

IGCSE Accounting 0452

Unit no 3: Verification of accounting records

Recommended prior knowledge

Competent numeracy skills and a growing awareness of local businesses and how they operate. They should start making attempts to assess the performance and working of business from financial records and detect reasons for success or failure; possibly offering suggestions for improvement.

Context

Once the day to day transactions of a business have been completed and the balances calculated, a trial balance (a list of all the balances in the books) is extracted. This is done periodically depending on the type and size of business. An accurate trial balance forms the basis for the preparation of the business's income statement and balance sheet.

Outline

Students will be building on the knowledge acquired in Unit 2. Extraction of balances and preparing a trial balance is the next step. Students will encounter errors in the preparation of a trial balance and will be introduced to the types of errors that can arise and how to make corrections using the journal and suspense accounts.

3.1 Learning outcomes

- The trial balance
- To understand that the trial balance is a statement of ledger balances on a particular day
- To be able to outline the uses and limitations of a trial balance
- To be able to prepare a trial balance from a given list of balances and amend a trial balance which contains errors

Suggested teaching activities

- Students should have many worked examples of double entry book keeping. They should now revisit this work and extract the balances to prepare the trial balance.
- There are many questions where a list of debit/credit balances are given from which students should produce a trial balance. The omission of the capital figure could be the balancing figure for checking purposes.
- Illustrate by inviting students to post a sales invoice as a purchases invoice following this through to the impact on debtors'/creditors' accounts or sales/purchases accounts.
- Visually and verbally demonstrate the production of a trial balance followed with student questions, and past examination questions.

Learning resources

Textbooks

- IGCSE & O Level Accounting – Catherine Coucom Chapter 3
IGCSE & O Level Accounting Workbook – Catherine Coucom Questions 13-16
Frank Wood's Book-keeping and Accounts – Sheila Robinson & Frank Wood Chapter 7, 32
Frank Wood's Business Accounting 1
Frank Wood and Alan Sangster Chapter 6

3.1 Learning outcomes

- To be able to identify and explain those errors which do not affect the trial balance – commission, compensating, complete reversal, omission, original entry and principle.

Suggested teaching activities

A debate could take place on the consequences of errors on a trial balance.

Identify with students the steps which should be taken to find where the errors lie. Prepare a wall chart of the types of errors that are not discovered by the trial balance not balancing.

Learning resources

Online

<http://www.bized.co.uk/learn/business/accouting/busaccounts/pizza/stutwtwo.htm>

Past examination question:

http://teachers.cie.org.uk/login/login_for_m?came_from=http%3A//teachers.cie.org.uk/index_html

P2 Oct 2008 Q3 (c)

P2 Oct 2008 Q1 (f)

3.2 Learning outcomes

Correction of errors

Suggested teaching activities

Learning resources

Textbooks

IGCSE & O Level Accounting – Catherine Coucom Chapter 15
IGCSE & O Level Accounting Workbook – Catherine Coucom Questions 78-81
Frank Wood's Book-keeping and Accounts – Sheila Robinson & Frank Wood Chapter 24,33
Frank Wood's Business Accounting 1 Frank Wood and Alan Sangster Chapters 32-33

- To be able to correct errors by means of journal entries

Visually and verbally demonstrate the production of a journal entry. In the preparation of journal entries impress on students the use of a narrative

Past examination question:
http://teachers.cie.org.uk/login/login_for_m?came_from=http%3A//teachers.cie.org.uk/index_html
P2 Oct 2009 Q2 (c)
P3 May 2008 Q3 (a)

- To be able to correct errors by means of a suspense account.

Students should be encouraged to build up a good bank of different examples of errors and their treatment following this through to the adjustment of the profit and loss for an accounting period.

P2 May 2008 Q1 (d)
P3 May 2008 Q3 (b)
P2 Oct 2008 Q3 (b)
P3 Oct 2008 Q2 (c), (d)

- To be able to adjust profit or loss for an accounting period after the correction of errors

Provide questions where the error will affect the profit or loss.

P3 May 2008 Q3 (c)

- To be understand the effect of correction of errors on a balance sheet

If changes are made to assets/liabilities students should be aware of the changes to capital. The accounting equation should be re-visited.

3.3 Learning outcomes

Bank reconciliation

- To understand the use and purpose of a bank statement
 - To be able to update the cash book for bank charges, bank interest paid or received, correction of errors, credit transfers, direct debits, dividends and standing orders
- To understand the purpose of, and prepare, a bank reconciliation statement to include bank errors, uncredited deposits and unrepresented cheques

Suggested teaching activities

Demonstration of writing up the cashbook from the unrecorded entries on the bank statement i.e. direct debits standing orders, bank charges etc. Reconciling the bank balance as per the cashbook to the balance as per the bank statement.

Students should be involved in writing up the cash book.

Students asked to bring in bank statements.
Students given examples of how bank statements may not agree with cash book (bank columns) e.g. bank charges.
Students to update cash book
Students to draw up a bank reconciliation statement.

Discussion on reasons why the cash book (bank columns) and the bank statement could differ.

Examples should be introduced where there is a credit balance on the cash book and an overdraft on the bank statement.

Learning resources

Textbooks

IGCSE & O Level Accounting – Catherine Coucom Chapter 14
IGCSE & O Level Accounting Workbook – Catherine Coucom Questions 73-76
Frank Wood's Book-keeping and Accounts – Sheila Robinson & Frank Wood Chapter 23
Frank Wood's Business Accounting 1
Frank Wood and Alan Sangster Chapter 30

Past examination question:

http://teachers.cie.org.uk/login/login_for_m?came_from=http%3A//teachers.cie.org.uk/index_html

P2 May 2009 Q1 (c)

P3 May 2008 Q1 (b)

P3 May 2008 Q1 (a), (b), (c)

3.4 Learning outcomes

Control accounts

- To understand the purpose of purchases ledger and sales ledger control accounts
- To be able to identify the books of prime original entry as sources of information for the control account entries
- To be able to prepare purchases ledger and sales ledger control accounts to include credit purchases and sales, receipts and payments, cash discounts, returns, bad debts, dishonoured cheques, interest on overdue accounts, contra entries, refunds, opening and closing balances (debit and credit within each account)

Suggested teaching activities

Students should be invited to contribute the figures for the control accounts. Two teams may be pitted against each other to 'detect' the missing figure first.

Students work more productively in pairs where they are able to discuss debit/credit entries.

Contra entries often prove problematic and this should be thoroughly explained. Often a good idea to illustrate this using two accounts e.g. AB as a customer and as a supplier.

Use Quiz 5 in groups or individually.

Learning resources

Textbooks

IGCSE & O Level Accounting – Catherine Coucom Chapter 16
IGCSE & O Level Accounting Workbook – Catherine Coucom Questions 82-85
Frank Wood's Book-keeping and Accounts – Sheila Robinson & Frank Wood Chapter 25
Frank Wood's Business Accounting 1 Frank Wood and Alan Sangster Chapter 31

Past examination question:
http://teachers.cie.org.uk/login/login_for_m?came_from=http%3A//teachers.cie.org.uk/index_html

P3 May 2009 Q3 (a)

P3 Oct 2009 Q3 (a)

Quiz 5 Control accounts