

General Certificate of Education
Ordinary Level

PRINCIPLES OF ACCOUNTS 7110

For examination in June and November 2010

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PRINCIPLES OF ACCOUNTS

GCE Ordinary Level/School Certificate

Subject 7110

(Available in the June and November examinations)

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Exclusions

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

- 0452 Accounting
- 0614 Accounting (Botswana)
- 4345 Accounting (Namibia)
- 7091 Principles of Accounts (Singapore)
- 7092 Principles of Accounts (Singapore)

AIMS

1. To develop an understanding of the role of accounting in providing an information system for monitoring and decision making.
2. To develop an understanding of accounting concepts, principles, procedures and terminology.
3. To develop skills in preparing and interpreting accounting information.
4. 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.
5. To develop skills of numeracy, literacy, communication and enquiry.
6. To encourage attitudes of accuracy, orderliness, logical thought and an appreciation of professional ethics.

ASSESSMENT OBJECTIVES

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 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.*

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. 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 components of the scheme of assessment.

Paper	Skill		
	A <i>Knowledge with understanding</i>	B <i>Analysis</i>	C <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** (1 hour) consisting of 30 items testing the whole syllabus.

Paper 2 **Structured Written Paper** (2 hours).

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 manufacturing or trading business (the Manufacturing, Trading and Profit and Loss Account (Income Statements) 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.

The use of computerised accounting software is not required in the examination. An appreciation of the usefulness of computerised accounting systems in the preparation of accounting information is required.

CONTENT

1. Basic Principles

Within the following areas the candidate 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 capital (equity)
- explain and apply the accounting equation
- outline the double entry system of book-keeping
- 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

1.3 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: unrepresented cheques, bank charges, bank interest paid and received, direct debits, standing orders, credit transfers, dividends, correction of errors, and uncredited deposits

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

- Accruals and Prepayments (Other Payables and Receivables)
 - 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.

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.

3. Final Accounts

Within the following areas the candidate should be able to:

3.1 Trading and Profit and Loss Accounts (Income Statements)

- 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 fixed assets, goodwill (intangible assets), 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 (inventory) at cost or net realisable value, whichever is lower
 - trade debtors (trade receivables) at expected collectible amount i.e. after deduction of provisions for doubtful debts
- distinguish between, and show understanding of, capital (equity) and capital employed

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 Trading and Profit and Loss Accounts (Income Statements) and Balance Sheets for trading businesses
- prepare Profit and Loss Accounts (Income Statements) 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 accruals (other payables) and prepayments (other receivables) 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 Trading and Profit and Loss Accounts (Income Statements), Appropriation Accounts and Balance Sheets
- explain the uses of and differences between capital (equity) and current accounts
- draw up partners' current and capital (equity) accounts both in ledger form and as part of a Balance Sheet presentation
- show the treatment of interest on capital (equity), 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 Goodwill (Intangible Assets)
- make the other adjustments as detailed under 4.1

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

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, 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.

4.6 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 Manufacturing, Trading, Profit and Loss Accounts (Income Statements) 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.

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 stock (inventory) turnover, 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 stock (inventory), rate of stock (inventory) turnover, turnover, expenses, and capital (equity)
- recognise the importance of stock (inventory) valuation and the effect of an incorrect stock (inventory) valuation on gross profit, net profit, capital (equity), 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.

BOOK LIST

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>
Herbert M	<i>Mastering Accounting</i>	Palgrave	0 333 51198 0
Coucom, Catherine	<i>IGCSE Accounting</i>	CUP	0 521 89346 1
Coucom, Catherine	<i>IGCSE and O Level Accounting</i>	CUP	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.nrbarton.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/compact/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.)

INTERNATIONAL STANDARDS – TERMINOLOGY

The following list has been collated to help Centres prepare for the introduction of international standards to CIE accounting syllabuses. It is anticipated that standards which are well known, and are relevant to the level of study, will be brought into question papers, mark schemes and associated documents.

Centres are encouraged to apply the new terminology to their teaching and learning materials so that candidates sitting for examination will be aware of the terms. Candidates will not be penalised 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>
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>