# ACCOUNTING

## Syllabus overview

### 1. Financial accounting (AS Level)

#### 1.1 The accounting cycle

Candidates should be able to:
- explain and apply the principles of the double entry system to record business transactions
- apply the accounting equation
- describe the functions of the books of prime entry
- describe the limitations of the books of prime entry
- prepare ledger accounts and trial balance
- apply the accounting concepts underpinning the preparation of accounts: business entity, historic cost, money measurement, going concern, consistency, prudence, realisation, duality, materiality, matching and substance over form.

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#### 1.2 Accounting for non-current assets

Candidates should understand the:
- distinction between and treatment of capital and revenue incomes and expenditures
- causes of depreciation
- purpose of accounting for depreciation and the application of relevant accounting concepts in respect of non-current assets.

Candidates should be able to:
- calculate depreciation using the reducing balance, straight-line and revaluation methods
- evaluate the most appropriate method of calculating depreciation
- prepare ledger accounts and journal entries for non-current assets, depreciation and disposal (including entries for part exchange)
- calculate the profit or loss on disposal of a non-current asset
- record the effect of providing for depreciation in the income statement and statement of financial position.

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#### 1.3 Reconciliation and verification

Candidates should understand the need to reconcile and verify ledger accounts using documentation from internal and external sources.

Candidates should be able to:
- prepare a bank reconciliation statement from relevant information
- prepare ledger accounts and journal entries to correct errors using a suspense account and record the effects of these in the financial statements
- prepare sales and purchase ledger control accounts
- reconcile control accounts and ledgers
- outline the uses and limitations of control accounts.

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### 1.4 Preparation of financial statements

Candidates should understand the need for and purpose of financial statements.  

#### 1.4.1 Adjustments to financial statements

Candidates should be able to calculate the adjustments needed for:

- accruals and prepayments
- irrecoverable debts and doubtful debts
- depreciation
- inventory.

#### 1.4.2 Sole Traders

Candidates should be able to prepare an income statement and statement of financial position for a sole trader from full or incomplete accounting records.

#### 1.4.3 Partnerships

Candidates should be able to:

- prepare an income statement, appropriation account and statement of financial position for a partnership from full or incomplete accounting records
- prepare capital and current accounts to record changes required in respect of goodwill and revaluation of assets on the introduction of a new partner, retirement of an existing partner and the dissolution of a partnership.

#### 1.4.4 Limited Companies

Candidates should be able to:

- prepare an income statement, statement of financial position and simple cash flows for a limited company from full or incomplete accounting records
- describe the distinction between capital and revenue reserves
- explain the different types of shares a company may issue
- prepare ledger accounts to record the issue of the different types of shares, including bonus and rights issues
- prepare a statement of changes in equity.

### 1.5 Analysis and communication of accounting information to stakeholders

Candidates should understand the need for the analysis of financial data to aid decision making by stakeholders.  

Candidates should be able to:

- identify and discuss the differing requirements for information of user groups including: management, employees, potential investors, creditors, government, public and environmental bodies; and communicate the information required by these different stakeholder groups
- calculate key accounting ratios to measure profitability, liquidity and efficiency:
  - Profitability ratios including: gross margin, mark up, profit margin, return on capital employed, expenses to revenue ratio (operating expenses to revenue ratio)
  - Liquidity ratios including: current ratio, liquid (acid test) ratio
  - Efficiency ratios including: non-current asset turnover, trade receivables turnover (days), trade payables turnover (days), inventory turnover (days), rate of inventory turnover (times)

(See the formulae in the ‘Summary of commonly used ratios’ section.)

- use ratios to evaluate and comment on the profitability, liquidity and efficiency of an organisation
- identify and discuss the limitations of accounting information.
### 2. Cost and Management Accounting (AS Level)

#### 2.1 Costing for materials and labour

Candidates should understand the need to account for material and labour costs. Candidates should be able to:
- identify and calculate fixed costs, variable costs, semi-variable costs and stepped costs
- identify the elements of direct and indirect materials and labour
- calculate the value of closing inventory using the FIFO and AVCO methods (perpetual and periodic)
- calculate labour costs using different methods of remuneration including bonus schemes
- understand the different characteristics, and the appropriateness, of using FIFO, AVCO and LIFO
  (Detailed calculations of the value of inventory using LIFO will not be set.)
- demonstrate the effect of different methods of valuing inventory of material on profit.

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#### 2.2 Traditional costing methods

##### 2.2.1 Absorption costing

Candidates should understand the application of traditional costing methods. Candidates should be able to:
- allocate and apportion overhead expenditure between production and service departments
- calculate overhead absorption rates
- calculate and explain the causes of under absorption and over absorption of overheads
- identify and explain the uses and limitations of absorption costing.

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##### 2.2.2 Marginal costing

Candidates should understand the application of marginal costing. Candidates should be able to:
- calculate the contribution of a product
- prepare a break-even chart
- calculate the break-even point, contribution to sales ratio and margin of safety
- explain the use and limitations of break-even charts
- prepare a statement reconciling the reported profit using marginal costing and absorption costing
- identify the uses and limitations of marginal costing
- calculate the effect of limiting factors on production.

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##### 2.2.3 Cost-volume-profit analysis

Candidates should be able to:
- identify and explain the advantages and limitations of cost–volume–profit analysis
- evaluate and interpret cost–volume–profit data and its value as a support for management decision making
- prepare costing statements using unit, job and batch costing principles
- apply costing concepts to make business decisions and recommendations using supporting data.

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#### 2.3 The application of accounting to business planning

Candidates should understand the benefit to business planning by the use of accounting data. Candidates should be able to:
- explain the need for a business to plan for the future
- explain why organisations prepare budgets and the benefits they bring to the planning process
- explain the advantages and disadvantages of budgetary control, including both financial and non-financial factors.

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### 1. Financial Accounting (A Level)

#### 1.1 Preparation of financial statements

Candidates should understand the need for and purpose of financial statements for specific types of trading and not-for profit organisations. 

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#### 1.1.1 Manufacturing businesses

Candidates should be able to:

- prepare a manufacturing account, including profit on transfer from factory to finished inventory
- account for manufacturing profit and the elimination of unrealised profit from unsold inventory.

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#### 1.1.2 Not for profit organisations

Candidates should be able to prepare financial statements for ‘not for profit’ organisations, including:

- a trading account
- an income and expenditure account
- a statement of financial position.

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#### 1.1.3 Limited companies

Candidates should be able to:

- understand the nature and purpose of the financial statements of limited companies, and the regulatory framework in which they operate
- prepare an income statement, statement of financial position and statement of cash flows for a limited company in line with the relevant international accounting standards.

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#### 1.1.4 International Accounting Standards

Candidates should be able to:

- explain and apply the main provisions of each of the following International Accounting Standards (IAS):
  - IAS 1 Presentation of financial statements
  - IAS 2 Inventories (not long-term contracts)
  - IAS 7 Statement of cash flows
  - IAS 8 Accounting policies
  - IAS 10 Events after the reporting period
  - IAS 16 Property, plant and equipment
  - IAS 36 Impairment of assets
  - IAS 37 Provisions, contingent liabilities and contingent assets
  - IAS 38 Intangible assets
- explain the need for an ethical framework in accounting.

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#### 1.1.5 Auditing and stewardship of limited companies

Candidates should be able to:

- explain the role of the auditor
- explain and discuss the role of directors and their responsibilities to shareholders (stewardship)
- discuss the importance of a true and fair view in respect of financial statements.

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## 1.2 Business purchase and merger

Candidates should understand the nature and purpose of the merger of different types of businesses to form a new enterprise. Candidates should be able to:

- make entries in the relevant ledger accounts to record the:
  - merger of two or more sole traders’ businesses to form a partnership
  - merger of a sole trader’s business with an existing partnership to form an enlarged partnership
  - acquisition of a sole trader’s business or partnership by a limited company
- prepare income statements and statements of financial position for the newly formed business following the merger, for example the limited company acquiring the partnership
- evaluate and discuss the advantages and disadvantages of the proposed merger.

## 1.3 Consignment and Joint venture accounts

Candidates should be able to distinguish between consignments and joint ventures and the environment in which they operate. Candidates should be able to:

- prepare ledger accounts for consignment transactions, including the calculation of closing inventory valuation
- prepare ledger accounts for joint ventures
- calculate the profit for joint ventures.

## 1.4 Computerised accounting systems

Candidates should understand the need for and be able to discuss the process of computerising the accounts of a business. Candidates should be able to:

- discuss the advantages and disadvantages of introducing a computerised accounting system
- discuss the process of computerising the business accounts
- discuss ways in which the integrity of the accounting data can be ensured during the transfer to a computerised accounting system. (Candidates are not required to use ICT.)

## 1.5 Analysis and communication of accounting information

Candidates should understand the need for the analysis of financial data to aid decision making by potential investors in a business. Candidates should be able to:

- calculate the following ratios:
  - working capital cycle (in days)
  - net working assets to revenue (sales)
  - income gearing
  - gearing
  - earnings per share
  - price earnings ratio
  - dividend yield
  - dividend cover
  - dividend per share

(See the formulae in the ‘Summary of commonly used ratios’ section.)

- analyse and evaluate the results of the ratios and draw conclusions
- make appropriate recommendations to potential investors on the basis of the analysis undertaken
- evaluate the interrelationships between ratios.
## 2. Cost and Management Accounting (A Level)

### 2.1 Activity based costing (ABC)

Candidates should be able to understand and discuss the application of activity based costing and identify and explain its uses and limitations.

Candidates should be able to:
- use ABC to:
  - apportion overheads
  - calculate the total cost of a unit
  - calculate the value of inventory
  - demonstrate the effect of different methods of overhead absorption on profit
- apply ABC costing techniques to make business decisions and recommendations using supporting data.

### 2.2 Budgeting and budgetary control

Candidates should understand the need for and benefits of a budgetary control system to an organisation.

Candidates should be able to:
- discuss the advantages and disadvantages of a budgetary control system to an organisation
- prepare the following budgets:
  - sales
  - production
  - purchases
  - labour
  - trade receivables
  - trade payables
  - cash
  - master budget
- recognise the effect of limiting factors on the preparation of budgets
- prepare a flexed budget statement
- identify and explain the causes of differences between actual and flexed budgeted data
- make business decisions and recommendations using supporting data
- discuss the behavioural aspects of budgeting.

### 2.3 Standard costing

Candidates should understand the application of a system of standard costing to an organisation.

Candidates should be able to:
- calculate the following variances:
  - direct material price and usage
  - direct labour rate and efficiency
  - fixed overhead expenditure, capacity, efficiency and volume
  - sales price and volume
- reconcile standard cost to actual cost
- reconcile standard profit to actual profit
- explain the causes of the variances and their relationship to each other
- discuss how standard costing can be used as aid to improve the performance of a business
- discuss the advantages and disadvantages of a standard costing system.
2.4 Investment appraisal

Candidates should understand the process of investment appraisal.

Candidates should be able to:

• ascertain future net cash inflows and outflows arising from the project, including the treatment of working capital
• discuss the advantages and disadvantages of and apply the following capital investment appraisal techniques:
  – net present value (NPV)
  – accounting rate of return (ARR)
  – payback
  – internal rate of return (IRR)
• make investment decisions and recommendations using supporting data
• evaluate, apply and discuss sensitivity analysis techniques in respect of the data prepared.

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Summary of commonly used ratios (AS and A Level)

4.1 Profitability ratios

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<td>Gross Profit / Revenue x100</td>
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<tr>
<td>Mark up</td>
<td>Gross Profit / Cost of Sales x100</td>
<td>205</td>
</tr>
<tr>
<td>Profit Margin</td>
<td>Profit for the year / Revenue x100</td>
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</tr>
<tr>
<td>Return on Capital</td>
<td>NPB / Capital Employed x100</td>
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<tr>
<td>Expenses to Revenue Ratio</td>
<td>Expenses / Revenue x100</td>
<td>206</td>
</tr>
<tr>
<td>Operating expenses to Revenue Ratio</td>
<td>Operating Expenses / Revenue x100</td>
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CAPITAL EMPLOYED = ISSUED SHARES + RESERVES + NON-CURRENT LIABILITIES

4.2 Liquidity ratios

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<td>Current Ratio</td>
<td>Current Assets / Current Liabilities</td>
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<tr>
<td>Liquid (acid test) Ratio (also known as ‘Quick Ratio’)</td>
<td>Current Assets Inventory / Current Liabilities</td>
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4.3 Efficiency ratios

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<td>Non-Current Asset Turnover</td>
<td>Net Revenue / Total Net Book Value of Non-Current Assets</td>
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<td>Trade Receivables Turnover (also known as Average Collection Period)</td>
<td>Trade Receivables / Credit Sales x365 days</td>
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<tr>
<td>Trade Payables Turnover (also known as Average Payment Period)</td>
<td>Trade Payables / Credit Purchases x365 days</td>
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<td>Inventory Turnover (also known as Average Payment Period)</td>
<td>Average Inventory / Cost of Sales x365 days</td>
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<tr>
<td>Rate of Inventory Turnover (also known as Average Payment Period)</td>
<td>Cost of Sales / Average Inventory (answer given in times)</td>
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### 4.4 Cambridge International A Level only

<table>
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<tr>
<td>Working Capital Cycle (in days) Trade Receivables Turnover (in days) + Inventory Turnover (in days) – Trade Payables Turnover (in days) or Average Collection Period + Inventory Turnover (in days) – Average Payment Period</td>
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<tr>
<td>Net Working Assets to Revenue (Sales) Net Working Assets = Inventories + Trade Receivables – Trade Payables x100 Net Working Assets Revenue (Sales)</td>
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<td>Income Gearing Interest Expense x100</td>
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<td>Gearing Ratio Fixed Cost Capital which is: Total Capital Non-Current Liabilities + Preference Share Capital x100 Issued Ordinary Share Capital + All Reserves + Non-Current Liabilities + Preference Shares</td>
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### 4.5 Investment ratios (stock exchange ratios) Cambridge International A Level only

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<td>Earnings per share (Net Profit – Preference Share Dividend) Number of issued Ordinary Shares</td>
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<tr>
<td>Price Earnings Ratio (Market Price per share) Earnings per share</td>
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<td>Dividend yield (Dividend paid and proposed) Market Price of share</td>
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<td>Dividend cover (Profit available to pay ordinary dividend) Ordinary dividend paid</td>
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<tr>
<td>Dividend per share (Ordinary dividend paid) Number of issued Ordinary Shares</td>
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### Key Concepts

The key concepts on which this syllabus is built are set out here. These key concepts can help teachers think about how to approach each syllabus topic in order to encourage learners to make links between topics and develop a deep overall understanding of the subject. The teaching support package gives teachers guidance on integrating the key concepts into their teaching.

- **A true and fair view**
  Financial statements are designed to give a true and fair view of the business to internal and external stakeholders.

- **Duality (double-entry)**
  Duality (double-entry) in accounting recognises that every financial transaction has a double (or dual) effect on the position of a business as recorded in the accounts.

- **Consistency**
  Consistency in the treatment of financial transactions enables the performance of a business to be compared meaningfully over different time periods.

- **Business entity**
  A business is a separate legal entity from the owner of a business. The accounting records must relate only to the business and not to the personal assets and spending of the owner.

- **Money measurement**
  Financial accounts only include transactions that can be expressed in terms of money. For example, the purchase of raw material is recorded in the accounts whereas staff creativity is not.