

## **IMPORTANT NOTICE**

### **University of Cambridge International Examinations (CIE) in the UK and USA**

With effect from the June 2003 examination University of Cambridge International Examinations will only accept entries in the UK and USA from students registered on courses at CIE registered Centres.

UK and USA private candidates will not be eligible to enter CIE examinations unless they are repatriating from outside the UK/USA and are part way through a course leading to a CIE examination. In that case a letter of support from the Principal of the school which they had attended is required. Other UK and USA private candidates should not embark on courses leading to a CIE examination after June 2003.

This regulation applies only to entry by private candidates in the UK and USA. Entry by private candidates through Centres in other countries is not affected.

Further details are available from Customer Services at University of Cambridge International Examinations.

**You can find syllabuses and information about CIE teacher training events on the CIE Website ([www.cie.org.uk](http://www.cie.org.uk)).**

# ACCOUNTING

## GCE Advanced Subsidiary Level and GCE Advanced Level 9706

for examination in June and November 2006

### CONTENTS

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	<i>Page</i>
INTRODUCTION	1
AIMS	1
ASSESSMENT OBJECTIVES	2
SCHEME OF ASSESSMENT	3
CURRICULUM CONTENT	4
RESOURCE LIST	19

### NOTES

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Copies of syllabuses, past papers and Examiners' reports are available on CD-ROM and can be ordered using the Publications Catalogue, which is available on CIE Online at <http://www.cie.org.uk/CIE/WebSite/qualificationsandawardshub/orderpublications/orderpublications.jsp>.

# 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.

# 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.

## 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

### 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 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 Supplement part of the syllabus, but may also require a knowledge and understanding of the AS Level syllabus.

## 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 relating to capital and reserves, liabilities, assets, revenues and expenses, based on the double-entry system of accounting.	This section includes double-entry bookkeeping, accruals, prepayments, provisions and other adjustments, the distinction between capital and revenue expenditure and receipts. The treatment of tangible fixed assets, intangible assets (Goodwill), depreciation, current assets, capital and reserves, loans and current liabilities.
<b>B. Accounting Principles</b>	
The recognition and application of the principles, concepts and conventions which underlie the accounting process.	The going concern, matching, accruals and prepayments, consistency and materiality concepts and the importance of prudence and substance over form. The use of the entity, historical cost and revaluation, as features of the recording system. Money measurement.
<b>C. Control Systems</b>	
Principles of accounting control systems including the trial balance, bank reconciliations, suspense and control accounts.	Correction of errors and consequent adjustments to Profit and Loss Accounts and Balance Sheets.
	'Hands-on' experience of computers is <b>not</b> required.

**A LEVEL**

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**Content**

**Notes of Amplification**

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**THE ACCOUNTING SYSTEM**

All the material in the AS Level syllabus opposite, but nothing additional.

## AS LEVEL

Content	Notes of Amplification
<b>FINANCIAL ACCOUNTING</b>	
<b>D. Preparation of Financial Statements</b>	
<p>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>(a) business entities, including sole-traders, partnerships and limited companies;</p> <p>(b) accounts prepared from incomplete records, or where financial records are deficient or erroneous;</p> <p>(c) non-profit making organisations (clubs and societies);</p> <p>(d) sections of business enterprises (departments and business divisions).</p>	<p>This section covers the preparation of final accounts, namely: manufacturing, trading, departmental, Profit and Loss Accounts, appropriation accounts, and Balance Sheets, in good style and format.</p> <p>Measurement of revenue and expenses and of gains and losses, realised and unrealised. Adjustments needed to reflect a true and fair view. Stock Valuation (FIFO, LIFO, AVCO) and depreciation methods and policies, and their effects on the determination of income. Goodwill and its accounting treatment. Modification of historic cost by revaluation of assets and liabilities.</p> <p>Changes in partnership, including the admission and retirement of a partner, changes in profit-sharing ratios, dissolutions and their effects on asset revaluations and Goodwill. Goodwill adjustments in partners' capital accounts (i) with the introduction of a Goodwill account in the firm's books, and (ii) when no Goodwill account is to be introduced.</p> <p>A general knowledge and understanding of the accepted principles and application of the following topics:</p> <p>accounting policies  stock valuation  depreciation  Goodwill  revaluation of fixed assets.</p> <p>A knowledge of taxation is <b>not</b> required, although candidates may be required to provide for taxation in company accounts.</p> <p>Questions will <b>not</b> be set on any aspects of brand names, container accounts; joint ventures; royalties; investment accounts involving the apportionment of income and capital; piecemeal dissolution of partnership, or the rule in Garner <i>versus</i> Murray; bills of exchange; and Group or Consolidated accounts. Hire purchase accounts or branch and consignment accounts are also excluded.</p>



**A LEVEL**

<b>Content</b>	<b>Notes of Amplification</b>
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**FINANCIAL ACCOUNTING**

**D. Preparation of Financial Statements**

Knowledge of all the material in the AS Level syllabus opposite.	As for the AS Level syllabus opposite, plus:  The preparation of cash flow statements in good style and format.
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PTO for other topics on Financial Accounting.

**AS LEVEL**

Content	Notes of Amplification
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**E. Capital**

The raising of capital by means of shares and loans

Main types of share (ordinary; preference; redeemable) and loan capital (debentures). The effect on the Balance Sheet of the issue of shares. The effect on the Balance Sheet of bonus and rights issues.

Questions will **not** be set on forfeiture of shares, redemption and purchase of own shares by a company, or on convertible loan stock.

Questions will **not** be set involving the detailed procedure or book-keeping entries for share issues.

**F. Business Purchase**

This topic is **NOT** in the AS Level syllabus.

**G. Published Company Accounts**

This topic is **NOT** in the AS Level syllabus.

**A LEVEL**

Content	Notes of Amplification
<b>E. Capital</b>	
The whole of the AS Level syllabus opposite, plus the following:	As for the AS Level syllabus opposite, plus the following:
Repayment of share capital.	The effect on the Balance Sheet of the redemption of shares, capital reductions and reconstructions.
Redemption and purchase of own shares. Repayment of debentures.	Questions will <b>not</b> be set on forfeiture of shares.
Convertible loan stock.	Questions will <b>not</b> be set involving the detailed procedure or book-keeping entries for share issues, capital reductions or reconstructions.
<b>F. Business Purchase</b>	
The purchase of an unincorporated business by a limited company and 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. Evaluating a business with a view to acquiring it.	An appreciation of return on investment; calculation of Goodwill and negative Goodwill; purchase by issue of shares, debentures, and by cash.
<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. Disclosure of accounting policies. Familiarity with the requirements to disclose details concerning fixed assets, depreciation, directors' remuneration, and auditors' remuneration.
(a) the Report of the Directors;	Questions which rely wholly or mainly on the Companies Acts concerning the format of published accounts will <b>not</b> be set.
(b) the Profit and Loss Account;	
(c) the Balance Sheet;	
(d) the Cash Flow Statement.	

**AS LEVEL****Content****Notes of Amplification****FINANCIAL REPORTING AND INTERPRETATION****H. Interpretation and Analysis**

Users of financial statements and their information needs. Interpretation by means of ratio analysis and other performance indicators. Preparation of reports in relation to given accounting information and data.

Ratios to aid the appraisal of: return on capital employed; profitability; financial solvency; working capital management.

Limitations.

An awareness of the inherent limitations of financial statements as information for shareholders and other interested parties.

Ratios affected by quality of source information, companies' policies, seasonal variations, underlying causes not revealed.

**I. Company Financing**

This topic is **NOT** in the AS Level syllabus.

**A LEVEL**

Content	Notes of Amplification
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**FINANCIAL REPORTING AND INTERPRETATION****H. Interpretation and Analysis**

Builds on the whole of the AS Level syllabus opposite, plus: As for the AS Level syllabus opposite, plus:

Cash flow analysis.

Ratios to aid the appraisal of financial structure; gearing.

Stock Exchange ratios (dividend yield; interest cover; dividend cover; earnings per share; price earnings ratio).

**I. Company Financing**

The financing of companies including capital gearing, capital structures, and loan capital. The bases of modern financial reporting and its limitations; income smoothing techniques. Critical appraisal of accounting reports. The nature of company forecasts.

Rights and bonus issues.

An understanding of the disclosure standards adopted by quoted companies. A basic knowledge of SSAP 9 (not long term contract), SSAP 13, FRS 1, FRS 10, FRS 15 and FRS 18 and how these standards relate to topics in the syllabus.

An appreciation of the main techniques used to show improved earnings, and to present the financial statements in the most favourable light possible (window dressing).

**AS LEVEL**

Content	Notes of Amplification
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**ELEMENTS OF MANAGERIAL ACCOUNTING****J. Costing Principles and Systems**

Cost accounting for material, labour and overheads. Direct and indirect costs. The behaviour of costs. The allocation and apportionment to cost centres. Overhead recovery rates. Absorption of costs by cost units.

The elements of cost, cost classification and ascertainment, unit costs and total costs, fixed and variable costs, classification of cost by nature and function, cost accumulation. Under absorption and over absorption of overheads.

Costing systems as used for job, unit, and batch costing, including the calculation of stock values.

Questions will **not** be set on process costing.

Profit/volume analysis, and absorption costing, and their influence on profit determination.

Including situations where production can be increased or decreased, or where alternative possibilities are to be considered.

Marginal costing and contribution to sales ratio.

The uses and limitations of marginal costing and absorption costing.

The uses and limitations of break-even analysis. The preparation, use and limitations of break-even charts.

**K. Budgeting**

This topic is **NOT** in the AS Level syllabus.

**L. Standard Costing**

This topic is **NOT** in the AS Level syllabus.

**A LEVEL**

Content	Notes of Amplification
<b>ELEMENTS OF MANAGERIAL ACCOUNTING</b>	
<b>J. Costing Principles and Systems</b>	
A knowledge of all the material in the AS Level syllabus opposite, plus:	All the material in the AS Level syllabus opposite, plus:
The calculation of work in progress.	Process costing, including by-products and waste products.
Sensitivity analysis.	The effects of changes in sales volume and price, and costs on the break-even point.
Limiting factors relating to production and capacity.	Availability of materials and labour.
Accounting for decision-making.	Relevant costs and the preparation of costing reports for use in decision-making circumstances (such as a limiting factor or buy situation). The role of non-accounting factors (such as availability of skilled labour) in the making of simple business decisions.
<b>K. Budgeting</b>	
Accounting for decision-making and forward planning including Budgets and Cash Flow projections.	Advantages and uses of budgets. The preparation of budgets for sales, production and expenses (including budgets expressed in non-money terms such as units). Cash Budgets. The preparation and use of master budgets (budgeted profit and loss accounts, balance sheets). Principal budget factors and the revision of budgets due to changed circumstances.
<b>L. Standard Costing</b>	
Establishing cost standards for unit costs, and variance analysis involving use 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 <b>not</b> required. Questions will <b>not</b> be set on standard costing involving several processes through which a product may pass.

**AS LEVEL**

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**Content**

**Notes of Amplification**

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**M. Investment Appraisal**

This topic is **NOT** in the AS Level syllabus.



**A LEVEL**

Content	Notes of Amplification
<b>M. Investment Appraisal</b>	
The elements of investment appraisal including discounted cash flow methods.	Capital investment appraisal to include ascertainment of future cash flows, payback, accounting rate of return. Discounting methods for calculating the net present value and internal rate of return.
Non-financial factors affecting investment decisions.	
Sensitivity analysis.	Critical changes in initial outlay and net receipts.

**SUMMARY OF COMMONLY USED RATIOS****1. PROFITABILITY RATIOS**

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

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

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

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

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

*[Capital Employed = Issued Shares + Reserves + Long Term Liabilities]*

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

*[Equity = Issued Ordinary Shares + Reserves]*

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

*[Total Assets = Fixed Assets + Current Assets]*

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

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

**2. PROFITABILITY RATIOS**

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

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

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

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

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

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

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

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

$$(vii) \text{ Debt-Equity Ratio} = \frac{\text{Long Term Liabilities}}{\text{Equity}}$$

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

Where:

Fixed Cost Capital = Long Term Loans (liabilities) + Preference Shares

Total Capital = Fixed Cost Capital + Equity

Equity = Issued Ordinary Share Capital + Reserves

$$\text{Which is: } \frac{\text{Long Term Liabilities} + \text{Preference Share Capital}}{\text{Equity}}$$

Which is:

$$\frac{\text{Long Term Liabilities} + \text{Preference Share Capital}}{\text{Issued Ordinary Share Capital} + \text{All Reserves} + \text{Long Term Liabilities} + \text{Preference Shares}}$$

**3. INVESTMENT RATIOS (STOCK EXCHANGE RATIOS)**

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

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

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

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

$$(v) \frac{\text{Ordinary dividend paid}}{\text{Number of issued ordinary sales}}$$

- 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.

author	title	publisher	ISBN	date
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>	Financial Times Prentice Hall	0273631616	1998
Frank Wood and Alan Sangster	<i>Business Accounting I</i>	Financial Times Prentice Hall	0273637428	1999
Frank Wood and Alan Sangster	<i>Business Accounting II</i>	Financial Times Prentice Hall	0273637436	1999
Harold Randall	<i>Accounting: A Level and AS Level</i>	CUP	0521539935	2004