

**ACCOUNTING 9706
GCE A/AS Level
2007**

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

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)

You can find syllabuses and information about CIE teacher training events on the CIE Website (www.cie.org.uk).

ACCOUNTING

GCE Advanced Subsidiary Level and GCE Advanced Level 9706

for examination in June and November 2007

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NOTES

Copies of syllabuses, past papers and Examiners' reports are available on CD-ROM and can be ordered using the Publications Catalogue, which is available at www.cie.org.uk under 'Qualifications & Diplomas' – 'Order Publications'.

1 INTRODUCTION

- 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

- 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

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
THE ACCOUNTING SYSTEM	A Recording Financial Information	Examined at AS	May be examined at AL
	B Accounting Principles	Examined at AS	May be examined at AL
	C Control Systems	Examined at AS	May be examined at AL
FINANCIAL ACCOUNTING	D Preparation of Financial Statements	Examined at AS	Includes additional content at AL
	E Capital	Examined at AS	Includes additional content at AL
	F Business Purchase	-	Examined at AL
	G Published Company Accounts	-	Examined at AL
	H Interpretation and Analysis	Examined at AS	Includes additional content at AL
FINANCIAL REPORTING AND INTERPRETATION	I Company Financing	-	Examined at AL
	J Costing Principles and Systems	Examined at AS	Examined at AL
ELEMENTS OF MANAGERIAL ACCOUNTING	K Budgets	-	Examined at AL
	L Business Purchase	-	Examined at AL
	M Investment Appraisal	-	Examined at AL

4 SCHEME OF ASSESSMENT

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 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

AS LEVEL

Content	Notes of Amplification
THE ACCOUNTING SYSTEM	
A. Recording Financial Information	
The recording and processing of accounting data based on the double-entry system of accounting.	<p>Double entry bookkeeping, journal entries, accruals, prepayments, 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 assets including their depreciation, disposal and revaluation.</p> <p>The treatment of current assets, current liabilities, long-term liabilities, capital and reserves.</p>
B. Accounting Principles	
The recognition and application of accounting concepts.	<p>The principles, concepts and conventions which underlie the accounting process including going concern, matching, accruals, prepayments, 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>
C. Control Systems	
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 and Balance Sheet.

A LEVEL

Content

Notes of Amplification

THE ACCOUNTING SYSTEM

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

AS LEVEL

Content	Notes of Amplification
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FINANCIAL ACCOUNTING**D. Preparation of Financial Statements**

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:

(a) Sole Traders and Private Limited Cos.

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.

Manufacturing, Trading, Departmental, Profit and Loss accounts and Balance Sheets.

- *The Published accounts of PLCs are **not** examined at AS level*

(b) Partnerships

Only the preparation of Partnership Appropriation accounts, Current accounts and Capital accounts will be tested at AS level.

(c) non-profit making (not for profit) organisations

For example, clubs and societies.

A general knowledge and understanding of the accepted principles and application of Stock Valuation, Depreciation and Goodwill as it applies to the above.

Stock valuation

The calculation of closing stock valuations using the FIFO, LIFO and AVCO methods (perpetual and periodic).

The effect of different methods of stock valuation on profit and the stock valuation in the Balance Sheet.

The different characteristics of and the appropriateness of using FIFO, LIFO and AVCO.

The principle of applying the lower of cost or net realisable value when valuing closing stock

- *Questions will **not** be set on long-term contracts.*

Depreciation

The causes of depreciation: physical deterioration, economic factors, obsolescence, inadequacy and the passage of time.

The terminology used in accounting for depreciation: cost, useful asset life, residual (scrap) value.

The reasons for accounting for depreciation and the application of relevant accounting concepts.

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

Financial Accounting for AS Level is continued on Page 10.

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

A LEVEL**Content****Notes of Amplification****FINANCIAL ACCOUNTING****D. Preparation of Financial Statements**

Knowledge of all the material in the AS Level syllabus opposite is assumed.

As for the AS Level syllabus opposite, plus:

The preparation of cash flow statements in good style and format and in accordance with current accountancy standards such as FRSI in UK.

The internal final accounts of Limited Companies

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.

AS LEVEL

Content	Notes of Amplification
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FINANCIAL ACCOUNTING (continued)

Goodwill

The concept and treatment of goodwill as it applies to Sole traders and Limited Companies. **(Partnership treatment of Goodwill is in AL only)**

A knowledge of taxation is not required.

*Questions will **not** 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 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
E. Capital	
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"> • <i>Questions will not be set on forfeiture of shares, redemption and purchase of own shares by a company, or on convertible loan stock.</i> • <i>Questions will not be set involving the detailed procedure or book-keeping entries for share issues.</i> • <i>Questions will not be set on the published accounts of Limited Companies.</i>
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
E. Capital	
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.	<ul style="list-style-type: none"> • <i>Questions will not be set on forfeiture of shares.</i>
Convertible loan stock.	<ul style="list-style-type: none"> • <i>Questions will not be set involving the detailed procedure or book-keeping entries for share issues, capital reductions or reconstructions.</i>
F. Business Purchase	
The purchase of an unincorporated business by a limited company.	An appreciation of return on investment; calculation of Goodwill and negative Goodwill; 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.	
Evaluating a business with a view to acquiring it.	
G. Published Company Accounts	
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) Profit and Loss Account;	Familiarity with the requirements to disclose details concerning fixed assets, depreciation, directors' remuneration, and auditors' remuneration.
(c) Balance Sheet;	
(d) Cash Flow Statement.	<ul style="list-style-type: none"> • <i>Questions which rely wholly or mainly on the Companies Acts concerning the format of published accounts will not be set.</i>

AS LEVEL

Content	Notes of Amplification
FINANCIAL REPORTING AND INTERPRETATION	
H. Interpretation and Analysis	
Users of financial statements.	The differing requirements for information of user groups including management, shareholders, employees, potential investors, creditors, government, public and environmental bodies.
Calculation of ratios.	Ratios to aid the appraisal of profitability, liquidity and efficiency. The calculation of the following specific ratios: Return on capital employed Gross profit and net profit as a percentage of turnover Sales to capital employed Expense ratios Sales to fixed assets Current ratio Liquid (acid test) ratio Stock turnover (times and days) Debtor collection period (days) Creditor 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.
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; questions may be set on all ratios in Syllabus (both AS and A2).	Ratios to aid the appraisal of financial structure; gearing and Stock Exchange ratios.
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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 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.
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AS LEVEL

Content	Notes of Amplification
ELEMENTS OF MANAGERIAL ACCOUNTING	
J. Costing Principles and Systems	
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, cost and profit data;</p> <p>The calculation of the break-even point, contribution to sales ratio and margin of safety, the preparation and use of break-even graphs and contribution to sales (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>
Costing systems	<p>Costing systems as used for job, unit, and batch costing, including the calculation of stock values.</p> <ul style="list-style-type: none"> • <i>Questions will not be set on process costing.</i>
K. Budgets	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
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ELEMENTS OF MANAGERIAL ACCOUNTING**J. Costing Principles and Systems**

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

<p>Process costing, including by-products and waste products and the calculation of work in progress.</p>	<p>Absorption costing</p> <p>Marginal costing</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>
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K. Budgeting

Advantages of using budgets. The preparation of budgeted profit and loss accounts and balance sheets. Principal budget factors and the flexing of budgets.

L. Standard Costing

<p>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> <ul style="list-style-type: none"> • <i>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.</i>
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AS LEVEL

Content

Notes of Amplification

M. Investment Appraisal

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

A LEVEL

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

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

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

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

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

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

[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. LIQUIDITY

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

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

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

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

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

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

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

A2 ONLY

A2 (vi) Working Capital Cycle (in days) = Debtors Turnover + Stock Turnover - Creditors Turnover

A2 (vii) Gearing Ratio = $\frac{\text{Fixed Cost Capital}}{\text{Total Capital}}$

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) A2 ONLY

A2 (i) Earnings per share = $\frac{\text{Net Profit} - \text{Preference Share Dividend}}{\text{No. of issued Ordinary Shares}}$

A2 (ii) Price Earnings Ratio = $\frac{\text{Market Price per share}}{\text{Earnings per share}}$

A2 (iii) Dividend yield = $\frac{\text{Dividend paid and proposed}}{\text{Market Price of share}}$

A2 (iv) Dividend cover = $\frac{\text{Profit available to pay ordinary dividend}}{\text{Ordinary dividend paid}}$

A2 (v) Dividend per share = $\frac{\text{Ordinary dividend paid}}{\text{Number of issued ordinary sales}}$

- 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

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