Cambridge AS & A Level · Accounting 9706

Accounting 9706 formulas and definitions: A2

All 110 formulas, facts and definitions to learn, by syllabus topic. Formulas the exam gives you are left out.

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Financial accounting (A Level)

Preparation of financial statements

Direct materials consumed = opening raw materials + purchases + carriage inwards − returns − closing raw materials

Prime cost = direct materials + direct labour + direct expenses

Cost of production = prime cost + factory overheads + opening WIP − closing WIP

Transfer price = cost of production $\times \left(1 + \frac{r}{100}\right)$, for factory profit $r\%$ on cost

PURP = finished goods at transfer price $\times \dfrac{r}{100 + r}$ (or $\times \frac{m}{100}$ if the profit is $m\%$ of transfer price)

SoPL: add factory profit, deduct an **increase** in PURP (add a decrease); SoFP: finished goods less **closing** PURP

Subscriptions income = received − opening arrears + closing arrears + opening advance − closing advance

Life membership to income each year = fee ÷ number of years; fund = opening + fees received − transfer to income

Accumulated fund = total assets − total liabilities (including the life membership fund and any overdraft)

Closing accumulated fund = opening accumulated fund + surplus (or − deficit)

Goodwill: credit old partners in the **old** ratio; debit the new partners in the **new** ratio

Revaluation gain or loss: shared in the **old** ratio

Due to a retiring partner = capital + current account + loan + share of goodwill ± share of revaluation

Profit on realisation = proceeds from assets + discounts on payables − carrying amounts − dissolution costs

Recoverable amount = the higher of value in use and fair value less costs to sell; impairment = carrying amount − recoverable amount (if positive)

Profit for the year = change in retained earnings + dividends paid + transfers to reserves + bonus issue from retained earnings

Profit from operations = profit for the year + tax + finance costs

Depreciation = opening carrying amount + additions − carrying amount of disposals − closing carrying amount

Sale proceeds = carrying amount + profit on disposal (or − loss)

Interest (or tax) paid = charge for the year + opening amount owing − closing amount owing

Net cash from operating + investing + financing = closing − opening cash and cash equivalents

Regulatory and ethical considerations

Inventory (IAS 2) = lower of cost and NRV, item by item; NRV = selling price − costs to complete − costs to sell

Fair value less costs to sell = selling price − costs of disposal

Recoverable amount (IAS 36) = higher of fair value less costs to sell and value in use

Impairment loss = carrying amount − recoverable amount, if positive (otherwise 0)

Depreciation after impairment = recoverable amount ÷ remaining useful life (straight line)

Revaluation reserve (IAS 16) = revalued amount − carrying amount at the revaluation date

Fall in value: set against that asset's revaluation reserve first; the rest is an expense

Provision (IAS 37): present obligation from a past event + probable outflow ($> 50\%$) + reliable estimate

Contingent liability: note only; remote: nothing. Contingent asset: note only if probable; asset only if virtually certain

Adjusting event: condition existed at the year end (change figures). Non-adjusting: arose after (note if material)

Prior-period error or change of policy (IAS 8): adjust opening retained earnings. Change of estimate: this year and future only

Intangible asset or PPE recognised when future benefits are probable and cost can be measured reliably

Research: always an expense. Development: capitalise only if all IAS 38 tests are met; amortise from when available for use

Amortisation (straight line) = cost ÷ useful life

Business acquisition and merger

Net assets taken over = assets taken over − liabilities taken over

Goodwill = purchase consideration − fair value of net assets taken over

Goodwill = multiple × average profit of the stated years

Purchase consideration = agreed net assets + goodwill; or cash + value of shares + debentures

Profit on realisation = credits − debits of the realisation account (see the one-line version above)

Share capital = number of shares × nominal value; share premium = number of shares × (issue price − nominal value)

Number of shares = value to be settled in shares ÷ issue price

Cash to (or from) a partner = capital + current account + share of realisation profit − shares and debentures received − assets taken

Dividend per share = profit for the year ÷ dividend cover ÷ number of shares

Dividend yield = dividend per share ÷ market price per share $\times 100\%$

Computerised accounting systems

Opening trial balance in the new system: debit total = credit total = the manual trial balance totals at the changeover date

Total of the customers' balances entered = sales ledger control account balance at the changeover date

Total of the suppliers' balances entered = purchases ledger control account balance at the changeover date

Difference found = amount that should have been entered − amount actually entered

Analysis and communication of accounting information

Working capital cycle = trade receivables days + inventory days − trade payables days

Inventory days $= \dfrac{\text{average inventory}}{\text{cost of sales}} \times 365$; receivables days $= \dfrac{\text{trade receivables}}{\text{credit sales}} \times 365$; payables days $= \dfrac{\text{trade payables}}{\text{credit purchases}} \times 365$

Net working assets to revenue $= \dfrac{\text{net working assets}}{\text{revenue}} \times 100$, where net working assets = inventories + trade receivables − trade payables

Interest cover $= \dfrac{\text{profit from operations}}{\text{interest payable}}$ times

Gearing $= \dfrac{\text{non-current liabilities}}{\text{issued ordinary share capital} + \text{all reserves} + \text{non-current liabilities}} \times 100$

Earnings per share $= \dfrac{\text{profit for the year}}{\text{number of issued ordinary shares}}$

Price/earnings $= \dfrac{\text{market price per share}}{\text{earnings per share}}$

Dividend per share $= \dfrac{\text{annual ordinary dividend}}{\text{number of issued ordinary shares}}$; annual ordinary dividend = interim paid + final proposed

Dividend yield $= \dfrac{\text{dividend per share}}{\text{market price per share}} \times 100$

Dividend cover $=\dfrac{\text{profit for the year available to pay ordinary dividend}}{\text{annual ordinary dividend}}$ times

Number of shares $=\dfrac{\text{ordinary share capital}}{\text{par value of one share}}$

Profit from operations = profit for the year + interest

Cost and management accounting (A Level)

Activity based costing (ABC)

Cost driver rate $=\dfrac{\text{cost pool}}{\text{total number of cost drivers}}$

Product's share of a pool = rate × product's drivers = pool $\times\dfrac{\text{product's drivers}}{\text{total drivers}}$

ABC overhead per unit $=\dfrac{\text{sum of the product's shares of every pool}}{\text{units produced}}$

Traditional OAR $=\dfrac{\text{budgeted overheads}}{\text{budgeted direct labour (or machine) hours}}$

Total unit cost = direct materials + direct labour + overhead per unit

Selling price with a mark-up of $m\%$ = cost $\times\left(1+\dfrac{m}{100}\right)$

Mark-up $\%=\dfrac{\text{selling price}-\text{cost}}{\text{cost}}\times 100$

Change in price from a cost change (same mark-up) = change in cost $\times\left(1+\dfrac{m}{100}\right)$

Total overheads charged are the same under every method or driver

Standard costing

Material price $=(\text{standard price}-\text{actual price})\times\text{actual quantity}$

Material usage $=(\text{standard quantity for actual output}-\text{actual quantity})\times\text{standard price}$

Material total = standard cost of actual output − actual cost = price + usage

Labour rate $=(\text{standard rate}-\text{actual rate})\times\text{actual hours}$

Labour efficiency $=(\text{standard hours for actual output}-\text{actual hours})\times\text{standard rate}$

Labour total = standard cost of actual output − actual cost = rate + efficiency

OAR $=\dfrac{\text{budgeted fixed overhead}}{\text{budgeted labour hours}}$; fixed overhead per unit = OAR × standard hours per unit

Fixed overhead expenditure = budgeted fixed overhead − actual fixed overhead

Fixed overhead volume = absorbed − budgeted
$=(\text{actual units}-\text{budgeted units})\times\text{standard fixed overhead per unit}$

Capacity $=(\text{actual hours}-\text{budgeted hours})\times\text{OAR}$

Fixed overhead efficiency $=$ (standard hours for actual output $-$ actual hours) $\times$ OAR

Capacity $+$ efficiency $=$ volume; expenditure $+$ volume $=$ total $=$ absorbed $-$ actual

Sales price $=$ (actual price $-$ standard price) $\times$ actual units sold

Sales volume $=$ (actual units $-$ budgeted units) $\times$ standard profit per unit

Flexible budget profit $=$ actual units $\times$ standard profit per unit $=$ fixed budget profit $+$ sales volume variance

Actual profit $=$ flexible budget profit $+$ favourable variances $-$ adverse variances

Budgeting and budgetary control

Production (units) $=$ sales $+$ closing inventory $-$ opening inventory

Materials used $=$ production $\times$ materials per unit

Purchases (kilos) $=$ materials used $+$ closing material inventory $-$ opening material inventory; purchases ($) $=$ kilos $\times$ price

Labour cost $=$ production $\times$ hours per unit $\times$ rate (overtime hours at the overtime rate)

Receipt with cash discount $=$ credit sales $\times$ % paying early $\times(1 - \text{discount rate})$

Trade receivables c/d $=$ b/d $+$ credit sales $-$ receipts $-$ discounts allowed $(-$ irrecoverable debts$)$

Trade payables c/d $=$ b/d $+$ credit purchases $-$ payments $-$ discounts received

Closing bank balance $=$ opening balance $+$ receipts $-$ payments

Units in inventory at the end $=$ opening inventory $+$ units made or bought $-$ units sold

Flexible budget line $=$ budgeted amount per unit $\times$ actual units

Flexible budget profit $=$ actual units $\times$ budgeted profit per unit

Actual profit $=$ flexible budget profit $+$ favourable differences $-$ adverse differences

Actual cost $=$ flexible budget cost $+$ adverse differences $-$ favourable differences

Investment appraisal

Net cash flow $=$ cash inflows $-$ cash outflows (no depreciation)

Cash flow $=$ profit $+$ depreciation; cash fixed costs $=$ fixed costs including depreciation $-$ depreciation

Straight-line depreciation (no residual value) $= \dfrac{\text{cost}}{\text{life in years}}$

Payback $=$ full years $+ \dfrac{\text{amount still to recover}}{\text{next year's cash flow}}$; months $=$ fraction $\times 12$

Total profit $=$ total net cash inflows $-$ cost of the investment

$\text{ARR} = \dfrac{\text{average profit}}{\text{average investment}} \times 100$, average investment $= \dfrac{\text{cost}}{2}$

$\text{PV} = \text{cash flow} \times \text{discount factor}$ (Year 0 factor $= 1$)

$\text{NPV} = \text{total PV of inflows} - \text{outlay}$

Equal annual flows: PV = annual flow $\times$ sum of the factors

$\text{IRR} = L + (H - L) \times \dfrac{\text{NPV}_L}{\text{NPV}_L - \text{NPV}_H}$, where L, H are the lower and higher rates and NPV_H is negative

Flow needed in year n to fill an NPV gap $= \dfrac{\text{shortfall in NPV}}{\text{year } n \text{ discount factor}}$