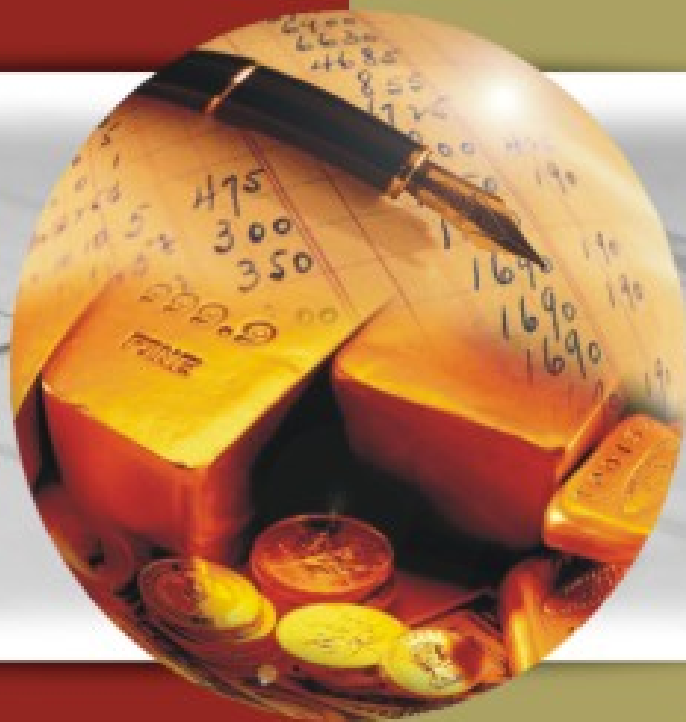


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Cambridge IGCSE  
**Accounting** Workbook



Catherine Coucom

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Cambridge IGCSE

# Accounting

Workbook

Catherine Coucom



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# Contents

	<i>Introduction</i>	<i>iv</i>
Section 1	Preparation for the Examination	1
Section 2	Templates for the Preparation of Financial Statements	5
Section 3	Examples of Questions and Answers	15
Section 4	Short Questions on Accounting Terminology	30
Section 5	Structured Accounting Questions	33
	<i>Appendix: Answers to Questions</i>	<i>95</i>

# Introduction

This workbook is intended to be used with the textbook *Cambridge IGCSE Accounting* (ISBN 978-1-107-62532-7) but may also be used independently. It provides additional review questions, templates of the main types of financial statements and hints to help students prepare for the examination.

The questions are arranged in the order of the topics in the textbook. Summarised answers for most of the review questions can be found at the end of the book. The answers to questions marked with an asterisk (\*) are provided on the website [www.cambridgeindia.org](http://www.cambridgeindia.org).

In common with most accounting textbooks, dates used in the questions throughout this book are expressed as 20-0, 20-1, 20-2 and so on.

International accounting terminology is used by large-scale companies, but it is probable that it will be used by all businesses in the near future. The IGCSE Accounting syllabus has moved towards applying this terminology which is now used in the IGCSE examination papers. It is expected that students will have knowledge of these international accounting terms. However, for a few examination sessions examiners will continue to accept answers using either new or old terminology.

# Preparation for the Examination

Many students, understandably, feel nervous or anxious about examinations. It is important to try to overcome these feelings. Thorough preparation before the examination and remaining calm once in the examination room are essential. This is no doubt much easier said than done for many students. Some practical hints included in this section, may be useful.

## Devise Ways to Help Remember Things

The use of a phrase or a group of letters can be considered, that helps students to remember something. The technical name for these letters or phrases is mnemonics. Some commonly used mnemonics are given below.

1. The word “pearls” can be used as an aid to remembering the debit and credit items in a trial balance.

P E A	R L S
-------	-------

P = Purchases                      E = Expenses                      A = Assets  
R = Revenue                        L = Liabilities                      S = Sales

2. The words “dead clic” can also be used as an aid to remembering the debit and credit items in a trial balance.

D Debtors (trade receivables)  
E Expenses  
A Assets  
D Drawings

C Creditors (trade payables)  
L Liabilities  
I Income  
C Capital

3. The words “papa” and “alla” can be used as an aid to remembering the treatment of accrued and prepaid expenses and revenues in a balance sheet.

P		A
	<b>Expense</b>	
A		L
-----		
P		L
	<b>Revenue</b>	
A		A

To write this out in full it becomes:

Prepaid		Asset
	<b>Expense</b>	
Accrued		Liability
-----		
Prepaid		Liability
	<b>Revenue</b>	
Accrued		Asset

4. The word “Cocrop” can be used as an aid to remembering the errors which do not affect the balancing of a trial balance.

- C Commission
- O Omission
- C Compensating
- R Reversal
- O Original entry
- P Principle

5. Personally I like “Poor CC” (simply because it incorporates my initials!) as an aid to remembering the errors which do not affect the balancing of a trial balance.

- P Principle
- O Omission
- O Original entry
- R Reversal
- C Commission
- C Compensating

Many students compose their own mnemonics. Make use of anything which can help to jog the memory.

## Multiple Choice Items

Many accounting examinations contain multiple choice items. These allow examiners to test candidates' knowledge over the whole of the syllabus. Some multiple choice items are purely factual, some require calculation and others require candidates to apply their knowledge to a given situation.

The following is a very general list of "dos" and "don'ts" when answering multiple choice items.

- Attempt the factual items which you feel confident about.
- Attempt the items involving a straightforward calculation.
- Attempt the items involving the application of knowledge.
- Re-read the remaining items again:
  - There is often a word or phrase which provides a clue to the key.
  - There are often one or two options which can be discarded as being clearly incorrect.
  - If the answer is still not obvious, make an intelligent guess.
  - If all else fails, select an answer at random rather than leaving an item blank.

## Before the Examination

Everyone has their own way of preparing for an examination. A method which one student finds useful may not necessarily be helpful to another student. The following is a list of "dos" and "don'ts" when preparing for an examination.

- Make sure that the entire syllabus has been covered in the course of your studies.
- Make sure that you have attempted all the homework and class work assignments.
- Study your teacher's comments on your assignments.
- Ask your teacher for assistance if you are unsure about a particular topic.
- Do not rely on rote learning completely, as you must be able to apply knowledge to a variety of situations.
- Attempt as many past examination papers as possible.
- Attempt examination questions under examination conditions.
- Devise ways to help you remember things (for example, learning mnemonics)
- Plan your study time carefully.
- Do not wait until the evening before the examination to start revising.
- Make a revision plan and follow it.
- Take regular breaks from your studies, but remember that you may only have one (or two) attempts at the examination but you can socialise on many occasions after the examination.
- On the day of the examination, allow plenty of time to get to the building where the examination is to be held.



### At the Examination

Again, everyone has their way of approaching an examination paper. The following is a very general list of “dos” and “don’ts” to follow inside the examination room.

- Try not to panic if the first question is on an unexpected topic.
- Read the whole of the question paper carefully.
- Read each question again before attempting an answer.
- Allocate the time according to the marks for each question.
- Start with the question which you feel most confident about.
- Do not over-run on the time per question.
- Answer the question which is being asked.
- Attempt all the questions that are required.
- Do not attempt more questions than are required – marks may not be lost but time will be.
- Generally more marks will be earned by attempting all the required questions than just completing one or two perfect answers.
- If there is an unfamiliar item within a question, do not abandon the question – complete the answer without that particular item.
- Present your answers in a tidy and orderly manner and make sure that all the words and figures are legible.
- If an answer is re-attempted, do not cross out the original answer until the new version has been completed.
- Show calculations where appropriate, as marks may be awarded even if the final answer is incorrect.
- Do not leave the examination room early – check all the answers thoroughly and attempt to complete any unfinished answers.

# Templates for the Preparation of Financial Statements

This section provides outlines of the main types of financial statements for different types of trading and non-trading organisations.

It is desirable not to learn the form of presentation by rote, but rather to understand the reasons why these accounting statements are presented in these formats. However, some students find it helpful to make use of a pro-forma accounting statement especially at the beginning of their studies.

The vertical method of presentation is used in all of the following statements.

The items shown within the accounting statements are intended to be representative of the types of items which would appear in each section – they are not intended to be definitive lists. For example, the expenses shown in the income statement may not apply to every business, and some businesses will have other types of expenses.

Similarly, the non-current assets shown in the balance sheets may not apply to every business and some businesses will have other types of non-current assets.

New terms are being used in the syllabuses to reflect the changes in terminology used in the world of business. These are given in Table 2.1. Standards which are well known and are relevant to the level of study will be used in question papers and mark schemes. Students are encouraged to use these new terms. However, for the first few years after the introduction of these terms in the syllabus, students will not be penalised for using different terms.

The templates use the traditional form of presentation, but include the new terminology where applicable.

**Table 2.1** International Standards – Terminology

<i>International Usage</i>	<i>Traditional UK Usage</i>
Financial statements	Final accounts
Income statement	Trading and profit and loss account
Revenue	Sales
Raw materials	Purchases
Cost of sales	Cost of goods sold
Inventory (of raw materials and finished goods)	Stock
Work in progress	Work in progress
Gross profit	Gross profit
Other operating expenses	Sundry expenses
Other operating income	Sundry income
Investment revenues	Interest receivable
Finance costs	Interest payable
Profit (before tax) for the year	Net profit
Balance sheet	Balance sheet
Non-current assets	Fixed assets
Property	Land and buildings
Plant and equipment	Plant and equipment
Investment property	Investments
Intangible assets	Goodwill etc
Current assets	Current assets
Inventory	Stock
Trade receivables	Debtors
Other receivables	Prepayments
Cash (and cash equivalents)	Bank and cash
Current liabilities	Current liabilities <i>Or</i> Creditors: amounts due within 12 months
Trade payables	Creditors
Other payables	Accruals
Bank overdrafts and loans	Loans repayable within 12 months
Non-current liabilities	Long term liabilities <i>Or</i> Creditors: amounts falling due after more than one year
Bank (and other) loans	Loans repayable after 12 months
Capital or Equity	Capital
Share capital	Share capital
Accumulated profits	Profit and loss account

The IGCSE syllabus includes a table similar to that shown above.

**Example 2.1**

Financial statements of a trading business owned by one person:

<b>Sole Trader</b>			
<b>Income Statement for the year ended .....</b>			
	\$	\$	\$
Revenue (Sales)			XXXX
Less Sales returns			<u>XXXX</u>
			XXXX
Less Cost of sales			
Opening inventory		XXXX	
Purchases	XXXX		
Less Purchases returns	<u>XXXX</u>		
	XXXX		
Less Goods for own use	<u>XXXX</u>		
	XXXX		
Carriage inwards	<u>XXXX</u>	<u>XXXX</u>	
		XXXX	
Less Closing inventory		<u>XXXX</u>	<u>XXXX</u>
Gross profit			XXXX
Add Other income			
Discount received			XXXX
Rent received			XXXX
Commission received			XXXX
*Profit on disposal of non-current assets			XXXX
**Reduction in provision for doubtful debts			<u>XXXX</u>
			XXXX
Less Expenses			
Wages and salaries		XXXX	
Office expenses		XXXX	
Rent and rates		XXXX	
Insurance		XXXX	
Office expenses		XXXX	
Motor vehicle expenses		XXXX	
Selling expenses		XXXX	
Loan interest		XXXX	
*Loss on disposal of non-current assets		XXXX	
**Provision for doubtful debts		XXXX	
Depreciation of fixtures and fittings		XXXX	
Depreciation of office equipment		XXXX	
Depreciation of motor vehicles		<u>XXXX</u>	<u>XXXX</u>
***Profit for the year			<u>XXXX</u>

- \* If only one asset was sold during the year only one of these items will appear.
- \*\* If the provision reduces, the surplus amount is added to the gross profit; if the provision increases, the amount required is included in the expenses.
- \*\*\* If the expenses exceed the total income, the resulting figure is described as a loss for the year.

**Sole Trader**  
**Balance Sheet at .....**

	\$ Cost	\$ Depreciation to date	\$ Book value
<b>Non-current assets</b>			
Land and buildings	xxxx		xxxx
Fixtures and fittings	xxxx	xxxx	xxxx
Office equipment	xxxx	xxxx	xxxx
Motor vehicles	<u>xxxx</u>	<u>xxxx</u>	<u>xxxx</u>
	<u>xxxx</u>	<u>xxxx</u>	xxxx
<b>Current assets</b>			
Inventory		xxxx	
Trade receivables	xxxx		
Less Provision for doubtful debts	<u>xxxx</u>	xxxx	
Other receivables		xxxx	
Other receivables (accrued income)		xxxx	
*Bank (Cash equivalents)		xxxx	
Cash		<u>xxxx</u>	
		xxxx	
<b>Current liabilities</b>			
Trade payables	xxxx		
Other payables	xxxx		
Prepaid income	xxxx		
*Bank overdraft	<u>xxxx</u>	<u>xxxx</u>	
<b>Net current assets</b>			<u>xxxx</u>
			xxxx
<b>Less Non-current liabilities</b>			
Loan			<u>xxxx</u>
			<u>xxxx</u>
<b>Financed by</b>			
<b>Capital</b>			
Opening balance			xxxx
**Plus Profit for the year			<u>xxxx</u>
			xxxx
Less Drawings			<u>xxxx</u>
			<u>xxxx</u>

\* If the business has only one bank account, only one of these items will appear.

\*\* If there is a loss for the year, this will be deducted rather than added.

**Example 2.2**

A service business is one which does not buy and sell goods. It is not necessary to prepare a trading account section of an income statement at the end of the financial year as the business does not earn a gross profit. Only a profit and loss account section of an income statement is similar to that of a trading business excluding the gross profit. The format of the balance sheet is exactly the same as that of a trading business.

Financial statements of a service business owned by one person:

<b>Sole Trader</b>			
<b>Income Statement for the year ended .....</b>			
	\$	\$	\$
Fees received			XXXX
Commission received			XXXX
Rent received			XXXX
Discount received			XXXX
*Profit on disposal of non-current assets			XXXX
**Reduction in provision for doubtful debts			<u>XXXX</u>
			XXXX
Less Expenses			
Wages and salaries		XXXX	
Office expenses		XXXX	
Rent and rates		XXXX	
Insurance		XXXX	
Office expenses		XXXX	
Motor vehicle expenses		XXXX	
Selling expenses		XXXX	
Loan interest		XXXX	
Bad debts		XXXX	
*Loss on disposal of non-current assets		XXXX	
**Provision for doubtful debts		XXXX	
Depreciation of fixtures and fittings		XXXX	
Depreciation of office equipment		XXXX	
Depreciation of motor vehicles		<u>XXXX</u>	<u>XXXX</u>
***Profit for the year			<u>XXXX</u>

- \* If only one asset was sold during the year only one of these items will appear;
- \*\* If the provision reduces, the surplus amount is added to the total income if the provision increases, the amount required is included in the expenses.
- \*\*\* If the expenses exceed the income, the resulting figure is described as a loss for the year.

The balance sheet of a service business of a sole trader is presented in exactly the same format as the balance sheet of a trading business of a sole trader.

**Example 2.3**

Financial statements of a partnership business:

The income statement of a partnership follows the same format as that of a sole trader. The only difference is that interest on a loan from a partner may be included in the expenses in the profit and loss account section of the income statement.

It is necessary to prepare an appropriation account to show the distribution of the profit for the year between the partners.

**Partnership**  
**Profit and Loss Appropriation Account for the year ended .....**

	\$	\$	\$
Profit for the year			XXXX
Add Interest on drawings – Partner A		XXXX	
Partner B		<u>XXXX</u>	<u>XXXX</u>
			XXXX
Less Interest on capital – Partner A	XXXX		
Partner B	<u>XXXX</u>	XXXX	
Partner’s salary – Partner A		<u>XXXX</u>	<u>XXXX</u>
			XXXX
*Profit shares – Partner A		XXXX	
Partner B		<u>XXXX</u>	<u>XXXX</u>

\* Residual profit is shared in the ratio stated in the partnership agreement.

The first section of the balance sheet of a partnership follows the same format as that of a sole trader. The second section of the balance sheet has to be modified so that it shows the capital and current account of each partner.

Where the full details of the partners’ current accounts are not required the “Financed by” section of a partnership balance sheet could be presented as follows:

**Partnership**  
**Extract from Balance Sheet at .....**

	\$	\$	\$
	<b>Partner A</b>	<b>Partner B</b>	<b>Total</b>
<b>Capital accounts</b>	XXXX	XXXX	XXXX
<b>*Current accounts</b>	<u>XXXX</u>	<u>XXXX</u>	<u>XXXX</u>
	<u>XXXX</u>	<u>XXXX</u>	<u>XXXX</u>

\* Where a balance is a debit balance it is shown in brackets and deducted rather than added.

Where full details of the current accounts are required the “Financed by” section of a partnership balance sheet could be presented as follows:

**Partnership**  
**Extract from Balance Sheet at .....**

	\$	\$	\$
	<b>Partner A</b>	<b>Partner B</b>	<b>Total</b>
<b>Capital accounts</b>	<u>XXXX</u>	<u>XXXX</u>	XXXX
<b>Current accounts</b>			
*Opening balance	XXXX	XXXX	
Interest on capital	XXXX	XXXX	
Partner’s salary	XXXX		
**Profit shares	<u>XXXX</u>	<u>XXXX</u>	
	XXXX	XXXX	
Less Drawings	<u>XXXX</u>	<u>XXXX</u>	
*	<u>XXXX</u>	<u>XXXX</u>	<u>XXXX</u>
			<u>XXXX</u>

\* Where a balance is a debit balance, it is shown in brackets and deducted rather than added.

\*\* Where there is a loss to share out, it is shown in brackets and deducted rather than added.

**Example 2.4**

Financial statements of a limited company:

The income statement of a limited company follows the same format as that of a sole trader. The only difference is that interest on debentures, preference share dividend and directors' remuneration may be included in the expenses in the income statement.

It is necessary to prepare an appropriation account to show the distribution of the profit for the year.

<b>Limited Company</b>			
<b>Profit and Loss Appropriation Account for the year ended .....</b>			
	\$	\$	\$
Profit for the year			xxxx
Less Transfer to general reserve		xxxx	
Dividends – Ordinary	xxxx		
paid			
proposed	<u>xxxx</u>	<u>xxxx</u>	<u>xxxx</u>
Retained profit for the year			xxxx
Add Retained profit brought forward			<u>xxxx</u>
Retained profit carried forward			<u>xxxx</u>

The first section of the balance sheet of a limited company follows the same format as that of a sole trader. The second section of the balance sheet has to be modified so that it shows the share capital and reserves.

<b>Limited Company</b>	
<b>Extract from Balance Sheet at .....</b>	
	\$
<b>Capital and Reserves</b>	
x % Preference shares of \$x each	xxxx
Ordinary shares of \$x each	xxxx
General reserve	xxxx
Retained profits	xxxx
<b>Shareholders' funds</b>	<u>xxxx</u>

**Example 2.5**

Financial statements of a manufacturing business:

Where a business manufactures goods it is necessary to prepare a manufacturing account to show the calculation of the cost of manufacture. This follows the same format irrespective of the ownership of the business.



**Sole Trader or Partnership**  
**Manufacturing Account for the year ended .....**

	\$	\$	\$
Cost of material consumed			
Opening inventory of raw material		XXXX	
Purchases of raw material		XXXX	
Carriage on raw material		<u>XXXX</u>	
		XXXX	
Less Closing inventory of raw material		<u>XXXX</u>	XXXX
Direct wages			XXXX
Direct expenses			<u>XXXX</u>
Prime cost			XXXX
Add Factory overheads			
Indirect wages		XXXX	
Factory rent and rates		XXXX	
Factory insurance		XXXX	
Factory fuel and power		XXXX	
Factory general expenses		XXXX	
Depreciation of factory machinery		<u>XXXX</u>	<u>XXXX</u>
			XXXX
Add Opening work in progress			<u>XXXX</u>
			XXXX
Less Closing work in progress			<u>XXXX</u>
Production cost of goods completed			<u>XXXX</u>

The income statement of a manufacturing business follows the same format as that of any other form of business. The only difference is that the trading account section will include the production cost of goods completed.

**Sole Trader or Partnership**  
**Income Statement for the year ended .....**

	\$	\$	\$
Revenue (sales)			XXXX
Less Cost of sales			
Opening inventory of finished goods		XXXX	
Production cost of goods completed		XXXX	
Purchases of finished goods		<u>XXXX</u>	
		<u>XXXX</u>	
Less Closing inventory of finished goods		<u>XXXX</u>	<u>XXXX</u>
Gross profit			<u>XXXX</u>

The profit and loss account section will include only office, selling and financial expenses.

The balance sheet of a manufacturing business follows the same format as that of any other form of business. The only difference is that there may be three inventories rather than one.

**Example 2.6**

Financial statements of a non-trading organisation:

The treasurer of a non-trading organisation usually prepares a summary of the cash book which is known as a receipts and payments account. This shows all money received on the debit side and all money paid out on the credit side and is balanced in the same way as a cash account.

A trading account section of an income statement may be prepared if the organisation operates a shop or café, etc. where goods are bought and sold. This is very similar to the trading account section of an income statement of a business.

<b>Non-trading Organisation</b>			
<b>Shop Income Statement for the year ended .....</b>			
	\$	\$	\$
Revenue (sales)			xxxx
Less Cost of sales			
Opening inventory		xxxx	
Purchases		<u>xxxx</u>	
		xxxx	
Less Closing inventory		<u>xxxx</u>	
Cost of goods sold		xxxx	
Add Shop expenses			
Wages of shop assistant	xxxx		
Shop rent and rates	xxxx		
Depreciation of shop fittings	<u>xxxx</u>	<u>xxxx</u>	<u>xxxx</u>
Profit on shop			<u>xxxx</u>

The treasurer will prepare the equivalent of the profit and loss account section of an income statement of a business which is known as an income and expenditure account. This follows the same format as a profit and loss account section of an income statement. The expenses of the organisation are deducted from the revenue. The resulting figure is referred to as a surplus or deficit rather than a profit or loss.

<b>Non-trading Organisation</b>			
<b>Income and Expenditure Account for the year ended .....</b>			
	\$	\$	\$
<b>Income</b>			
Subscriptions			xxxx
Profit on shop			xxxx
Competition – entrance fees		xxxx	
less expenses		<u>xxxx</u>	xxxx
Interest received			xxxx
*Profit on disposal of non-current assets			<u>xxxx</u>
			xxxx
<b>Expenditure</b>			
General expenses		xxxx	
Rates and insurance		xxxx	
Repairs and maintenance		xxxx	
Loan interest		xxxx	
*Loss on disposal of non-current assets		xxxx	
Depreciation of equipment		<u>xxxx</u>	<u>xxxx</u>
**Surplus for the year			<u>xxxx</u>

\* If only one asset was sold during the year only one of these items will appear.

\*\* If the expenditure exceeds the income, the resulting figure is described as a deficit.

The first section of the balance sheet of a non-trading organisation follows the same format as that of a sole trader. The second section of the balance sheet has to be modified so that it shows the accumulated fund and the surplus or deficit.

<b>Non-trading Organisation</b>			
<b>Extract from Balance Sheet at .....</b>			
	\$	\$	\$
<b>Accumulated fund</b>			
Opening balance			XXXX
*Plus surplus for the year			<u>XXXX</u>
			<u>XXXX</u>

\* If there is a deficit this will be deducted rather than added.