

**PRINCIPLES OF ACCOUNTS 7110  
GCE O Level  
2007**

## **IMPORTANT NOTICE**

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

University of Cambridge International Examinations accepts entries in the UK and USA only from students registered on courses at CIE registered Centres.

UK and USA private candidates are not 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.

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.

### **Exclusions**

This syllabus must not be offered in the same session with any of the following syllabuses:

0452 Accounting  
0614 Accounting (Botswana)  
7114 Principles of Accounts (Singapore)  
7118 Principles of Accounts (Singapore)

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



# PRINCIPLES OF ACCOUNTS

## GCE Ordinary Level/School Certificate

### Subject 7110

(Available in the June and November examinations)

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](http://www.cie.org.uk) under 'Qualifications & Diplomas' – 'Order Publications'.

## AIMS

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1. To develop an understanding of the principles and purposes of accounting in providing an information system for monitoring and decision making appropriate to the needs of individuals, business and non-trading organisations and society as a whole.
2. To develop an understanding of accounting concepts, conventions, procedures and terminology.
3. To develop knowledge and understanding of the aims and activities of business and non-trading organisations, their accounting implications and the accounting techniques and procedures appropriate to them.
4. To develop skills of numeracy, literacy, communication, enquiry, presentation and interpretation.
5. To encourage attitudes of accuracy, orderliness and logical thought.

## ASSESSMENT OBJECTIVES

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The skills tested in Principles of Accounts are:

- A Knowledge with understanding
- B Analysis
- C Evaluation

A description of each skill follows.

### A Knowledge with understanding

Students should be able to:

1. demonstrate knowledge and understanding of facts, terms, concepts, conventions, principles and techniques appropriate to the syllabus;
2. demonstrate understanding of knowledge through numeracy, literacy, presentation and interpretation;
3. apply knowledge and information to various accounting situations and problems.

The syllabus content defines the factual material that candidates may be required to recall and understand. Questions testing this will often begin with words such as: *state, define, identify, list, outline, write up, record, calculate, compute, explain.*

### B Analysis

Students should be able to:

4. select, analyse and order information in written, numerical and diagrammatic form;
5. present appropriate information in an accepted accounting form.

Questions testing these skills will often begin with words such as: *select, prepare, draw up.*

**C Evaluation**

Students should be able to:

6. display an ability to interpret and evaluate accounting information and to draw reasoned conclusions.

Questions testing this skill will often require verbal answers and may begin with words such as: *explain, suggest, advise, comment on, discuss, compare.*

**SPECIFICATION GRID**

The relationship between the skills and components of the scheme of assessment.

Paper	Skill		
	<b>A</b> <i>Knowledge with understanding</i>	<b>B</b> <i>Analysis</i>	<b>C</b> <i>Evaluation</i>
1	60%	40%	-
2	25%	55%	20%

The skills are weighted to give an indication of their relative importance. They are not intended to provide a precise statement of the number of marks allocated to particular skills.

**SCHEME OF ASSESSMENT**

**Paper 1**      **Multiple Choice** (1¼ hrs) consisting of 40 items testing the whole syllabus.

**Paper 2**      **Structured Written Paper** (1¼ hrs).

Paper 2 will usually consist of between 4 and 6 compulsory questions drawn from topics across the whole syllabus: one of these questions, carrying approximately one third of the marks for Paper 2, will involve the preparation of the final accounts of a business (the Trading and Profit and Loss Account and the Balance Sheet). Questions on Paper 2 may require completion of proformas and tables.

Candidates will write their answers on the question paper.

There will be no choice of question on either paper.

Paper 1 will be worth 33.3% of the final marks. Paper 2 will be worth 66.6% of the final marks.

Candidates may be provided with multi-column accounting stationery on which to answer the last question of Paper 2.

# CONTENT

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## 1. Basic Principles

*Within the following areas the candidate should be able to:*

### 1.1 The Double Entry System of Bookkeeping

- process accounting data using the double entry system
- explain the sub-division of the ledger into the sales ledger, the purchases ledger, and the general ledger

### 1.2 Documentary Records

- name and state the use of an invoice, credit note, debit note, cheque, receipt, and statement of account

Questions will **not** require knowledge of document details.

### 1.3 Books of Prime Entry

- process accounting data in the books of prime (original) entry - Cash Book, Sales Journal, Purchases Journal, Sales Returns Journal, Purchases Returns Journal, and General Journal
- post the ledger entries from the books of prime entry
- distinguish between, and account for, cash and trade discounts

### 1.4 The Cash Book

- recognise its dual function both as a book of prime entry and as a ledger account for bank and cash by use of analysis columns
- give the correct treatment to bank current accounts, bank deposit accounts, bank overdrafts, bank loans and other loans
- draw up a reconciliation of the cash book with the bank statement in respect of the following: unpresented cheques, bank charges, direct debits, standing orders, credit transfers, dividends, correction of errors, and uncredited deposits

### 1.5 The General Journal

- enter those transactions, including correction of errors, that cannot be recorded in any special journal
- write relevant explanatory narrations for each entry

### 1.6 The Ledger

- prepare ledger accounts using the 'T' account format
- post transactions to the ledger accounts
- balance the ledger accounts as required
- interpret ledger accounts and their balances

Candidates need **not** know the use of the folio columns.

### 1.7 The Trial Balance

- recognise that it is a statement of ledger balances on a particular date
- extract a trial balance
- outline its uses and limitations
- draw up a suspense account and show its use
- identify and explain those errors which do not affect the trial balance - omission, commission, principle, compensating, original entry, and reversals

## 2. Accounting Procedures

*Within the following areas the candidate should be able to:*

### 2.1 Capital and Revenue Expenditure

- show understanding of the differing accounting treatment of capital and revenue expenditure and income
- calculate and comment on the effect on profit and asset valuation of incorrect treatment

### 2.2 Accounting for Depreciation

- define depreciation
- explain the reasons for accounting for depreciation
- name and describe the straight line, diminishing (reducing) balance and revaluation methods of depreciation
- explain the circumstances in which each method is used
- prepare ledger accounts and journal entries for the provision of depreciation and the disposal of fixed assets

### 2.3 Adjustments to Ledger Accounts

- Accruals and Prepayments
  - make entries in the journal and ledger accounts to record accrued and prepaid expenses and outstanding and prepaid incomes
- Bad Debts and the Provisions for Doubtful Debts and Discounts
  - make entries in the journal and ledger accounts to write off bad debts and to make provision for doubtful debts as instructed, and discounts

### 2.4 Correction of Errors

- make journal entries supporting the correction of errors
- open and post entries to a suspense account where necessary
- prepare a statement of revised profit
- prepare revised balance sheets or extracts

### 2.5 Control Accounts

- explain that control accounts are an independent check on the sales and purchases ledgers
- explain that control accounts may be used to provide totals of debtors and creditors, locate errors and act as a deterrent against fraud
- identify and use the books of prime entry as sources of information for the control account entries

- enter the following items into the relevant control account: sales and purchases, receipts and payments, discounts, returns, bad debts, bad debts recovered, dishonoured cheques, interest on overdue accounts, contra entries, refunds, opening and closing balances (debit and credit within each account)

#### 2.6 Purchase of a Business

- record the assets and liabilities acquired in the books of the purchasing business (sole trader or partnership)
- calculate and record Goodwill

### 3. Principles of Final Accounts

*Within the following areas the candidate should be able to:*

#### 3.1 Trading and Profit and Loss Accounts

- calculate the gross and net profits or losses, based on accounting principles, for a specified period
- recognise that net profit (or loss) is the increase (or decrease) in the net value of assets during that period
- prepare simple columnar trading accounts when dealing with a business which has two departments

#### 3.2 Balance Sheets

- recognise that it is a statement of balances of assets and liabilities on a specified date set out in any valid layout
- demonstrate knowledge of the meaning, importance and designation of fixed assets, goodwill, current assets, current liabilities, long term liabilities and working capital
- comment upon the significance of the inter-relationship of the Balance Sheet items
- relate working capital to the liquidity of a business
- explain the basis of valuation of assets as follows:
  - fixed assets at cost less accumulated depreciation
  - stock in trade at cost or net realisable value, whichever is lower
  - trade debtors at expected collectible amount i.e. after deduction of provisions for doubtful debts and discounts
- distinguish between, and show understanding of, capital and capital employed

#### 3.3 Partnerships

- know the importance and contents of a partnership agreement
- make simple entries for the formation of a partnership via capital contribution by each partner in cash and/or non-cash assets and amalgamation of two sole traders, including the calculation and recording of Goodwill

Questions will **not** be set on the dissolution of partnership.

#### 4. Preparation of Final Accounts

*Within the following areas the candidate should be able to:*

##### 4.1 Sole Trader

- prepare Trading and Profit and Loss Accounts and Balance Sheets
- make adjustments for provision for depreciation - straight line, diminishing (reducing) balance and revaluation
- make adjustments for provisions for bad and doubtful debts and for discounts
- make adjustments for accruals and prepayments to take account of accrued and prepaid expenses and outstanding and prepaid income
- make adjustments for goods taken by owner for own use

##### 4.2 Partnership

- prepare Trading and Profit and Loss Accounts, Appropriation Accounts and Balance Sheets
- draw up partners' current and capital accounts both in ledger form and as part of a Balance Sheet presentation
- show the treatment of interest on capital, partners' salaries, interest on partners' loans and on drawings
- make the other adjustments as detailed under 4.1

##### 4.3 Clubs and Societies

- distinguish between receipts and payments accounts and income and expenditure accounts
- prepare accounts for the following - receipts and payments, revenue generating activities e.g. refreshments, and subscriptions
- prepare Income and Expenditure Accounts and Balance Sheets
- make the other adjustments as detailed under 4.1 as appropriate

##### 4.4 From Incomplete Records

- prepare opening and closing statements of affairs
- calculate net profit/loss from change in capital over time
- compute sales and purchases figures and gross profit from incomplete information
- apply the following techniques to arrive at missing figures - mark up, margin, stock turnover
- comment upon the importance of providing information on profitability and financial position of enterprises when the books of account are not compiled by the double entry system

##### 4.5 Limited Liability Companies

- prepare a simple appropriation account
- explain the capital structure of a limited company and how it appears in the Balance Sheet
- recognise the distinctions between authorised, called-up, issued and paid-up share capital and between share capital - ordinary and preference - and loan capital e.g. debentures

Candidates will **not** be required to prepare a company's Profit and Loss Account or a complete Balance Sheet, to make entries to record the issue of capital, or to know the accounting requirements of the Companies Acts.



#### 4.6 Manufacturing or Production Accounts

- distinguish between direct and indirect costs
- identify direct material, direct labour, prime cost and factory overheads
- make adjustments for work-in-progress
- calculate factory cost of production
- prepare Manufacturing and Trading Accounts of a manufacturing business

### 5. Advanced Principles

*Within the following areas the candidate should be able to:*

#### 5.1 Financial Relationships

- compute and explain the importance of rate of stock turnover, gross profit/sales, net profit/sales, and net profit/capital
- explain the relationship of gross and net profits to the valuation of stock, rate of stock turnover, turnover, expenses, and capital
- recognise the importance of stock valuation and the effect of an incorrect stock valuation on profit, capital, and assets

#### 5.2 Accounting Principles

- recognise the application of the following principles/concepts in the compilation of final accounts
  - going concern, historical cost, accounting entity, money measurement, accounting period, matching, prudence (conservatism), materiality, and dual aspect

## BOOK LIST

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The inclusion of books in this list does not imply a recommendation. It is simply a list from which teachers may like to select. Locally available information from industry, commerce, banks, the accounting profession and Government will also be useful in providing exemplar material and background.

<i>Author</i>	<i>Title</i>	<i>Publisher</i>	<i>ISBN</i>
Bright, G and Herbert M	<i>Mastering Accounting</i>	Palgrave	0 333 51198 0
Coucom, Catherine	<i>IGCSE Accounting</i>	Cambridge	0 521 89346 1
Cox, David	<i>Business Accounts</i>	Osborne Books	1 87296 258 0
Cox, David	<i>Success in Book-keeping and Accounts</i>	John Murray	0 7195 4194 8
Marshall, Peter	<i>Mastering Book-keeping</i>	How To Books	1 85703 752 9
Nicholson, Margaret	<i>Mastering Accounting Skills</i>	Palgrave	0 333 91991 2
Whitehead, Geoffrey	<i>Book-keeping Made Simple</i>	Butterworth	0 7506 3651 3
Whitehead, Geoffrey	<i>Success in Principles of Accounting</i>	John Murray	0 7195 7212 6
Wood, Frank	<i>Bookkeeping and Accounts</i>	FT Prentice Hall	0 273 64619 2