



# INTERNATIONAL ACCOUNTING STANDARDS (IAS)

The International Accounting Standards Board (IASB) is a standard-setting body, situated in London. It has 19 trustee members, mainly from Europe, USA, Asia/Pacific and other areas. It has 12 full-time members who are auditors, financial statement preparers and financial statement users.

The IASB is an independent, private sector organisation which is responsible for issuing, developing and improving

International Accounting Standards (IAS) and  
International Financial Reporting Standards (IFRS)

Accounting standards are a set of rules used by accountants in the preparation of financial statements. The use of these rules improves the quality and disclosure of information in financial statements, to aid the economic decisions made by the users of the statements.

International accounting standards are a single set of understandable and enforceable global accounting standards to aid participants in the world's capital markets. The aim is to bring about harmonisation of national accounting standards in line with IAS standards, to restrict the choice of accounting treatment, to encourage best practice, and to produce high-quality statements.

The need for international accounting standards has arisen for the following reasons:

1. The growth in international investment, which has made it desirable to have comparable accounting methods world-wide.
2. To produce reliable financial statements which are recognised by international stock exchanges
3. The growth of multi-national organisations which have to produce consolidated financial statements covering a large number of countries. Standardisation of rules makes the production of financial statements easier and reduces costs.
4. To standardise the accounting standards of national standard-setting bodies
5. To provide accounting standards in countries which do not have standard-setting bodies of their own

Benefits of international accounting standards

1. To narrow the areas of difference and variations in producing financial statements between different countries.
2. To improve comparability of financial statements produced in different countries
3. To improve reliability and understandability of accounting information produced in different countries

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Concepts



# Professional Ethics

## Ethics

Ethics are a set of moral principles which guide behaviour. Ethics are about the way people judge the rights and wrongs of their actions. A person or organisation may act legally within the law, but their actions may not necessarily be ethical.

## Ethical values

Ethical values are principles which distinguish between right and wrong behaviour

Organisations have formal ethics policies set out in mission statements, ethical codes, ethical guidelines and code of conduct guidelines. These are explained to employees in induction and training programmes.

Other ethical codes are unwritten rules of behaviour which have been developed over time and are part of the "organisational culture". This behaviour is encouraged and promoted by high standards of openness, trust and respect by managers throughout the organisation.

## Ethical conduct

Ethical conduct is legal conduct which involves making a decision or deciding upon a course of action.

Important questions include –

1. Is it legal?
2. Is it in line with professional guidelines?
3. Is it in line with the policy of the organisation?
4. Can the decision be justified?
5. Are you comfortable with this decision?

Advice may be available from –

1. Professional guidelines
2. Independent legal advice
3. Ethics committees
4. Managers and supervisors

Unethical conduct can result in –

1. Prosecution
2. Professional disciplinary action
3. Professional disciplinary warning
4. Demotion
5. Dismissal

## Ethical conflict

Ethical conflict arises when the action taken will have two consequences which are not compatible.

Example – A client asks his accountant to falsify the financial statements

This is illegal: this will result in the loss of the client.

Example – A member of staff in an accountant's office falsifies a client's tax return

This is illegal: this could result in dismissal

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# Professional Accounting Ethics

## Why behave ethically?

By law accountants must comply with statutory regulations and also with professional standards.

Professional ethical behaviour is a requirement for good practice and it maintains the reputation and standing of the accounting profession in the eyes of clients and the general public. Accountants have a duty towards clients, employees and society as a whole, to produce financial statements which are objective, trustworthy and reliable. Ethical behaviour protects the public interest.

Ethical behaviour is subjective – the decision made is often not clear-cut. There can be "grey areas" and also conflict of interests can arise.

An ethical approach covers things like honesty, trustworthiness, prevention of fraud and prevention of corruption.

In order to help accountants to make ethical decisions, accounting bodies have produced a set of fundamental principles.

## Fundamental principles

1. **Integrity**  
In all professional, business and personal matters, the accountant should act with honesty, fairness and truthfulness.
2. **Independence and objectivity**  
All professional judgements should be made fairly on the basis of independent and honest appraisal of the information, and should be free from all forms of prejudice, bias and partiality.
3. **Professional and technical competence**  
Accountants should be a member of a professional body so that they can maintain and develop their professional and technical competence in line with national and international standards, codes, regulations and legislation.
4. **Due care**  
The accountant has a contractual duty to carry out the work to the best of his/her ability and in the client's best interest. The accountant must not be negligent or careless.
5. **Confidentiality**  
Information given by the client must be treated confidentially, and must not be disclosed to others, unless that accountant is specially authorised to do so, or it legally obliged to do so.
6. **Professional behaviour**  
In all aspects of work, the accountant should behave with courtesy and consideration.



# Payroll

## Records of attendance

### Clock Card

A clock card for each employee is placed in a rack by a time recorder clock. The employee inserts his/her card into the time recorder on arrival at work where the time is recorded. A similar pattern is followed when the employee leaves the factory. Clock cards are then used to calculate the hours worked by each employee

### Example of a partially completed clock card

XYZ Ltd		Clock card			
Name of employee .....			Week ending .....		
Day	In	Out	In	Out	Total hours
Monday	0800	1200	1300	1830	9.50
Tuesday	0800	1200	1300	1800	9.00
Wednesday					
Thursday					
Friday					

### Time Sheet

A time sheet is usually completed by employees who work away from the employer's premises. It shows the hours worked each day and possibly the job number or the name and address of the customer. Sometimes there is a space for recording travelling time. In some businesses the time sheets are signed by the supervisor before being passed to the wages department.

Example of a partly completed time sheet

XYZ Ltd		Time sheet
Name of employee .....		Week ending .....
Day	Job	Total hours
Monday	<i>Mr Smith 4 The Crescent Anytown AD Ltd 12 Highstreet Weston</i> Garden wall repairs Roof repairs	3 hours 4.5 hours
Tuesday		
Wednesday		
Thursday		
Friday		

**Methods used to calculate pay**

There are several methods used to calculate the gross pay received by employees. Every employee should have a contract of employment which will include details of his/her pay.

**Time basis**

The employee is paid an agreed amount for each hour worked (often up to a set number of hours each week). The standard rate per hour is known as a **basic rate**. Sometimes employees are paid a higher rate of pay for any time worked above what is regarded as normal for the working week. These additional hours are known as **overtime**.

**Piece rate basis**

The employee is paid an agreed amount for each article produced or each task performed. Sometimes employers pay a minimum wage regardless of the quantity produced.

**Salary**

The employee is paid an agreed annual amount (usually in monthly). Sometimes overtime may be paid if extra hours are worked.

**Deductions from gross pay**

Gross pay is the total amount earned by an employee. Certain deductions will be made to arrive at the net pay (take-home pay).

### Statutory deductions

These are deductions required by law and consist of:

Income tax

Social security/national insurance contributions

The employer forwards these amounts to the appropriate government departments.

### Voluntary deductions

These are deductions which an employee chooses to have deducted from his/her gross pay.

They may include:

Contribution to a pension fund

Subscription to a trade union

Subscription to a social club

Donations to charity

The employer forwards these amounts to the appropriate organisation.

## Payslip

All employees should receive a payslip from their employer. This shows gross pay, statutory deductions, voluntary deductions for the period (week or month) and also cumulative (total) figures from the beginning of the tax year.

### Example of a payslip

XYZ Ltd		Pay advice	
Name of employee .....	Week ending .....		
Tax Code number .....	Tax period – Week number .....		
		Amount \$	Amount \$
Basic wage		230	
Overtime		<u>50</u>	
Total gross pay		<u>280</u>	<u>1450</u>
Income tax		52	260
National insurance		23	110
Pension contribution		10	50
Trade union subscription		<u>3</u>	<u>15</u>
Total deductions		<u>88</u>	<u>435</u>
Total net pay		192	1015

## Payroll

In addition to preparing a detailed payslip for each employee a payroll register or wages sheet is prepared. This is a list showing the total gross pay, deductions and net pay for each employee.

Example of a partly completed payroll

XYZ Ltd		Payroll						Tax period – Week number .....	
Week ending .....		Earnings		Deductions		Total deductions		Net pay	
Name of employee	Basic pay \$	Overtime \$	Total gross pay \$	Income tax \$	National insurance \$	Pension contribution \$	Trade union sub \$	Total deductions \$	Net pay \$
Abdul Aziz	230	50	280	52	23	10	3	88	192
.....									
.....									
Etc									
Totals									

## Bookkeeping entries

The payroll register is used to make entries into the books of account. Basically an account is required for wages and for each of the main types of statutory and voluntary deductions.

Main entries –  
Debit Wages  
Credit Cash book

with the actual amount paid to employees

Debit Wages  
Credit Income tax  
    National insurance  
    Pension fund  
    Trade union subscriptions  
    (and any other account as required)

with the total amount of each deduction

Debit Income tax  
    National insurance  
    Pension fund  
    Trade union subscriptions  
    (and any other account as required)  
Credit Cash book

with the total amount paid for each of these  
(usually monthly or three monthly)

## Examination Questions

June 2010 Paper 21 Question 3(d)  
June 2010 Paper 23 Question 2 (b) – (c)  
Specimen Paper 2 Question 3(d)  
November 2009 Paper 2 Question 2(f) – (g)  
June 2009 Paper 2 Question 3 (a) – (b)  
November 2008 Paper 2 Question 2(c)





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# The use of computers in accounting

## Components

A computerized accounting system, like a manual accounting system, is based on double entry principles. It consists of –

- Sales ledger
- Purchases ledger
- General ledger
- Journal
- Cash book
- Stock control
- Sales invoicing
- Purchases ordering
- Payroll
- Reconciliations (trial balance, purchases and sales ledger control and bank reconciliation)

It can be used to general information on a regular basis or on demand –

- Income statements and balance sheets
- Accounting ratios
- Sales targets
- Customer statements

## Benefits

- Speed in recording and retrieving data
- Ability to process large volumes of information
- Accuracy
- Time-saving (one entry can produce several entries/documents etc automatically)
- Error detection (errors and variances are noted automatically allowing immediate action)
- Automatic reconciliations
- Security/storage of large amount of information (on disc and backed up)
- Automatic production of reports
- Cost-saving (staff inputting data do not require specialist accounting knowledge)
- Information on disc may be accepted by government departments (cost-saving)

# 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.

New Terms International usage	Old Terms 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 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 &amp; 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

*New Terms*

*Old Terms*

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>