

Syllabus

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Cambridge O Level Principles of Accounts

Syllabus code 7110

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?

Developed for an international audience

International O Levels have been designed specially for an international audience and are sensitive to the needs of different countries. These qualifications are designed for students whose first language may not be English and this is acknowledged throughout the examination process. The curriculum also allows teaching to be placed in a localised context, making it relevant in varying regions.

Recognition

Cambridge O Levels are internationally recognised by schools, universities and employers as equivalent to UK GCSE. They are excellent preparation for A/AS Level, the Advanced International Certificate of Education (AICE), US Advanced Placement Programme and the International Baccalaureate (IB) Diploma. CIE is accredited by the UK Government regulator, the Qualifications and Curriculum Authority (QCA). Learn more at 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.

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 O Level Principles of Accounts?

International O Levels are established qualifications that keep pace with educational developments and trends. The International O Level curriculum places emphasis on broad and balanced study across a wide range of subject areas. The curriculum is structured so that students attain both practical skills and theoretical knowledge.

Cambridge O Level Principles of Accounts is accepted by universities and employers as proof of an understanding of the theory and concepts of accounting, and the ways in which accounting is used in a variety of modern economic and business contexts.

Candidates focus on the skills of:

- Recording
- Reporting
- Presenting
- Interpreting financial information.

Cambridge O Level Principles of Accounts forms an ideal foundation for further study, and for a future career within the profession.

Students may also study for a Cambridge O Level in a number of related subjects including Commerce, Commercial Skills and Economics. In addition to Cambridge O Levels, CIE also offers Cambridge IGCSE and International A & AS Levels for further study in Accounting as well as other subjects. See www.cie.org.uk for a full list of the qualifications you can take.

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. your regional representative, the British Council or CIE Direct. If you have any queries, please contact us at international@cie.org.uk.

If you are not a Cambridge Centre

You can find out how your organisation can become a Cambridge Centre. Email either your local British Council representative or CIE at international@cie.org.uk. Learn more about the benefits of becoming a Cambridge Centre at www.cie.org.uk.

2. Assessment at a glance

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There are two compulsory papers, Paper 1 and Paper 2. These papers both contain questions based on the whole syllabus.

Paper 1: Multiple choice	1 hour
There are 30 questions drawn from across the syllabus. All questions are compulsory.	
33.3% of final marks	

Paper 2: Structured written paper	2 hours
There are 4–6 compulsory questions drawn from topics across the syllabus. One of these questions (carrying approximately one third of the marks for Paper 2) involves the preparation of the final accounts of a manufacturing or trading business e.g. Income Statements (the Manufacturing, Trading and Profit and Loss Accounts) and the Balance Sheet. Questions on this paper may require completion of pro formas and tables.	
66.6% of final marks	

The use of computerised accounting software is **not** required in the examination. However, an appreciation of the usefulness of computerised accounting systems in the preparation of accounting information **is** required.

3. Syllabus aims and assessment

3.1 Aims

The aims of the Cambridge O Level Principles of Accounts syllabus are to enable candidates to:

- Develop an understanding of the role of accounting in providing an information system for monitoring and decision making.
- Develop an understanding of accounting concepts, principles, procedures and terminology.
- Develop skills in preparing and interpreting accounting information.
- 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.
- Develop skills of numeracy, literacy, communication and enquiry.
- Encourage attitudes of accuracy, orderliness, logical thought and an appreciation of professional ethics.

3.2 Assessment objectives and their weightings

The skills tested in Principles of Accounts are:

- A Knowledge with understanding
- B Analysis
- C Evaluation

A Knowledge with understanding

Candidates 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 comprehension;
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.*

3. Syllabus aims and assessment

B Analysis

Candidates should be able to:

- select, analyse and order information in written, numerical and diagrammatic form;
- 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

Candidates should be able to:

- interpret and evaluate accounting information and to draw reasoned conclusions.

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

Specification grid

The relationship between the skills and the components of the scheme of assessment is:

Paper	A Knowledge with Understanding	B Analysis	C Evaluation
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.

3. Syllabus aims and assessment

3.3 Exam combinations

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

- syllabuses with the same title at the same level
- 0452 Accounting
- 0614 Accounting (Botswana)
- 4345 Accounting (Namibia)
- 7091 Principles of Accounts (Singapore)
- 7092 Principles of Accounts (Singapore)

Please note that O Level, Cambridge International Level 1/Level 2 Certificates and IGCSE syllabuses are at the same level.

4. Curriculum content

1. Basic principles

Within the following areas, candidates should be able to:

1.1 Role of accounting

- explain the difference between book-keeping and accounting
- explain the role of accounting in providing information for monitoring progress and decision-making.
- state the benefits of ICT (Information and Communications Technology) in book-keeping and accounting: accuracy, speed of processing information, ability to process high volumes of information, performing reconciliations, ease and capacity of information storage, security.

1.2 The Double Entry system of book-keeping

- explain the meaning of assets, liabilities and owner's equity (capital)
- explain and apply the accounting equation
- outline the double entry system of book-keeping
- process accounting data using the double entry system
- explain the subdivision of the ledger into the sales ledger, the purchase ledger and the general ledger.

1.3 Documentary records

- name and state the use of an invoice, credit note, debit note, cheque, receipt and statement of account
- understand the use of business documents as sources of information.

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

1.4 Books of Prime Entry

- explain the use of, and 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.

1.5 The Cash Book

- explain its dual function both as a book of prime entry and as a ledger account for bank and cash by use of analysis columns
- explain and process transactions involving 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: un-presented cheques, bank charges, bank interest paid and received, direct debits, standing orders, credit transfers, dividends, correction of errors, and uncredited deposits.

4. Curriculum content

1.6 The General Journal

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

1.7 The Ledger

- prepare ledger accounts using the 'T' account format
- post transactions to the ledger accounts
- balance the ledger accounts as required, make transfers to the final accounts
- interpret ledger accounts prepared in 'T' account form and their balances
- explain and interpret ledger accounts prepared using the running balance format.

Candidates are **not** required to explain or use folio columns.

1.8 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
- identify and explain those errors which do not affect the trial balance – omission, commission, principle, compensating, original entry, and reversals.

1.9 Adjustments to Ledger Accounts

- Other Payables and Receivables (Accruals and Prepayments)
 - make entries in the journal and ledger accounts to record accrued and prepaid expenses
 - make entries in the journal and ledger accounts to record outstanding and prepaid incomes
- Bad Debts and the Provisions for Doubtful Debts
 - make entries in the journal and ledger accounts to write off bad debts
 - make entries in the journal and ledger accounts to make and adjust provisions for doubtful debts.

Questions will **not** be set on bad debts recovered.

4. Curriculum content

2. Accounting procedures

Within the following areas the candidate should be able to:

2.1 Capital and Revenue Expenditure and Receipts

- explain the meaning of capital expenditure and revenue expenditure
- distinguish between and account for capital and revenue expenditure
- distinguish between and account for capital and revenue receipts
- 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
- prepare ledger accounts and journal entries for the provision of depreciation
- prepare ledger accounts and journal entries for the disposal of fixed assets.

2.3 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 sheet extracts.

2.4 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: credit sales and purchases, receipts and payments, discounts, returns, bad debts, dishonoured cheques, interest on overdue accounts, contra entries, refunds, opening and closing balances (debit and credit within each account).

Questions will **not** be set on situations where the control accounts are part of the double entry system.

4. Curriculum content

3. Final accounts

Within the following areas the candidate should be able to:

3.1 Income Statements (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 they are statements 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 non-current (fixed) assets, intangible 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
 - inventory (stock in trade) at cost or net realisable value, whichever is lower
 - trade receivables (trade debtors) at expected collectible amount i.e. after deduction of provisions for doubtful debts
- distinguish between, and show understanding of, equity (capital) and capital employed.

4. Curriculum content

4. Preparation of final accounts

Within the following areas the candidate should be able to:

4.1 Sole Trader

- explain the difference between a trading and service business
- prepare Income Statements (Trading and Profit and Loss Accounts) and Balance Sheets for trading businesses
- prepare Income Statements (Profit and Loss Accounts) and Balance Sheets for service businesses
- make adjustments for provision for depreciation using the straight-line, diminishing (reducing) balance and revaluation methods
- make adjustments for provisions for bad and doubtful debts
- make adjustments for other payables (accruals) and other receivables (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

- explain the advantages and disadvantages of forming a partnership
- outline the importance and contents of a partnership agreement
- explain the purpose of an Appropriation Account
- prepare Income Statements (Trading and Profit and Loss Accounts), Appropriation Accounts and Balance Sheets
- explain the uses of and differences between equity (capital) and current accounts
- draw up partners' current and equity (capital) accounts both in ledger form and as part of a Balance Sheet presentation
- show the treatment of interest on equity (capital), partners' salaries, interest on partners' loans and on drawings
- 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 Intangible Assets (Goodwill)
- make the other adjustments as detailed under 4.1 as appropriate.

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

4. Curriculum content

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
- calculate the Accumulated Fund
- 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, inventory (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.

Questions on incomplete records will only relate to sole traders

4.5 Limited Liability Companies

- prepare a simple appropriation account
- explain the capital structure of a limited company (comprising preference share capital, ordinary share capital, general reserve and retained profits/profit and loss account) 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.

Candidates need to be aware of cumulative and non-cumulative preference shares. They are **not** required to have an awareness of deferred, founders, participating, redeemable or 'A' shares, rights issues, bonus issues, share premium or capital redemption reserve.

4. Curriculum content

4.6 Manufacturing 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 Income Statements (Manufacturing, Trading, Profit and Loss Accounts) and the Balance Sheet of a manufacturing business.

5. Payroll accounting

Within the following areas the candidate should be able to:

5.1 Payroll records

- name and state the use of a clock card, time sheet, payslip, payroll register, wages sheet
- explain and calculate pay using the time basis and piecework basis
- explain and calculate overtime
- explain statutory deductions for income tax and social security/national insurance
- explain voluntary deductions for pension contributions, subscriptions and charitable donations
- explain and calculate gross and net pay.

Understanding of tax and other tables is **not** required. Calculations will be based on fractions and percentages.

Knowledge of bonus schemes is **not** required.

5.2 Book-keeping entries for payroll

- prepare journal entries to record the payment of wages and salaries, statutory and voluntary deductions
- prepare ledger entries to record the payment of wages and salaries, statutory and voluntary deductions.

Questions will **not** be asked on the use of a wages and salaries control account or labour costing.

4. Curriculum content

6. Advanced principles

Within the following areas the candidate should be able to:

6.1 Financial Relationships

- compute and explain the importance of rate of turnover of inventory (stock), gross profit/sales, net profit/sales, net profit/capital, working capital ratio (current ratio) and quick ratio (acid test)
- explain the relationship of gross and net profits to the valuation of inventory (stock), rate of turnover of inventory (stock), turnover, expenses, and capital (equity)
- recognise the importance of valuation of inventory (stock) and the effect of an incorrect valuation of inventory (stock) on gross profit, net profit, equity (capital), and asset valuation.

6.2 Accounting Principles

- explain and 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/accruals, prudence (conservatism), materiality, consistency, and dual aspect
- recognise the influence of international accounting standards in: narrowing the areas of difference and variety of accounting practice; improving comparability; improving reliability and understandability of accounting information
- explain the importance of professional ethics in accounting.

Questions will **not** be set on specific international accounting standards.

5. Resource list

This is a range of texts from which teachers may wish to select. The inclusion of books in the following list does not imply a recommendation. Locally available information from industry, commerce, banks, the accounting profession and Government will also be useful.

Author	Title	Publisher	ISBN
Herbert, Michael	<i>Mastering Accounting</i>	Palgrave	0 333 51198 0
Coucom, Catherine	<i>IGCSE Accounting</i>	Cambridge University Press	0 521 89346 1
Coucom, Catherine	<i>IGCSE and O Level Accounting</i>	Cambridge University Press	978 0521 72001 4
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 84528 072 5
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

Online resources:

- Site 1** 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)
- Site 2** <http://www.nrbaron.co.uk/Bookkeeping/index.html>
- Site 3** <http://accounting10.tripod.com/content.htm>
- Site 4** <http://www.askltd.com/askjava/Intro.htm>
- Site 5** <http://www.staffs.ac.uk/schools/business/bsadmin/staff/s5/mscproj/defn.htm>
- Site 6** <http://www.bized.ac.uk/compfact/ratios/>
- Site 7** <http://www.bized.ac.uk/stafsup/options/accounting/index.htm>
- Site 8** <http://www.iasb.org/about/faq.asp>
- Site 9** <http://www.accaglobal.com/cpdrealise/ethics/overview/>
- Site 10** http://www.en.wikipedia.org/wiki/Main_Page (Use the search facility to find individual items e.g. sales journal. Wikipedia is also available in other languages – scroll down to the languages section on the Main Page.)

6. 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.

International usage	Current CIE/UK usage
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</i> <i>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 & 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>

6. International standards: terminology

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

