

IGCSE

London Examinations IGCSE

Accounting (4305)

For examination in May and November  
2006, 2007, 2008

November 2004, Issue 1

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Specification

London Examinations IGCSE

# Accounting (4305)

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### *Acknowledgements*

This specification has been produced by London Examinations on the basis of consultation with teachers, examiners, consultants and other interested parties. London Examinations recognises and values all those who contributed their time and expertise to the development of IGCSE specifications.

Authorised by Elizabeth Blount

Publications Code: UG014336

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# Introduction

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The London Examinations IGCSE in Accounting is designed as a two-year course. As students progress through the course they are introduced to new ideas and concepts while continuing to use and reinforce previously learned concepts and skills. Candidates who successfully follow this specification will have a good understanding of Accounting and its applications, and will find the transition to the study of Advanced level Accounting easy to make.

## Key features

- offers a course for candidates of various ages and from diverse backgrounds in terms of general education and lifelong learning
- offers an option in Computerised Accounting in collaboration with Sage, the leading accounting and bookkeeping software company (see Appendix 2)
- easy transition from the London Examinations O level specification in Accounting due to shared subject content
- comprehensive and detailed description of subject content in the specification
- a single tier of entry for the whole ability range
- a full range of teacher support, including a unique CD-ROM specially written to support teaching and help prepare candidates for the examination
- provides a sound foundation for progression to Edexcel GCE AS and Advanced level Accounting, and other related qualifications.

## Availability of examination sessions

The specification will be examined twice a year, in May and November.

## Recommended prior learning

No prior level of attainment is necessary for candidates to undertake a course of study based on this specification. Candidates should build upon skills already developed in numeracy and written English. The number work involved in IGCSE Accounting relates to the four basic rules of arithmetic: addition, subtraction, multiplication and division.

## Progression

IGCSE Accounting lays an appropriate foundation for future study of GCE Advanced level Accounting, as well as providing underpinning knowledge for vocationally related and occupational qualifications, such as the Association of Accounting Technicians (AAT) Foundation, Intermediate and Technician levels. In addition, this specification provides a useful grounding for foundation examinations offered by the professional bodies such as the Association of Chartered Certified Accountants (ACCA), the Chartered Institute of Management Accountants (CIMA) and the Chartered Institute of Public Finance and Accountancy (CIPFA).

# Aims and assessment objectives

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## Aims

This specification gives candidates opportunities to

- understand the nature and purpose of accounting in business and non-profit-making organisations, and the principles on which accounting is based
- understand the use of accounting as an aid to business decision-making
- understand the use of accounting as a means of assessing the financial position of an organisation
- develop the abilities to quantify, to judge relevance, and to write clear and concise explanations.

## Assessment objectives

The objectives of the assessment are to enable candidates to

- AO1** demonstrate a knowledge and understanding of accounting terminology, principles, procedures and techniques and the limitations of accounting information
- AO2** apply accounting knowledge and understanding to assemble and classify accounting data in a variety of situations and use it to solve problems
- AO3** select, organise, interpret and use information from various sources to analyse problems and issues
- AO4** evaluate accounting information to make reasoned judgements and present conclusions accurately, logically and appropriately.

## Weighting of assessment objectives

Assessment objectives		Overall weighting
<b>AO1</b>	Knowledge and understanding	35%
<b>AO2</b>	Application	30%
<b>AO3</b>	Analysis	25%
<b>AO4</b>	Evaluation	10%
<b>Total</b>		100%

The percentages are not intended to provide a precise statement of the number of marks allocated to each assessment objective.

## Scheme of assessment

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There is a single tier of entry assessing grades A\* – G. Candidates who fail to achieve grade G will be awarded 'Ungraded'.

Paper	Mode of assessment	Weighting	Length
1	Examination paper, targeted at grades A* – G	100%	2½ hours

The scheme of assessment consists of one compulsory paper for all candidates. The maximum mark available for this paper is 100.

This paper will consist of **two** sections, Section A and Section B.

**Section A (60 marks)** will contain compulsory questions based mainly on the accounting principles contained in specification content sections 1 – 5.

Question 1 will comprise ten multiple-choice questions, and will carry 10 marks.

The remaining questions will carry 50 marks.

**Section B (40 marks)** will comprise compulsory questions drawn from all sections of the specification content.

Candidates may use a calculator in the examination.

# Specification content

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## Summary

There are ten areas of content, which are fully detailed on the following pages. **The specification content may be taught in any order.** Candidates will be required to demonstrate specified knowledge and critical understanding of:

- 1 Books of original entry
- 2 The ledger
- 3 Trading account, profit and loss account, balance sheet of a sole trader
- 4 Adjustments
- 5 Partnerships
- 6 Incomplete records
- 7 Non-profit-making organisations
- 8 Manufacturing accounts
- 9 Limited companies
- 10 Analysis and interpretation of accounts

## Content in detail

### 1. Books of original entry

By the end of the course, all candidates should be able to

- 1.1 calculate capital by opening journal entries
- 1.2 use the journal with appropriate narration to:
  - (a) record correction of errors
  - (b) record purchase of assets on credit including Value Added Tax (VAT)
  - (c) record sale of assets on credit
  - (d) record unusual losses or gains, e.g. theft
  - (e) cancel cash discount taken in error
  - (f) make transfers to final accounts
  - (g) write off bad debts
- 1.3 use the principal documents in a business transaction, e.g. invoice, credit note, statement
- 1.4 explain how business documents are used as a source of information
- 1.5 record purchases, sales and returns in appropriate books including VAT
- 1.6 explain the purpose of trade discount



- 1.7 explain how the books of original entry are related to the double entry system
- 1.8 record entries in the ledger with appropriate narrative from the books of original entry
- 1.9 explain the need for a receipts and payments account
- 1.10 compile the cash account, including entries for VAT
- 1.11 balance the cash account and bring down the balance
- 1.12 compile a petty cash book using the imprest system and incorporating VAT
- 1.13 record transfers of cash from main cashier to petty cashier
- 1.14 explain the function of a three-column cashbook
- 1.15 explain the purpose and treatment of cash (settlement) discounts and write up a two- or three-column cashbook
- 1.16 explain and record contra entries
- 1.17 explain the need for reconciliation statements
- 1.18 interpret bank statements
- 1.19 select previously unrecorded items to be entered in the cash book
- 1.20 update the cash book balance
- 1.21 reconcile bank balance with cashbook balance.

## **2. The ledger**

By the end of the course, all candidates should be able to

- 2.1 record transactions by double entry, using 'T' form and running balances
- 2.2 explain the significance of ledger balances
- 2.3 interpret an entry and an account
- 2.4 balance an account and bring down the balance
- 2.5 differentiate between purchases and sales transactions
- 2.6 differentiate between cash and credit transactions
- 2.7 differentiate between capital and revenue items
- 2.8 explain the different nature of
  - (a) debit, and
  - (b) credit balances
- 2.9 close accounts
- 2.10 transfer balances to final accounts
- 2.11 make entries to record VAT in the ledger
- 2.12 understand the significance of a balance in the VAT account
- 2.13 explain the need for ledger subdivisions
- 2.14 explain reasons for compiling a trial balance
- 2.15 prepare a trial balance from balances in ledger accounts as at a given date

- 2.16 agree the trial balance
- 2.17 outline procedures to be adopted if a trial balance does not agree
- 2.18 explain the possible shortcomings of an agreed trial balance
- 2.19 explain the types of error that do not cause disagreement of the trial balance
- 2.20 correct errors that do not cause disagreement of the trial balance, through the journal and ledger
- 2.21 calculate VAT from VAT inclusive as well as VAT exclusive figures
- 2.22 state sources of information for purchases and sales ledger control accounts
- 2.23 compile purchases and sales ledger control accounts
- 2.24 reconcile control account balances with debtors/creditors
- 2.25 establish, maintain, and clear a suspense account from a trial balance
- 2.26 correct errors causing the trial balance to disagree through the journal and the ledger.

### **3. Trading account, profit and loss account, balance sheet of a sole trader**

By the end of the course, all candidates should be able to

- 3.1 state what is meant by the terms 'net sales' and 'net purchases'
- 3.2 differentiate between the two stock figures shown in the trading account
- 3.3 explain the distinction between cost and net realisable value of stock
- 3.4 compile a trading account, showing appropriate items using 'T' form or vertical layout
- 3.5 define 'gross profit' or 'gross loss'
- 3.6 show cost of sales
- 3.7 draw up a profit and loss account using alternative forms of layout with all the appropriate income and expense entries relating to the given period
- 3.8 draw up a balance sheet in 'T' form or vertical form, marshalling the assets and liabilities in a specific order
- 3.9 differentiate between fixed and current assets
- 3.10 differentiate between the orders of permanence and liquidity
- 3.11 differentiate between current and long-term liabilities
- 3.12 show 'drawings' in cash or kind and record their transfer to the capital account
- 3.13 show changes in the proprietor's capital as a result of a further injection of capital
- 3.14 show changes in the proprietor's capital as the result of the revaluation of fixed assets
- 3.15 explain the nature of working capital
- 3.16 show working capital in the balance sheet.

## **4. Adjustments**

By the end of the course, all candidates should be able to

- 4.1 state why adjustments are necessary in the preparation of final accounts
- 4.2 distinguish between the following methods of depreciation: straight-line; diminishing balance; revaluation
- 4.3 record depreciation by means of a provision for depreciation account
- 4.4 record bad debts and bad debts recovered
- 4.5 distinguish between amounts accrued and prepaid
- 4.6 deal with accounts where accruals and prepayments arise
- 4.7 adjust accounts which have a stock to carry forward, e.g. stationery
- 4.8 record disposal of assets by means of a disposal account
- 4.9 prepare the journal entries necessary to deal with the above
- 4.10 demonstrate an understanding of the significance of a balance in the disposal account
- 4.11 explain why it is necessary to make a provision in respect of bad debts
- 4.12 differentiate between bad debts and provision for bad (doubtful) debts
- 4.13 prepare a provision for bad (doubtful) debts account, with profit and loss account and balance sheet entries.

## **5. Partnerships**

By the end of the course, all candidates should be able to

- 5.1 explain the need to expand a sole proprietor business by the introduction of partner(s)
- 5.2 explain the nature of a partnership
- 5.3 explain the importance of a partnership agreement
- 5.4 write up a capital account for each partner
- 5.5 write up a profit and loss appropriation account
- 5.6 demonstrate an understanding of interest on drawings, interest on capital and partners' salaries
- 5.7 show division of the residual profit or loss between partners
- 5.8 compile and explain the need for partners' current accounts
- 5.9 differentiate between debit and credit balances in current accounts
- 5.10 display capital accounts in the balance sheet
- 5.11 display current accounts in the balance sheet, including those with debit balances.

## **6. Incomplete records**

By the end of the course, all candidates should be able to

- 6.1 explain that 'incomplete records' requires the application of accounting principles
- 6.2 explain that capital (net worth) is the difference between the total of the assets and the liabilities and may be shown by a statement of affairs
- 6.3 calculate profit or loss by a comparison of capital at the beginning and end of a trading period
- 6.4 explain that an increase in capital between the beginning and end of a trading period suggests a profit; similarly that a decrease in capital over the same period suggests a loss
- 6.5 explain that items such as drawings and the introduction of new capital will affect the net profit figure and must be taken into consideration.
- 6.6 compute the purchases and sales for the year, by preparing a total creditors or debtors account
- 6.7 appreciate that returns, discounts and bad debts will affect the computations of sales and purchases
- 6.8 explain that cash purchases and sales must be dealt with separately from credit purchases and sales
- 6.9 prepare a trading account, profit and loss account, and balance sheet.

## **7. Non-profit-making organisations**

By the end of the course, all candidates should be able to

- 7.1 explain the nature and purpose of a receipts and payments account
- 7.2 prepare a receipts and payments account, and explain the significance of the balance shown
- 7.3 explain the nature and purpose of an income and expenditure account which will show all expenses for the period whether paid or not, and all the income for the period whether received or not, and will give a more accurate picture of club affairs
- 7.4 prepare an income and expenditure account from the material contained in the receipts and payments account, plus other information, e.g. unpaid bills, subscriptions due, setting out the account in such a way as to show the profits or losses for various activities
- 7.5 use the term 'accumulated fund' (general fund) in place of the term 'capital account'
- 7.6 transfer a surplus or deficit of income to the accumulated fund
- 7.7 prepare a balance sheet.

## **8. Manufacturing accounts**

By the end of the course, all candidates should be able to

- 8.1 differentiate between direct and indirect costs; fixed and variable costs
- 8.2 distinguish the elements of prime cost, i.e. direct wages and raw materials consumed, carriage inwards
- 8.3 appropriate costs between manufacturing and trading activities
- 8.4 make adjustments for stocks of raw materials, work in progress, expenses paid in advance and accruals
- 8.5 calculate cost of production.

## **9. Limited companies**

By the end of the course, all candidates should be able to

- 9.1 distinguish between charges against profit and the appropriation of profit
- 9.2 differentiate between ordinary and preference shares
- 9.3 distinguish between shareholders' funds and loan capital
- 9.4 calculate the dividends on various classes of shares and interest on loan capital
- 9.5 set out an appropriation account in an acceptable form
- 9.6 distinguish between authorised and issued capital
- 9.7 display the capital section of a balance sheet
- 9.8 explain the nature of reserves and provisions and distinguish between them
- 9.9 set out the fixed assets section of a balance sheet
- 9.10 display the current assets and current liabilities to show the working capital within the balance sheet
- 9.11 demonstrate the advantages of vertical presentation of a balance sheet.

## **10. Analysis and interpretation of accounts**

By the end of the course, all candidates should be able to

- 10.1 assess the viability of a business, making reference to:
  - (a) capital employed (total assets less current liabilities)
  - (b) working capital
  - (c) net and gross profits expressed as a percentage of turnover
  - (d) relationship of bad debts to debtors
  - (e) rate of stock turnover
- 10.2 prepare simple statements showing comparison of results between businesses
- 10.3 explain the advantages and disadvantages of using computers in accounting
- 10.4 understand how accounting makes use of computer software, e.g. spreadsheets and customised accounting software
- 10.5 understand the significance of the following six accounting concepts: consistency; prudence; accruals; materiality; money measurement; business entity.

## Grade descriptions

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A sample of key grade descriptions is provided to give a general indication of the standards of achievement likely to have been shown by candidates awarded particular grades. The descriptions must be interpreted in relation to the specification content; they are not designed to define that content. The grade awarded will depend in practice upon the extent to which the candidate has met the assessment objectives overall. Shortcomings in some aspects of the assessment may be balanced by better performances in others.

### Grade F

Candidates will be able to

- demonstrate knowledge and understanding of some of the specification content
- apply this knowledge and understanding, using some accounting terms, concepts, theories and methods to address simple accounting problems
- show some ability to select, organise and use simple accounting information
- make judgements and present simple conclusions.

### Grade C

Candidates will be able to

- demonstrate knowledge and understanding of most aspects of the specification content
- apply this knowledge and understanding, using accounting terms, concepts, and methods appropriately, to address accounting problems
- select, organise, interpret and use accounting information to analyse accounting problems with some accuracy
- make reasoned judgements and present conclusions.

### Grade A

Candidates will be able to

- demonstrate in-depth knowledge and critical understanding of the full range of the specification content
- apply this knowledge and understanding, using accounting terms, concepts and methods to address a range of accounting problems effectively
- select, organise, interpret and use accounting information to analyse accounting problems effectively
- evaluate accounting information effectively, make reasoned judgements and present conclusions accurately, logically and appropriately.

## Textbooks and other resources

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### CD-ROM

A CD-ROM has been especially written for this specification, and will be available **free of charge** to centres entering or intending to enter candidates for this specification. Such centres should contact the International Customer Relations Unit. Alternatively, the CD-ROM may be purchased from Edexcel Publications whose contact details are given on the next page.

The CD-ROM includes lessons, worksheets, interactive tests, and key fact revision guides.

### Textbooks

*Success in Principles of Accounting* (3rd ed.), by G Whitehead; John Murray 1998 (ISBN 0719572126)

*Business Accounts* (2nd ed.), by D Cox; Osborne Books 1999 (ISBN 1872962580)

*Business Accounting 1*, by F Wood and A Sangster; Financial Times 1997 (ISBN 0273637428)

*Business Accounting*, by R Giles; Nelson Thornes 1996 (ISBN 0748727299)

### Useful websites

[www.accounting2u.com](http://www.accounting2u.com)

Original site on which the CD-ROM for IGCSE Accounting is based

[www.cimaglobal.com](http://www.cimaglobal.com)

Chartered Institute of Management Accountants (CIMA).

[www.bized.acc.uk](http://www.bized.acc.uk)

General business site with options on Accounting

[www.bbc.co.uk/education/gcsebitesize/](http://www.bbc.co.uk/education/gcsebitesize/)

General revision site with options on Accounting

[www.accaglobal.com](http://www.accaglobal.com)

Association of Chartered Certified Accountants (ACCA) which, in addition to information about the Association, has comprehensive student and teacher support for its examinations. Support includes articles covering most bookkeeping and accounting topics.

[www.aat.co.uk](http://www.aat.co.uk)

Association of Accounting Technicians (AAT). Contains information on membership, approved assessment centres and course outline.

# Support and training

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## Training

A programme of INSET courses covering various aspects of the specifications and assessment will be arranged by London Examinations on a regular basis. Full details may be obtained from the International Customer Relations Unit.

## Edexcel publications

Support materials and further copies of this specification can be obtained from

Edexcel Publications

Adamsway

Mansfield

Notts NG18 4LN

UK

Tel: +44 (0) 1623 450 781

Fax: +44 (0) 1623 450 481

E-mail: [intpublications@linneydirect.com](mailto:intpublications@linneydirect.com)

- Specimen papers and mark schemes (publication code UG014337)
- CD-ROM containing lesson plans, tests and worksheets (publication code UG014356)



# Appendices

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## Appendix 1 – Procedures and contact information

### Awarding and reporting

The grading, awarding and certification of this specification will comply with the requirements of the IGCSE for courses for first examination in 2006.

Assessment of this specification will be in English only. All written work for examination must be submitted in English.

The specification assesses candidates in a single tier of entry, giving access to the full range of grades, A\* – G.

Candidates who fail to achieve grade G will be awarded 'Ungraded'.

### Students with particular requirements

Regulation and guidance relating to students with special requirements are published annually by the Joint Council for General Qualifications and are circulated to examination officers. Further copies of guidance documentation may be obtained by contacting the International Customer Relations Unit (contact details below).

London Examinations will assess whether or not special consideration or concessions can be made for candidates with particular requirements. Requests should be addressed to the International Customer Relations Unit (contact details below).

### Contact details of the International Customer Relations Unit (ICRU)

**Address:** International Customer Relations Unit (ICRU)  
Edexcel International  
190 High Holborn  
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WC1V 7BE  
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**Telephone:** +44 (0) 190 884 7750  
**Email:** [international@edexcel.org.uk](mailto:international@edexcel.org.uk)  
**Website:** [www.edexcel-international.org](http://www.edexcel-international.org)

## Appendix 2 – Optional computerised accounting in collaboration with Sage (UK) Limited

From May 2006, London Examinations in collaboration with Sage (UK) Limited, the accounting software manufacturer, will offer an additional module in Computerised Accounting to this specification. This innovation reflects the changing nature of accounting, where most work is now carried out using standard accounting software. Candidates will benefit from learning how to use such software, and this skill will be highly valued by potential employers.

This module in Computerised Accounting will **not** be a required part of the IGCSE in Accounting. It will be an **optional and additional** examined component designed to give candidates the opportunity to develop skills in using standard accounting software.

A knowledge of manual accounting systems is still essential because manual systems still exist, and because knowledge of the manual systems and processes gives candidates an underpinning knowledge of the computerised processes and systems. For instance, it is recommended that candidates cover the double entry system manually (including original documents and subsidiary books) **before** studying computerised accounting.

Edexcel International has an agreement with Sage (UK) Limited to provide participating centres with up to date accounting software, the Sage Instant Accounts Student Study Pack. The cost to centres for the purchase of this software will be heavily discounted, and centres will then be able to use the software with unlimited numbers of students for an unlimited time. Edexcel International will provide training for teachers in the use of the software by means of the supporting CD-ROM as well as INSET courses.

For the examination, Edexcel International will send a disk containing a case study. In the one-hour examination, candidates will be required to use the software to perform a series of tasks. The resulting printouts will be sent to Edexcel International for marking.

Candidates for Computerised Accounting will be graded DISTINCTION, PASS or FAIL, and, provided that the candidate achieves at least a grade G in the IGCSE, the candidate's certificate will be endorsed with the words "With Computerised Accounting". Failure to achieve a PASS in the Computerised Accounting module will not be reported on the candidate's certificate.

A full description of the Computerised Accounting option, with subject content, specimen paper and scheme of assessment, will be available to centres in 2005.



Further copies of this publication are available from  
Edexcel International Publications, Adamsway, Mansfield, Notts, NG18 4FN, UK

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Order Code UG014336 July 2004, Issue 1

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