
| Balance sheet  | <i>Balance sheet</i>  |
| Bank (and other) loans/<br>Interest bearing loans and borrowing    | <i>Loans repayable after 12 months</i>  |
| Bank overdrafts and loans/<br>Interest bearing loans and borrowing | <i>Loans repayable within 12 months</i>   |
| Capital or Equity/Shareholders' Equity                             | <i>Capital</i>  |
| Cash (and cash equivalents)  | <i>Bank and cash</i>  |
| Cost of sales  | <i>Cost of goods sold</i>   |
| Current assets   | <i>Current assets</i>   |
| Current liabilities  | <i>Current liabilities/<br/>Creditors: amounts due within 12 months</i>                   |
| Finance costs  | <i>Interest payable</i>   |
| Finance Income/Investment revenues                                 | <i>Interest receivable</i>  |
| Financial Statements   | <i>Final accounts</i>   |
| Gross profit   | <i>Gross profit</i>   |
| Income statement   | <i>Trading and profit and loss account</i>  |
| Intangible assets  | <i>Goodwill etc.</i>  |
| Inventory/Inventories<br>(of raw materials and finished goods)     | <i>Stock</i>  |
| Investment property  | <i>Investments</i>  |
| Non-current assets   | <i>Fixed assets</i>   |
| Non-current liabilities  | <i>Long term liabilities/<br/>Creditors: amounts falling due after more than one year</i> |
| Other operating expenses   | <i>Sundry expenses (administration and distribution)</i>                                  |
| Other operating income   | <i>Sundry income</i>  |
| Other payables   | <i>Accruals</i>   |
| Other receivables  | <i>Prepayments</i>  |
| Plant and equipment  | <i>Plant and equipment</i>  |
| Profit (before tax) for the year                                   | <i>Net Profit</i>   |
| Property   | <i>Land and buildings</i>   |
| Raw materials<br>Ordinary goods purchased                          | <i>Purchases</i>  |
| Revenue  | <i>Sales</i>  |
| Share capital  | <i>Share capital</i>  |
| Trade payables   | <i>Creditors</i>  |
| Trade receivables  | <i>Debtors</i>  |
| Work in progress   | <i>Work in progress</i>   |

# **INTERNATIONAL ACCOUNTING STANDARDS**

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## Company Financing

A basic knowledge of the principles underlying –

| <i>IAS</i> | <i>Topic</i>   | <i>FRS/SSAP equivalent</i>  |
|------------|--|-----------------------------|
| IAS 1      | Presentation of Financial Statements                     | FRS3                        |
| IAS 2      | Inventories (stocks)                                     | SSAP9                       |
| IAS 7      | Cash flow statements                                     | FRS1                        |
| IAS 8      | Accounting Policies                                      | FRS18                       |
| IAS 10     | Events after balance sheet date                          | SSAP17                      |
| IAS 16     | Property, plant and equipment                            | FRS15                       |
| IAS 18     | Revenue  | <i>No direct equivalent</i> |
| IAS 23     | Borrowing costs  | <i>No direct equivalent</i> |
| IAS 32     | Financial Instruments: presentation and disclosure       | FRS 4                       |
| IAS 33     | Earnings per share                                       | FRS14                       |
| IAS 35     | Discontinuing operations                                 | FRS3                        |
| IAS 36     | Impairment of assets                                     | FRS11                       |
| IAS 37     | Provisions, contingent liabilities and contingent assets | FRS12                       |
| IAS 38     | Intangible assets  | FRS10                       |
| IAS 39     | Financial Instruments: recognition and measurement       | FRS13                       |