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Second Edition

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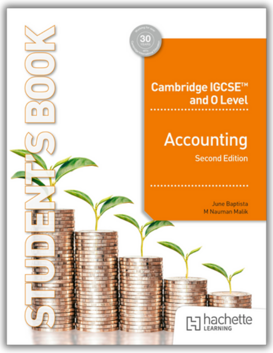

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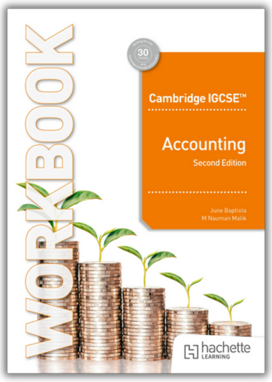

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Contents

1 The purpose of accounting

By the end of this chapter, you will understand:

- ★ the difference between book-keeping and accounting
- ★ the purpose of measuring business profit and loss
- ★ the role of accounting in providing information for monitoring progress and decision making.

The difference between book-keeping and accounting

Key terms

Book-keeping involves the systematic recording and organising of a business's financial transactions.

Accounting focuses on analysing, interpreting and summarising financial data using information recorded and gathered through book-keeping. It creates reports such as statements of profit or loss and statements of financial position to help decision making.

Financial data refers to any aspect of a business that can be measured in monetary terms, for example, sold goods for $400 cash.

Financial statements comprise a statement of profit or loss and a statement of financial position.

Book-keeping primarily focuses on creating and maintaining accurate **accounting** records. It involves the detailed recording of all the financial transactions that occur over a business period. Every transaction of economic value should be recorded, otherwise it could get forgotten and omitted. Book-keeping is important as it ensures that the records of all financial transactions that a business has undertaken are accurate, up to date and comprehensive.

While book-keeping collects, records and classifies **financial data**, accounting goes beyond book-keeping by summarising, analysing and interpreting this data to support decision making. Accountants use book-keeping records to prepare **financial statements** at regular intervals. These statements are then analysed and interpreted to aid decision making.

Definition of accounting

Accounting is a process of:

- **a** collecting and recording financial data
- **b** classifying financial data
- **c** summarising financial data
- **d** analysing financial data
- **e** interpreting financial data
- **f** communicating financial data.

Let us now examine each step of the accounting process more closely.

a **Collecting and recording financial data**: Every business needs to collect and record financial data. The data comes from the daily transactions a business undertakes, for example, selling goods to Amigo for $400 on credit. The financial data that would be recorded from this transaction would be an increase in the total sales and an increase in the amount owed by customers to the business.

Think about it!

What if a business has valuable, highly trained employees? The employees are not part of the 'financial data' and therefore get overlooked. Do you agree? If you agree, how important is this omission?

b **Classifying financial data**: After the financial data has been recorded, it is classified into assets or liabilities, income or expenses. To continue with the previous example, an increase in total sales would be classified as 'revenue' and an increase in the amount owed by customers would be an asset called 'trade receivables'.

c **Summarising financial data**: Once financial data has been recorded and classified, it is summarised for the benefit of the people interested in the business – often referred to as **interested parties**. One example of a summary is the **statement of profit or loss**, which calculates a business' profit or loss.

d **Analysing financial data**: Analysing means examining something in detail to explain and interpret it. For example, on their own, figures in the statement of profit or loss are not as useful as analysis using these figures and accounting ratios (see Chapter 21). The analysis allows comparisons between years and between competing businesses, for instance. Based on these comparisons, important decisions can be made and business strategies can be planned.

Key terms

Interested parties are all those people or groups of people with a special interest in a business. They may be internal or external to the business, such as prospective investors, the government, trade payables and managers.

Statement of profit or loss is used to calculate the profit made by a business. Along with the statement of financial position, it makes up the financial statements of a business.

Think about it!

Ian scored 10 marks in his accounting test while Yagmur scored 50 marks in her test. Who performed better? Yagmur may have done better. However, Ian's test had a maximum mark of 10, while Yagmur's test had a maximum mark of 100. Converted to a percentage, we can see that Ian has done better with a 100 per cent score, while Yagmur only scored 50 per cent. This shows us that stand-alone figures do not give us all the important information. In this example, the figures need to be converted into ratios or percentages to fully make sense.

Work with a partner to answer the following questions:

- **Ian Toys made a profit of $50 000 and Yagmur Toys made a profit of $150 000. Which business is more profitable?**
- **Do you have enough information to answer this question? If not, what additional information do you need?**

e **Interpreting financial data**: The interested parties need to interpret the data once it has been analysed. Interpreting means deciding what the intended meaning of something is. For example, a manager will use information from the analysis of figures in the statement of profit or loss to make important decisions. If the business has been consistently profitable over the past few years, it may decide to expand its operations (see more in Chapter 22).

f **Communicating financial data**: The summarised data is then made available to the accounting users, also called the interested parties. For example, in the case of limited companies (see Chapter 17), shareholders can use the information to monitor how well their investment is doing.

Think about it!

In pairs, decide who would interpret the financial data of a soft drinks company.

Activity 1

1 State whether or not each item is financial data:
  a Cash that a customer pays for services received
  b Well-trained employees
  c A government tax proposal on fizzy drinks
  d The purchase of a motor van
  e The sale of equipment
  f The location of a restaurant which brings in more customers than its competitors
  g Good suppliers who deliver quality goods on time.

2 Copy and complete the table below and place a tick (✔) in the appropriate column to indicate what each activity represents.

	Classifying financial data	Interpreting financial data	Communicating financial data
Deciding whether an item in a business transaction is an asset or a liability			
Publishing the statement of profit or loss on the business website			
Measuring the performance of a business using ratios			
Deciding whether an item in a business transaction is an income or an expense			
Measuring the cash position of a business using ratios			
Sending the financial statements of a business to shareholders by email			

Role of technology in book-keeping and accounting

Technology has made book-keeping and accounting easier and faster. Accounting software automates the recording, organisation and calculation of financial data. This reduces errors and saves time compared to manual methods.

Purpose of accounting

Key info

The purpose of accounting is to take financial data and convert it to a form that can be used for good decision making.

The purpose of accounting is to provide important financial information that helps interested parties to monitor progress. Managers can use financial data to analyse a business' opportunities and challenges.

Accounting also helps with good decision making. For example, if profits have been falling, the statement of profit or loss reveals the reasons for this. Perhaps expenses have increased. In this case, managers must decide which expenses must be decreased and how.

Accounting can also inform interested parties what a business is worth. The statement of financial position (see Chapter 2) provides information about the business' assets, liabilities and owner's equity.

Purpose of measuring business profit and loss

One of the main aims of a business is to make a profit. Businesses should be able to measure this profit so that it can then be compared with the profits of previous years. If profit falls, owners and managers will try to find ways to decrease expenses or increase revenue. Because the statement of profit or loss records the various expenses incurred, managers can analyse them to look for cost-cutting measures.

If a business consistently makes a good profit, managers may want to grow it by expanding its operations into other markets or increasing the product range.

Business profit can also be used to compare with a competitor's profit. Suppose a business makes a good profit but not as much as its competitors. This gives managers a reason to reduce expenses or increase revenue to improve profitability. They could also increase income by advertising more widely, for example.

The financial statements also help to measure a business' ability to pay the highest returns to its owners relative to its competitors.

Think about it!

Would you compare a vegetable vendor's accounts with an appliance retailer? Give reasons for your answer.

Activity 2

Read the following case study and then answer the questions below: Amrita is a baker who is opening her first shop. To keep records of her transactions, she plans to employ a book-keeper.

1. Explain why it is important for Amrita to keep financial records of her business transactions.
2. Explain why a book-keeper may be willing to work for a lower salary than an accountant.
3. Advise Amrita whether she should employ a book-keeper or an accountant. Give reasons for your answer.

Role of accounting in monitoring progress and decision making

Users of accounting information – interested parties

Every business has interested parties. Interested parties are the people or firms who use the accounting information to monitor the progress of the business. This helps them to make important economic decisions. Examples of interested parties are:

- **Owner(s) of a business:** They will want to know how well their investment in the business is doing. Is the business profitable enough? The owner(s) will also want to know their business' net worth.
- **Prospective investors:** They like to know how well their investment will do in the future by studying present and past accounting records of the business they intend to invest in. Good profitability and increasing net worth are vital signs that a business will be a good investment.

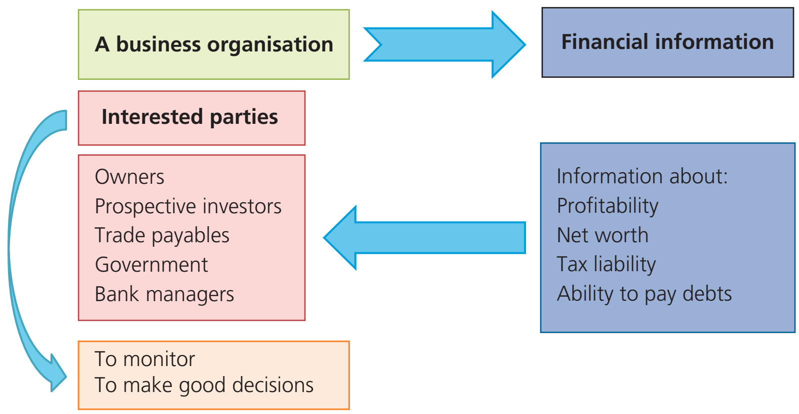
Study tip

If a question asks you to list three interested parties, read the context in which the question is asked and choose the most relevant of the five interested parties listed here. If a business is a sole trader business, for example, that does not want to expand, then it will not have any prospective owners.

- **Bank manager:** A bank manager will ask for and use past and present accounting records before granting a loan or an overdraft. A business may not have enough money or cash flow to pay the interest which could be the reason why a bank does not grant a loan. Also, if a business has a lot of existing long-term loans, banks will not be very willing to lend them money.
- **Trade payables (creditors):** Many transactions are on a credit basis. This means that payments are made sometime after the transaction has taken place. As a result, a business could have several people or businesses that it owes money to, called **trade payables**. Suppliers and other business lenders will want to know whether they will be paid on time. Financial statements give them this information.
- **The government:** The government likes to know what profit a business has made to calculate the tax the business has to pay.

Key term

Trade payables represent businesses or individuals to whom money is due for services or goods supplied to the business.



▲ **Figure 1.1** The purpose of accounting

Activity 3

1. Explain why financial information needs to be communicated to the interested parties of a business. List at least four interested parties in your answer.
2. Amenco is a limited company which sells clothes. It has been in business for ten years. Most of its customers pay by cash or with a credit card. However, its suppliers allow one month's credit. Apart from trade payables, the business owes its bank for a loan it took five years ago. Amenco must pay tax on the business' profit as a limited company. List at least four interested parties of Amenco.

Practice questions

1 What is accounting?
A A chore
B A process
C A system
D A task [1]

2 Which is the correct order for the steps in the accounting process?
A Collecting, summarising, analysing, interpreting, communicating
B Collecting, summarising, interpreting, communicating, analysing
C Summarising, collecting, analysing, communicating, interpreting
D Summarising, collecting, interpreting, analysing, communicating [1]

3 Which value is **not** included in financial data?
A The excellent location of a café which has a high volume of foot traffic
B The payment of an invoice totalling $400
C The sales for the month of June of $5000
D The value of a motor vehicle that a company owns [1]

4 Which statement is true?
A Accounting is part of book-keeping.
B Accounting requires the skills of an expert accountant.
C Book-keeping includes activities such as analysing and interpreting financial data.
D Book-keeping requires the skills of an expert accountant. [1]

5 What is **not** a purpose of measuring business profit or loss?
A To compare a business' profit with the profits of its competitors.
B To compare a business' profit with those of any other business.
C To take steps to reduce losses.
D To compare the current year's profit with last year's profit. [1]

6 Arjun Patel is a sole trader. The following people are interested in the accounts of his business: Arjun Patel (owner), potential partner, loan trade payable, bank manager and trade payables.
Complete the following table to show which people would be especially interested in the different features of the accounting records of the business. Each of the five interested parties listed above should not appear in the table more than **twice**. [6]

Features of the accounting records	Interested parties
Whether the business can pay interest when it is due	1 ______ 2 ______
The market value of the assets that the business owns	1 ______ 2 ______
Whether the business is profitable	1 ______ 2 ______
Whether the business has enough cash available	1 ______ 2 ______

Chapter review questions

1 State what is meant by the term 'accounting'.
2 Explain the difference between book-keeping and accounting.
3 State the purpose of accounting.
4 State one purpose of measuring business profit or loss.
5 Complete the sentences below using the following words:
recording; book-keeping; financial; classifying; owners; interpreting; trade payables; analysing; decision making; bankers; communicating.
  a ________ is concerned with the maintenance of accounting records.
  b ________, ________, ________, ________ and ________ make up the process that is called accounting.
  c ________, ________ and ________ are possible interested parties in a business.
  d The purpose of accounting is to take ________ data and convert it to a form that can be used for good ________ ________.
6 List at least three interested parties of an internet provider and explain why accounting is important to each of them.
7 Copy and complete the following table by entering 'true' or 'false' for each statement.

Statement	True/False
1 There is no difference between accounting and book-keeping.	
2 Accounting is only carried out at the end of a financial year.	
3 Managers can use financial data to define and analyse a business' opportunities and challenges.	
4 The statement of financial position is used to calculate the profit of a business.	
5 Business profit is often compared with a competitor's profit.	

Revision checklist

In this chapter, you have learned:

✔ the definition of accounting
✔ the purpose of accounting
✔ the difference between book-keeping and accounting
✔ the purpose of measuring business profit and loss
✔ the difference between financial data and non-financial data
✔ the importance of accounting to a business and its interested parties.

2 The accounting equation

By the end of this chapter, you will understand:

★ assets, liabilities and owner's equity
★ the accounting equation
★ how to apply the accounting equation.

Key terms

Owner's equity, in accounting, is usually what the business owes the owner. It can refer to funds the owner raises to fund a business idea.
Assets are resources of monetary value that a business owns or is owed to the business. Examples of assets are cash, motor vehicles, trade receivables and property.
Liabilities are amounts that the business owes people for resources supplied to the business. Examples of liabilities are trade payables, overdrafts and loans.
Accounting equation is a formula used to illustrate the relationship between the assets, liabilities and owner's equity of a business. It shows that all the assets of a business are provided or funded either by the owner, the trade payables or other lenders of the business.

Assets, liabilities and owner's equity

Accounting records of a business will often start with the owner supplying resources, such as cash and motor vehicles. From an accounting point of view, the owner is regarded as a separate entity from the business. Therefore, when the owner supplies a business with resources, the business now owes the owner for these resources. This is the **owner's equity** and is represented by resources of monetary value (or **assets**) that the business now owns. The business benefits from the ownership of assets by using them to generate income.

We can show this in the form of an equation:

Owner's equity (resources supplied by the owner) = Assets (resources owned by the business)

People other than the owner (for instance, a bank) often supply resources to the business. These are the **liabilities** of a business. A liability is a debt or obligation owed to lenders or suppliers.

The accounting equation

When the business acquires a liability, the equation is altered to:

Owner's equity = Assets – Liabilities

This is called the **accounting equation**.

As this is an equation, both sides should have the same value. This makes sense as one side of the equation represents the value of the owner's investment in the business, and the other side represents the net value of assets owned by the business after meeting its liabilities.

If we modify the equation:

Assets = Owner's equity + Liabilities

OR

Liabilities = Assets – Owner's equity

Key info

Resources owned by the business = resources supplied to the business.

Study tip

Remember, the equation merely states:

What the business owns = what the business owes.

Study tip

If two of the three components of the accounting equation are given, you can use the equation to calculate the third.

Key term

The **statement of financial position** of a business is a statement listing the assets, liabilities and owner's equity at a specific time. It is one of the financial statements prepared to show what the business owns (assets) and what it owes (equity and liabilities) at the end of the financial year.

This equation, the accounting foundation, shows that all the assets are financed with the money invested by the owner or the money received from borrowings.

Activity 1

1. Define owner's equity.
2. Define liability.
3. Explain why 'owner's equity is a liability.'
4. Complete the following table:

	Assets	Liabilities	Owner's equity
a	7000	?	5000
b	?	1350	2450
c	2670	500	?
d	8000	?	3780
e	?	1900	4100

The application of the accounting equation

Every economic or business event will have a dual effect on the accounting equation. This can be seen in the **statement of financial position**, which reflects the accounting equation. One side of the equation represents all the assets, and the other represents the liabilities and owner's equity. Both sides should be equal.

On 1 January 2025, Anita Goswell decided to start a business. Her accounting equation will be:

Assets = Owner's equity + Liabilities

\$0 = \$0 + \$0

1 Introduction of owner's equity

On 2 January 2025, Anita opened a bank account for the business named Easy Trading. She deposited \$56000 cash into this account.

Her accounting equation will be:

Assets = Owner's equity + Liabilities

\$56000 (cash at bank) = \$56000 (owner's equity = \$0 + \$56000) + \$0

The statement of financial position will look like this:

Easy Trading Statement of financial position at 2 January 2025	
	$
Assets: Cash at bank	56000
Owner's equity	56000

Key term

Inventory refers to goods that a business purchases for resale or for use in the production process.

2 Purchase of an asset – paying by cheque

On 5 January 2025, Anita purchased **inventory** for $5000, paying by cheque.

Assets = Owner's equity + Liabilities

$5000 (inventory) + $51000 (cash at bank = $56000 – $5000) = $56000 (owner's equity) + $0

The statement of financial position will look like this:

Easy Trading Statement of financial position at 5 January 2025		
		$
Assets:	Inventory	5000
	Cash at bank	51000
		56000
Owner's equity		56000

3 Purchase of an asset on credit – a liability is created

On 6 January 2025, Easy Trading bought a motor vehicle on credit for $6000 from Salient Motors. Salient Motors is now a trade payable (liability) and must be paid back at some later date.

Assets = Owner's equity + Liabilities

$6000 (motor vehicle = $0 + $6000) + $5000 (inventory) + $51000 (cash at bank) = $56000 (owner's equity) + $6000 (trade payable = $0 + $6000)

The statement of financial position will look like this:

Easy Trading Statement of financial position at 6 January 2025	
	$
Assets:	
Motor vehicle	6000
Inventory	5000
Cash at bank	51000
	62000
Owner's equity	56000
Liabilities:	
Trade payable (Salient Motors)	6000
	62000

4 Payment of a liability

On 25 January 2025, Anita paid Salient Motors $5000 by cheque in part payment of the debt owed.

Assets = Owner's equity + Liabilities

$6000 (motor vehicle) + $5000 (inventory) + $46000 (cash at bank = $51000 – $5000) = $56000(owner's equity) + $1000 (trade payable = $6000 – $5000)

The statement of financial position will look like this:

Easy Trading Statement of financial position at 25 January 2025	
	$
Assets:	
Motor vehicle	6 000
Inventory	5 000
Cash at bank	46 000
	57 000
Owner's equity	56 000
Liabilities:	
Trade payable ($6 000 – $5 000)	1 000
	57 000

5 Sale of an asset for cash

On 29 January 2025, Anita sold inventory for cash of $3000.

Assets = Owner's equity + Liabilities

$6000 (motor vehicle) + $2000 (inventory = $5000 – $3000) + $46000 (cash at bank) + $3000 (cash in hand = $0 + $3000) = $56000 (owner's equity) + $1000 (trade payable)

The statement of financial position will look like this:

Easy Trading Statement of financial position at 29 January 2025	
	$
Assets:	
Motor vehicle	6 000
Inventory	2 000
Cash at bank	46 000
Cash in hand	3 000
	57 000
Owner's equity	**56 000**
Liabilities:	
Trade payable (Salient Motors)	1 000
	57 000

6 Owner withdraws assets from the business for personal use

Key term

Drawings is the term given to the value of assets in cash or inventory withdrawn from a business by the owners for personal use. Drawings reduce the owner's equity.

On 30 January 2025, Anita withdrew $3000 from the bank for her personal use.

When owners withdraw resources from the business for personal use, they are called **drawings**. This is recorded as a decrease in the owner's equity and the asset withdrawn.

Assets = Owner's equity + Liabilities

$6000 (motor vehicle) + $2000 (inventory) + $43000 (cash at bank = $46000 – $3000) + $3000 (cash in hand) = $53000 (owner's equity – drawings = $56000 – $3000) + $1000 (trade payable)

The statement of financial position will look like this:

Easy Trading Statement of financial position at 30 January 2025		
	$	**$**
Assets:		
Motor vehicle		6000
Inventory		2000
Cash at bank		43000
Cash in hand		3000
		54000
Owner's equity:		
Opening balance	56000	
Less Drawings	(3000)	53000
Liabilities:		
Trade payable (Salient Motors)		1000
		54000

7 Payment of a business debt by the owner from personal funds

On 31 January 2025, Anita paid Salient Motors $1000 cash from her personal funds.

This will have the same effect as the owner injecting fresh equity into the business; therefore, the owner's equity will increase by $1000.

Assets = Owner's equity + Liabilities

$6000 (motor vehicle) + $2000 (inventory) + $43000 (cash at bank) + $3000 (cash in hand) = $54000 (owner's equity = $53000 + $1000) + $0 (trade payable = $1000 – $1000)

The statement of financial position will look like this:

Easy Trading Statement of financial position at 31 January 2025	
	$
Assets:	
Motor vehicle	6000
Inventory	2000
Cash at bank	43000
Cash in hand	3000
	54000
Owner's equity:	54000

Here is a summary of the effect of transactions on the assets, liabilities and owner's equity in an accounting equation:

- If an asset increases, a liability or owner's equity will also increase.
- If an asset decreases, a liability or owner's equity will also decrease.
- If an asset rises, another asset involved in the transaction will decrease.

Think about it!

The accounting equation can serve as an error detection tool. Do you agree? Give examples in support of your answer.

- If an asset decreases, another asset involved in the transaction will increase.
- If a liability or owner's equity increases, another liability involved in the transaction will decrease.
- If a liability or owner's equity decreases, another liability involved in the transaction will increase.

Activity 2

Copy and complete the following table with the words 'decreases' or 'increases' to show which effect each transaction would have on the assets, liabilities and owner's equity of a business:

	Transactions	Assets	Liabilities	Owner's equity
a	The owner introduced $45 000 cash into the business bank account			
b	The business bought goods on credit from Sully & Sons			
c	Benjamin, a friend of the owner, lent the business $3 000 in cash			
d	The business sold goods for $500 cash			
e	The business paid Benjamin $3 000 by cheque			
f	The business returned $50 of goods to Sully & Sons			
g	The owner withdrew $400 from the business bank account for personal use			
h	The business bought a motor vehicle for $4 500, paying by cheque			
i	The business paid $58 cash to a trade payable			

Types of assets

There are two types of assets: **current assets** and **non-current assets**. Current assets include cash and other liquid or near-**liquid assets**. **Trade receivables** and inventory are some other examples of current assets. If an asset can reasonably be converted into cash within one year, it is a current asset. For example, the value of inventory increases or decreases as it is bought or sold. The value of trade receivables also fluctuates when more goods are sold on credit or trade receivables pay off amounts owing for goods received. The cash at the bank will also change with multiple deposits and withdrawals made during the year.

Non-current assets are those purchased to keep them for their entire economic life, which is always more than a year. They are not bought for resale but for use within the business to generate revenue, for example, motor vehicles, machinery and properties.

Key terms

Current assets can be sold, used up or consumed through the normal workings of a business within a year from the date of the statement of financial position.

Non-current assets are those the business has bought to use for more than a year, such as machinery, motor vehicles and property.

Liquid assets are those assets that can be quickly converted to cash with no loss in value.

Trade receivables are businesses or individuals who have received goods or services from the business on credit, with the understanding that payment is due within the credit period.

Key terms

Current liabilities are those debts that must be paid within a year from the date of the statement of financial position, for example, trade payables and overdrafts.

Non-current liabilities are debts that do not need to be paid within a year from the date of the statement of financial position, such as a long-term bank loan or lease.

Types of liabilities

Current liabilities are debts that must be paid within one year. Trade payables are a good example of a current liability. They represent suppliers from whom a good or a service has been purchased. These trade payables are usually expected to be paid within a specified period and are known to give discounts for early payment. Another example of a current liability is a bank overdraft.

Non-current liabilities are those amounts owed by a business that are not due to be repaid within 12 months of the statement of financial position date, for example, a long-term bank loan.

Here is a more detailed version of Anita Goswell's statement of financial position at 30 January 2025:

Easy Trading
Statement of financial position at 30 January 2025

	$	$
Assets		
Non-current assets:		
Motor vehicle		6000
Current assets:		
Inventory	2000	
Cash at bank	43000	
Cash in hand	3000	48000
Total assets:		54000
Owner's equity and liabilities		
Owner's equity:		
Opening balance	56000	
Less Drawings	(3000)	53000
Current liabilities:		
Trade payable		1000
Total owner's equity and liabilities:		54000

Role of digital technology and sustainability in the accounting equation

As shown in an accounting equation, digital technology and sustainability also change the composition of assets, liabilities and equity. Businesses are now investing in digital tools like software, data analytics and sustainable assets such as solar or other renewable energy. These investments improve efficiency and increase the value of the business' tangible assets. However, the accounting equation implies that an increase in assets is associated with an equivalent increase in liabilities and equity.

Environmental and socially responsible practices improve business ability to perform efficiently. This attracts more investors and boosts business equity from an improved business reputation. However, businesses may also face new obligations like cyber-security challenges and costs to adhere to environmental regulations.

Think about it!

'Every business transaction results in two changes in the statement of financial position.'

Do you agree? Work with a partner to decide your answer.

Activity 3

State whether each item would be classified as an asset or liability.

a Property
b Machinery
c Trade receivables
d Trade payables
e Overdraft
f Cash in hand
g Loan from M. Apple (a friend)
h Inventory
i Motor vehicle
j Equipment

Practice questions

1 What is the accounting equation?
A Assets + Liabilities = Owner's equity
B Assets + Owner's equity = Liabilities
C Assets – Liabilities = Owner's equity
D Assets = Liabilities – Owner's equity [1]

2 Which definition is **not** correct?
A A liability is what a business owns
B An asset is a resource that a business owns
C Owner's equity is what the business owes the owner
D The accounting equation is reflected in the statement of financial position [1]

3 A business had the following assets and liabilities on 6 June 2025:
Motor vehicle $5900; bank loan $6000; cash at bank $49000; trade payables $800; inventory $2100; property $30000.
What was the value of owner's equity?
A $80200
B $81200
C $81800
D $92200 [1]

4 Which statement is correct?
A Resources owned by the business = Resources supplied to the business
B Resources owned by the business = Resources owed to the business
C Resources owned by the business = Resources supplied by the business
D What the business supplies = What the business owes [1]

5 Which statement is correct?
A When the owner deposits money into the business bank accounts, it is called drawings.
B When the owner pays a business expense from personal funds, it is called drawings.
C When the owner supplies a motor vehicle to the business, it is called drawings.
D When the owner withdraws money from the business bank account, it is called drawings. [1]

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ISBN: 9781036010621

First published in 2018

This edition published in 2025 by

Hachette Learning,

An Hachette UK Company

Carmelite House

50 Victoria Embankment

London EC4Y 0DZ

www.hachettelearning.com

The authorised representative in the EEA is Hachette Ireland, 8 Castlecourt Centre, Dublin 15, D15 XTP3, Ireland (email: info@hbgi.ie)

Impression number 10 9 8 7 6 5 4 3 2 1

Year 2028 2027 2026 2025

Cover photo

Illustrations by

Typeset in India by Aptara Inc.

Printed in

A catalogue record for this title is available from the British Library.

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