

# Syllabus

Cambridge International A & AS Level Accounting  
Syllabus code 9706  
For examination in June and November 2011



UNIVERSITY *of* CAMBRIDGE  
International Examinations

**Note for Exams Officers:** Before making Final Entries, please check availability of the codes for the components and options in the E3 booklet (titled "Procedures for the Submission of Entries") relevant to the exam session. Please note that component and option codes are subject to change.

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# 1. Introduction

## 1.1 Why choose Cambridge?

University of Cambridge International Examinations (CIE) is the world's largest provider of international qualifications. Around 1.5 million students from 150 countries enter Cambridge examinations every year. What makes educators around the world choose Cambridge?

### Recognition

A Cambridge International A or AS Level is recognised around the world by schools, universities and employers. The qualifications are accepted as proof of academic ability for entry to universities worldwide. Cambridge International A Levels typically take two years to complete and offer a flexible course of study that gives students the freedom to select subjects that are right for them. Cambridge International AS Levels often represent the first half of an A Level course but may also be taken as a freestanding qualification. They are accepted in all UK universities and carry half the weighting of an A Level. University course credit and advanced standing is often available for Cambridge International A/AS Levels in countries such as the USA and Canada. Learn more at [www.cie.org.uk/recognition](http://www.cie.org.uk/recognition).

### Support

CIE provides a world-class support service for teachers and exams officers. We offer a wide range of teacher materials to Centres, plus teacher training (online and face-to-face) and student support materials. Exams officers can trust in reliable, efficient administration of exams entry and excellent, personal support from CIE Customer Services. Learn more at [www.cie.org.uk/teachers](http://www.cie.org.uk/teachers).

### Excellence in education

Cambridge qualifications develop successful students. They not only build understanding and knowledge required for progression, but also learning and thinking skills that help students become independent learners and equip them for life.

### Not-for-profit, part of the University of Cambridge

CIE is part of Cambridge Assessment, a not-for-profit organisation and part of the University of Cambridge. The needs of teachers and learners are at the core of what we do. CIE invests constantly in improving its qualifications and services. We draw upon education research in developing our qualifications.

# 1. Introduction

## 1.2 Why choose Cambridge International A & AS Level Accounting?

Cambridge A and AS Level Accounting is accepted by universities and employers as proof of an understanding of the main principles of accounting. Successful A and AS Level candidates gain lifelong skills, including:

- an ability to apply accounting concepts, principles and practices
- an understanding of 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
- an ability to examine and evaluate accounting policies and practices critically and analytically
- improved skills of communication, analysis, interpretation and presentation of both qualitative and quantitative accounting information

## 1.3 How can I find out more?

### If you are already a Cambridge Centre

You can make entries for this qualification through your usual channels, e.g. CIE Direct. If you have any queries, please contact us at **[international@cie.org.uk](mailto:international@cie.org.uk)**.

### If you are not a Cambridge Centre

You can find out how your organisation can become a Cambridge Centre. Email us at **[international@cie.org.uk](mailto:international@cie.org.uk)**. Learn more about the benefits of becoming a Cambridge Centre at **[www.cie.org.uk](http://www.cie.org.uk)**.

## 2. Assessment at a glance

### Cambridge International A & AS Level Accounting Syllabus code 9706

AS Level candidates take only Papers 1 and 2.

A Level candidates have two choices. Candidates who want to take the whole of the A Level qualification at the end of a course of study take all four papers together. Candidates who want to get the A Level qualification in two stages take the AS Level first. If they pass AS Level, they then only need to take Papers 3 and 4 in order to complete the A Level.

#### AS Level

<b>Paper 1</b>	<b>1 hour</b>	<b>Paper 2</b>	<b>1 hour 30 minutes</b>
Candidates answer 30 multiple choice questions on AS topics; there are 30 marks for this paper.		Candidates answer 3 structured questions on AS topics; there are 90 marks for this paper. The first question in Paper 2 is always about the final accounts of sole traders or partnerships.	
30% of total marks		70% of total marks	

#### A Level

<b>Paper 1</b>	<b>1 hour</b>	<b>Paper 2</b>	<b>1 hour 30 minutes</b>
Paper 1 for A Level is the same as Paper 1 for AS Level.		Paper 2 for A Level is the same as Paper 2 for AS Level.	
15% of total marks		35% of total marks	
<b>Paper 3</b>	<b>1 hour</b>	<b>Paper 4</b>	<b>2 hours</b>
Candidates answer 30 multiple choice questions; there are 30 marks for this paper. Each item on Paper 3 tests a topic in the A Level Supplement part of the syllabus, but may also require a knowledge and understanding of the AS Level syllabus.		Candidates answer 3 problem solving questions; there are 120 marks for this paper. Each question in Paper 4 tests 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.	
15% of total marks		35% of total marks	

# 2. Assessment at a glance

## 2.1 Assessment objectives and their weighting in the exam papers

To pass A and AS Level Accounting, candidates must demonstrate the following:

- AO1: knowledge and understanding of the accounting procedures and practices in the specified content and the principles which these are based on
- AO2: an ability to apply knowledge and understanding of accounting procedures, practices and principles to familiar and new situations
- AO3: an ability to select, order, analyse and present information in an appropriate accounting form
- AO4: an ability to present reasoned explanations, understand implications and communicate them in a clear and logical manner
- AO5: an ability to make judgements, recommendations and decisions based on accounting information and principles

The multiple choice papers (Papers 1 and 3) test assessment objectives 1, 2 and 3.

The written papers (Papers 2 and 4) mainly test assessment objectives 1, 2 and 3, but also, to a lesser extent, test assessment objectives 4 and 5.

## 2.2 Exam combinations

Schools can combine this syllabus in an exam session with any other CIE syllabus, except:

- 7110 Principles of Accounts
- 9372 Principles of Accounting (Singapore)

# 3. Curriculum content

## Overview of the curriculum for A & AS Level Accounting

Topic	AS Level	A 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 A Level
<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

# 3. Curriculum content

## 3.1 Core content: AS Level

Content	Notes
<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 book-keeping, 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.	<p>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.</p>

# 3. Curriculum content

<b>FINANCIAL ACCOUNTING</b>	
<p><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:</p>	<p>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.</p>
<p>(a) Sole Traders and Public Limited Companies (PLCs)</p>	<p>Manufacturing, trading, departmental, profit and loss accounts (income statements) and balance sheets. The AS Level curriculum does <b>not</b> include published accounts of PLCs.</p>
<p>(b) Partnerships</p>	<p>The AS Level curriculum only includes the preparation of partnership appropriation accounts, current accounts and capital accounts.</p>
<p>(c) Non-profit making (not for profit) organisations</p>	<p>For example, clubs and societies.</p>
<p>(d) Accounts prepared from incomplete records or where financial records are deficient or erroneous</p>	
<p>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>	<p><b>Stock valuation</b> 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, 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> <p>There are <b>no</b> questions on long-term contracts.</p>

# 3. Curriculum content

	<p><b>Depreciation</b> 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. The calculation of depreciation: reducing balance, straight-line and revaluation methods.</p> <p>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.</p>
	<p><b>Goodwill (intangible assets)</b> 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 <b>only</b>)</p> <p>It is <b>not</b> necessary to know about taxation.</p> <p>There are <b>no</b> questions on any aspects of:</p> <ul style="list-style-type: none"><li>• Brand names (this may be included at A level)</li><li>• Container accounts</li><li>• Joint ventures</li><li>• Royalties</li><li>• Investment accounts involving the apportionment of income and capital</li><li>• Piecemeal dissolution of partnership, or the rule in Garner versus Murray</li><li>• Bills of exchange</li><li>• Group or consolidated accounts</li><li>• Hire purchase accounts or branch and consignment accounts.</li></ul>

# 3. Curriculum content

<p><b>E. Capital (equity)</b> The raising of capital.</p>	<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> <p>There are <b>no</b> questions on:</p> <ul style="list-style-type: none"><li>• forfeiture of shares, redemption and purchase of own shares by a company, or on convertible loan stock.</li><li>• the detailed procedure of book-keeping entries for share issues.</li><li>• the published accounts of Limited Companies.</li></ul>
<p><b>F. Business purchase</b></p>	<p>This topic is <b>not</b> in the AS Level syllabus.</p>
<p><b>G. Published company accounts</b></p>	<p>This topic is <b>not</b> in the AS Level syllabus.</p>

# 3. Curriculum content

<b>FINANCIAL REPORTING AND INTERPRETATION</b>	
<p><b>H. Interpretation and analysis</b> Users of financial statements.</p> <p>Calculation of ratios.</p>	<p>The differing requirements for information of user groups including management, shareholders, employees, potential investors, creditors, government, public and environmental bodies.</p> <p>See the ratios on pages 20–23.</p> <p>Ratios to aid the appraisal of profitability, liquidity and efficiency.</p> <p>Calculation of the following specific ratios:</p> <ul style="list-style-type: none"> <li>• Return on capital employed</li> <li>• Gross profit and net profit (profit (before tax) for the year) as a percentage of turnover</li> <li>• Sales (revenue) to capital employed</li> <li>• Expense ratios</li> <li>• Sales (revenue) to fixed assets</li> <li>• Current ratio</li> <li>• Liquid (acid test) ratio</li> <li>• Stock (inventory) turnover (times)</li> <li>• Stock (inventory) holding (days)</li> <li>• Debtor (trade receivables) collection period (days)</li> <li>• Creditor (trade payables) payment period (days).</li> </ul>
<p>Analysis and interpretation of accounting information</p> <p>Limitations of accounting information</p>	<p>The presentation, analysis and interpretation of accounting information as an aid to decision making by user groups; inter-firm comparisons and trend analyses.</p> <p>The limitations of accounting information. The difficulties of comparison presented by subjectivity, time lapse, monetary measurement and other external factors.</p>
<p><b>I. Company financing</b></p>	<p>This topic is <b>not</b> in the AS Level syllabus.</p>

# 3. Curriculum content

<b>ELEMENTS OF MANAGERIAL ACCOUNTING</b>	
<p><b>J. Costing principles and systems</b> Cost accounting for material, labour and overheads.</p>	<p>The elements of cost: cost classification and ascertainment of fixed, variable and semi-variable costs, stepped costs, total costs, unit costs and sunk costs.</p>
<p>Marginal (variable) costing</p>	<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>
<p>Absorption (total) costing</p>	<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>

# 3. Curriculum content

Costing systems	Costing systems as used for job, unit, and batch costing, including the calculation of stock (inventory) values.  There are <b>no</b> questions on process costing.
<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.
<b>M. Investment appraisal</b>	This topic is <b>not</b> in the AS Level syllabus.

# 3. Curriculum content

## 3.2 Core content: A Level

Content	Notes
<b>THE ACCOUNTING SYSTEM</b>	
A Level candidates need to be familiar with all the material in the AS Level syllabus, although there are no questions testing this in detail.	
<b>FINANCIAL ACCOUNTING</b>	
<b>D. Preparation of financial statements</b> Knowledge of all the material in the AS Level syllabus is necessary.	As for the AS Level syllabus, 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.  The internal final accounts (financial statements) of Limited Companies.
Partnership changes	Changes in partnership – incoming and outgoing partners.  Changes in profit sharing ratio.  Dissolution of partnership.  Effects of asset and liability revaluation.  Goodwill (intangible assets) adjustments in partners' capital accounts: (i) with the introduction of a goodwill (intangible assets) account in the firm's books, and (ii) when no goodwill (intangible assets) account is to be introduced.

# 3. Curriculum content

<p><b>E. Capital (Equity)</b> The whole of the AS Level syllabus, plus the following:</p> <ul style="list-style-type: none"> <li>(a) Premium on redemption of shares and the capital redemption reserve.</li> <li>(b) Repayment of share capital.</li> <li>(c) Redemption and purchase of own shares.</li> <li>(d) Repayment of debentures.</li> <li>(e) Convertible loan stock.</li> <li>(f) Distributable profits.</li> </ul>	<p>As for the AS Level syllabus, plus the following:</p> <p>The effect on the balance sheet of the redemption of shares, capital reductions and reconstructions.</p> <p>Revenue and capital reserves.</p> <p>There are <b>no</b> questions on forfeiture of shares.</p> <p>A knowledge of share issues, capital reductions and reconstructions.</p> <p>There are <b>no</b> questions involving the detailed procedure of book-keeping entries required in the journal or in ledger accounts for share issues, capital reductions or reconstructions.</p>
<p><b>F. Business purchase</b> The purchase of an unincorporated business by a limited company.</p> <p>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.</p> <p>Merger of unincorporated businesses to form a partnership.</p> <p>Evaluating a business with a view to acquiring it.</p>	<p>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.</p> <p>Mergers by means of combining or purchasing assets and liabilities.</p> <p>Valuation of a business by book value and net equity methods.</p>

# 3. Curriculum content

<p><b>G. Published company accounts</b> Principles governing the disclosure requirements of company annual reports covering:</p> <ul style="list-style-type: none"> <li>(a) Report of the Directors;</li> <li>(b) Income statement (profit and loss account);</li> <li>(c) Balance sheet;</li> <li>(d) Cash flow atatement.</li> <li>(e) Statement of total recognised gains and losses.</li> </ul>	<p>The main disclosure requirements relating to published corporate reports.</p> <p>Disclosure of accounting policies.</p> <p>Familiarity with the requirements to disclose details concerning fixed assets, depreciation.</p> <p>Treatment of intangible assets.</p> <p>There are <b>no</b> questions which rely wholly or mainly on the Companies Acts concerning the format of published accounts.</p> <p>There are <b>no</b> questions on corporate governance, reports of audit committees, remuneration committees, interim reports, segmental information and foreign exchange.</p>
<b>FINANCIAL REPORTING AND INTERPRETATION</b>	
<p><b>H. Interpretation and analysis</b> Builds on the whole of the AS Level syllabus. There may be questions on all ratios in the syllabus (both AS and A Level).</p>	<p>See ratios given on pages 20–23.</p> <p>Ratios to aid the appraisal of financial structure; gearing and Stock Exchange ratios.</p>

# 3. Curriculum content

<p><b>I. Company financing</b>          The financing of companies including capital gearing, capital structures, and loan capital.          The bases of modern financial reporting and its limitations.</p>	<p>Rights and bonus issues.</p> <p>An understanding of the disclosure standards adopted by quoted companies.</p> <p>A basic knowledge of the following standards and how these standards relate to topics in the syllabus:</p>		
	<b>IAS</b>	<b>Topic</b>	<b>FRS/SSAP</b>
	IAS 1	Presentation of financial statements	FRS3
	IAS 2	Inventories (stocks) *(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

# 3. Curriculum content

<b>ELEMENTS OF MANAGERIAL ACCOUNTING</b>	
<p><b>J. Costing principles and systems</b> A Level Candidates need to be familiar with all the material in the AS Level syllabus, plus:</p>	
<p>Process costing, including by-products and waste products and the calculation of work in progress.</p>	<p>Process costing involving normal wastage and joint products, but not involving more than three processes.</p> <p>Stock (inventory) valuations using absorption and marginal costing principles.</p> <p>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.</p>
<p><b>K. Budgets</b></p>	<p>Advantages of using budgets.</p> <p>The preparation of the following budgets:</p> <ul style="list-style-type: none"> <li>• Master budget – budgeted profit and loss accounts (income statements) and balance sheets</li> <li>• Production</li> <li>• Purchases</li> <li>• Expenditure</li> <li>• Debtors (Trade receivables)</li> <li>• Creditors (Trade payables)</li> <li>• Cash</li> <li>• Sales.</li> </ul> <p>Principal budget factors and the flexing of budgets.</p> <p>Behavioural aspects of budgeting.</p> <p>Limitations of budgets.</p>

# 3. Curriculum content

<p><b>L. Standard costing</b> Establishing cost standards for unit costs, and variance analysis involving usage and price variances.</p>	<p>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.</p> <p>Candidates do <b>not</b> need to calculate overhead and sales mix variances. There are <b>no</b> questions on standard costing involving several processes through which a product may pass.</p>
<p><b>M. Investment appraisal</b> The elements of investment appraisal including discounted cash flow methods.</p> <p>Other factors affecting investment decisions.</p> <p>Sensitivity analysis.</p>	<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 are given.</p> <p>Advantages and disadvantages of using different methods of investment appraisal.</p> <p>Treatment of working capital required.</p> <p>Capital rationing and selection of appropriate projects. (Discount factors are given.)</p> <p>Critical changes in initial outlay and future net cash flows.</p>

# 4. Appendix

## 4.1 Summary of commonly used ratios (AS and A Level)

### Profitability ratios

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

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

# 4. Appendix

## 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')

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

(Also known as Average Collection Period)

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

(Also known as Average Payment Period)

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

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

# 4. Appendix

## A Level only

(vi) Working Capital Cycle (in days) = Debtors (Trade Receivables) Turnover (in days) + Stock (Inventory) Turnover (in days) – Creditors (Trade Payables) Turnover (in days)

Or

Working Capital Cycle (in days) = Average Collection Period + Inventory Turnover (in days) – Average Payment Period

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

(Net Working Assets = Stocks plus Trade Debtors less Trade Creditors  
= Inventories plus Trade Receivables less Trade Payables)

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

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

Which is:

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

## Investment ratios (stock exchange ratios) A Level only

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

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

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

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

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

# 4. Appendix

## Cash flow ratios

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

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

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

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

- Calculate ratios using year-end balances where appropriate, unless the question specifies the use of average figures.
- Calculate ratios to the number of decimal places required by the question.

# 4. Appendix

## 4.2 Resource list

This is **NOT** a list of prescribed texts, but a range of alternative texts from which teachers may wish to choose.

### Student textbooks

Author	Title	Publisher	ISBN	Date
Harold Randall	<i>Accounting: A Level and AS Level *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>	OUP	0198328230	2001
Harold Randall	<i>A Level Accounting (3rd edition)</i>	Letts Educational	1858051622	1996
Frank Wood	<i>A Level Accounting</i>	FT Prentice Hall	0273631616	1998

### Teacher's resources

Author	Title	Publisher	ISBN	Date
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	0340872667	2005
Frank Wood and Alan Sangster	<i>Business Accounting 1 (10th edition)</i>	Prentice Hall	0273681494	2005
Frank Wood and Alan Sangster	<i>Business Accounting 2 (10th edition)</i>	Prentice Hall	0273693107	2005

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## 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/compfact/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.learnce.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.)

# 4. Appendix

## 4.3 International standards terminology

The list below is to help Centres prepare for the introduction of international standards to CIE accounting syllabuses. CIE anticipates including well-known standards, which are relevant to the level of study, in question papers, mark schemes and associated documents.

Centres should use the new terminology in their teaching and learning materials so that candidates become familiar with the terms. Candidates will not lose marks for using different terms.

<b>International usage</b>	<b>Current CIE/UK usage</b>
Balance sheet	<i>Balance sheet</i>
Bank (and other) loans/ Interest bearing loans and borrowing	<i>Loans repayable after 12 months</i>
Bank overdrafts and loans/ 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/ 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 (of raw materials and finished goods)	<i>Stock</i>
Investment property	<i>Investments</i>
Non-current assets	<i>Fixed assets</i>

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Non-current liabilities	<i>Long term liabilities/ 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 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>

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## 4.4 International accounting

Candidates should have a basic knowledge of the principles underlying the International Accounting Standards outlined below.

IAS	Topic	FRS/SSAP equivalent
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	No direct equivalent
IAS 23	Borrowing costs	No direct equivalent
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

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