Cambridge AS & A Level · Accounting 9706

Accounting 9706 formulas and definitions: AS Level

All 95 formulas, facts and definitions to learn, by syllabus topic. Formulas the exam gives you are left out.

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Financial accounting (AS Level)

Types of business entity

Interest for a period $=$ amount $\times$ annual rate $\times \dfrac{\text{months}}{12}$

Debenture interest per year $=$ nominal value of debentures $\times$ rate

New shares in an "a for b" rights or bonus issue $=$ shares held $\times \dfrac{a}{b}$

Cash from a share issue $=$ number of shares $\times$ issue price

Share capital increase $=$ number of shares $\times$ nominal value; share premium $=$ number of shares $\times$ (issue price $-$ nominal value)

Shareholder's share of the company $= \dfrac{\text{shares held}}{\text{total shares in issue}} \times 100\%$

Total cost of leasing $=$ payment $\times$ number of payments

Net cost of buying with a loan $=$ price $+$ interest $-$ value of the asset at the end

The accounting system

assets $=$ liabilities $+$ capital

capital $=$ assets $-$ liabilities $=$ non-current assets $+$ current assets $-$ non-current liabilities $-$ current liabilities

closing capital $=$ opening capital $+$ capital introduced $+$ profit $-$ drawings (subtract a loss)

cash discount $=$ amount owed $\times$ rate; amount paid $=$ amount owed $-$ discount

price charged $=$ list price $\times$ (1 $-$ trade discount rate)

Goods for own use at cost: cost $=$ selling price $\div$ (1 $+$ mark-up)

Accounting for non-current assets

Straight-line: charge $= \dfrac{\text{cost} - \text{residual value}}{\text{useful life}}$ or rate $\times$ cost

Reducing balance: charge $=$ rate $\times$ (cost $-$ accumulated depreciation)

Part year: full-year charge $\times \dfrac{\text{months owned}}{12}$

carrying value $=$ cost (or valuation) $-$ accumulated depreciation

$\text{profit (loss) on disposal} = \text{proceeds} - \text{selling costs} - \text{carrying value}$

$\text{revaluation gain} = \text{new value} - \text{carrying value}$

After revaluation: $\text{charge} = \dfrac{\text{new value} - \text{residual value}}{\text{remaining useful life}}$

Revaluation method: $\text{charge} = \text{opening value} + \text{purchases} - \text{closing value}$

$\text{closing CV} = \text{opening CV} + \text{additions} - \text{CV of disposals} - \text{depreciation}$

Reconciliation and verification

Updated cash book balance = original balance + receipts on the statement only − payments on the statement only ± cash book errors

Bank statement balance = updated cash book balance + unpresented cheques − lodgements not yet credited ± bank errors

SLCA closing balance = opening + credit sales + dishonoured cheques + interest charged + refunds − receipts − discounts allowed − returns inwards − irrecoverable debts − contras

PLCA closing balance = opening + credit purchases + interest charged by suppliers + refunds received − payments − discounts received − returns outwards − contras

Entry on the wrong side: correct with $2\times$ the amount

Wrong side and wrong amount: cancel the wrong entry, then enter the right one (e.g. a $415 payment entered on the debit side as $451 needs Cr $451 + Cr $415 = $866)

Balance left out of the trial balance (or in the wrong column): suspense entry only, with the balance (or $2\times$ it); the ledger account is not changed

Wrong amount on one side: correct with the difference, (right amount − wrong amount)

Revised profit = draft profit + corrections that credit income or expenses − corrections that debit them

Preparation of financial statements

Expense for the year = paid − opening accrual + closing accrual + opening prepayment − closing prepayment

Income for the year = received − opening accrued income + closing accrued income + opening income in advance − closing income in advance

Allowance = rate × (receivables − irrecoverable debts written off); only the change goes to profit

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

Capital = assets − liabilities

Profit = closing capital − opening capital + drawings − capital introduced

Credit sales = receipts + discounts allowed + irrecoverable debts + closing receivables − opening receivables

Credit purchases = payments + discounts received + closing payables − opening payables

Mark-up $= \dfrac{\text{gross profit}}{\text{cost of sales}} \times 100$; margin $= \dfrac{\text{gross profit}}{\text{revenue}} \times 100$

Cost of sales = revenue $\div (1 + \text{mark-up})$ = revenue $\times (1 - \text{margin})$

Cost of sales = opening inventory + purchases + carriage inwards − closing inventory

Residual profit = profit for the year + interest on drawings − salaries − interest on capital

Interest for part of a year = rate × amount $\times \frac{\text{months}}{12}$

Number of shares = share capital ÷ nominal value per share

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

Shares before an "a for b" issue = shares after $\times \frac{b}{a+b}$

Maximum dividend = revenue reserves (retained earnings + general reserve)

Carrying value before a reducing-balance charge = carrying value after $\div (1-r)$

Analysis and communication of accounting information

Gross profit margin $= \frac{\text{Gross profit}}{\text{Revenue}} \times 100$

Mark-up $= \frac{\text{Gross profit}}{\text{Cost of sales}} \times 100$

Profit margin $= \frac{\text{Profit for the year (after interest)}}{\text{Revenue}} \times 100$

ROCE $= \frac{\text{Profit from operations}}{\text{Capital employed}} \times 100$

Capital employed = issued shares + reserves + non-current liabilities

Expenses to revenue $= \frac{\text{Expenses}}{\text{Revenue}} \times 100$; operating expenses to revenue $= \frac{\text{Operating expenses}}{\text{Revenue}} \times 100$

Current ratio $= \frac{\text{Current assets}}{\text{Current liabilities}}$, written $x : 1$

Acid test ratio $= \frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}}$, written $x : 1$

Non-current asset turnover $= \frac{\text{Net revenue}}{\text{Total net book value of non-current assets}}$ times

Trade receivables turnover $= \frac{\text{Trade receivables}}{\text{Credit sales}} \times 365$ days

Trade payables turnover $= \frac{\text{Trade payables}}{\text{Credit purchases}} \times 365$ days

Inventory turnover $= \frac{\text{Average inventory}}{\text{Cost of sales}} \times 365$ days

Rate of inventory turnover $= \frac{\text{Cost of sales}}{\text{Average inventory}}$ times

Average inventory $= \frac{\text{Opening inventory} + \text{Closing inventory}}{2}$

Cost of sales = opening inventory + purchases − closing inventory

Profit from operations = profit for the year + finance costs (+ tax, for a company)

Margin $= \frac{\text{mark-up}}{100 + \text{mark-up}} \times 100$; mark-up $= \frac{\text{margin}}{100 - \text{margin}} \times 100$

Cost and management accounting (AS Level)

Costs and cost behaviour

Total cost = fixed cost + variable cost per unit × output

Fixed cost per unit = total fixed cost ÷ output

High-low: variable cost per unit = (difference in total cost) ÷ (difference in output)

Fixed cost = total cost at one level − variable cost per unit × output at that level

Semi-variable cost = fixed part + rate × activity

Stepped cost = number of steps (always rounded **up**) × cost per step

Prime cost = direct materials + direct labour + direct expenses

Gross pay = basic hours × rate + overtime hours × overtime rate + bonus (or the guarantee, if higher)

Time saved = time allowed for actual output − time worked; bonus = time saved × bonus % × hourly rate

Labour cost per unit = hourly rate ÷ units per hour

AVCO average = total value held ÷ units held (perpetual: after each receipt; periodic: once, for the whole period)

Cost of issues = opening inventory + purchases − closing inventory

Traditional costing methods

OAR = budgeted department overheads ÷ budgeted activity (labour hours, machine hours or units)

Overheads absorbed = OAR × actual activity

Under-absorbed if absorbed < actual overheads; over-absorbed if absorbed > actual overheads

Apportioned share = cost × department's share of the basis ÷ total of the basis

Absorption production cost per unit = direct materials + direct labour + variable production overheads + fixed production overhead at the OAR

Total cost per unit = production cost per unit + selling, distribution and administration costs per unit

Contribution per unit = selling price − variable cost per unit

Profit = total contribution − total fixed costs

C/S ratio = contribution ÷ sales revenue

Break-even point (units) = total fixed costs ÷ contribution per unit (round **up**)

Break-even revenue = total fixed costs ÷ C/S ratio

Target output = (total fixed costs + target profit) ÷ contribution per unit; target revenue = (fixed costs + target profit) ÷ C/S

Margin of safety = budgeted sales − break-even sales; as a % = margin of safety ÷ budgeted sales $\times 100$

Absorption profit − marginal profit = increase in inventory (units) × fixed production OAR per unit

Profit from a mark-up of $m\%$: cost $\times m\%$; from a margin of $m\%$: cost $\times \dfrac{m}{100 - m}$

Limiting factor: rank by contribution ÷ units of the scarce resource per product