

IGCSE Accounting 0452

Unit no 6: Preparation of financial statements

Recommended prior knowledge

Students should be competent in double entry. They should be able to balance off accounts with reasonable accuracy and appreciate why some accounts have a debit balance and some a credit balance.

Context

The main objective of the accounting function is to calculate profit made and to measure growth of a business financially (owner's equity)

Outline

This is a particularly large unit as it involves the preparation of financial statements for sole traders, partnerships, limited liability companies, clubs and societies, and manufacturing businesses.

Clubs and societies are non-profit making organisations and do not prepare income statements (unless they run some trading activity such as a snack bar). They are run to further promote the activity of the organisation and consequently prepare receipts and payments accounts and income and expenditure accounts. They do prepare a balance sheet similar to the other organisations but capital is replaced by accumulated fund.

6.1	Learning outcomes	Suggested teaching activities	Learning resources
	<p>Sole traders</p> <ul style="list-style-type: none">To be able to explain the difference between a trading business and a service businessTo be able to prepare income statements and balance sheets for trading businesses in either horizontal or vertical form	<p>The concept of cost of goods sold is often quite hard to grasp- a simple way is to draw a warehouse with opening inventory adding purchases to it and then deducting closing inventory.</p> <p>Some simple prepared cards with amounts on (including COGS) can be used as a 'fun' session.</p>	<p>Textbooks IGCSE & O Level Accounting – Catherine Coucom Chapters 8-9,11-13 IGCSE & O Level Accounting Workbook – Catherine Coucom Questions 36-45, 56-72 Frank Wood's Book-keeping and Accounts – Sheila Robinson & Frank Wood Chapter 29 Frank Wood's Business Accounting 1 Frank Wood and Alan Sangster Chapter 28</p>

6.1 Learning outcomes	Suggested teaching activities	Learning resources
	Use Quiz 8 in groups or individually.	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 Q 5 (b) P2 Oct 2009 Q4 (d) P2 May 2008 Q2 (c) P2 May 2008 Q3 (b), (d), (e) P3 Oct 2008 Q2 (b) P2 May 2008 Q4 (a) P2 Oct 2008 Q3 (d) P3 Oct 2008 Q3 (c) Quiz 8 Basic financial statements
<ul style="list-style-type: none"> • To be able to prepare income statements and balance sheets for service businesses in either horizontal or vertical form • • To be able to make adjustments for accrued and prepaid expenses and accrued and prepaid income. • To be able to make adjustments for bad debts and provisions for doubtful debts • To be able to make adjustments for goods taken by the owner for own use 	<p>A considerable amount of time is needed to thoroughly practise as many examples as possible which incorporate all the adjustments learned.</p> <p>This can be illustrated pictorially using the warehouse example used in 6.1</p>	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 Q5 (a), (b), (c) P3 Oct 2009 Q2 (a) P3 May 2009 Q2 (a)

6.2 Learning outcomes

Partnerships

Suggested teaching activities

Learning resources

Textbooks

IGCSE & O Level Accounting –
Catherine Coucom Chapter 19
IGCSE & O Level Accounting
Workbook – Catherine Coucom
Questions 98-103
Frank Wood's Book-keeping and
Accounts – Sheila Robinson & Frank
Wood Chapter 36
Frank Wood's Business Accounting 1
Frank Wood and Alan Sangster
Chapter 41

- To be able to explain the advantages and disadvantages of forming a partnership
As an introduction to partnerships a general debate could take place on the advantages/disadvantages of forming a partnership.
Follow this debate by asking students what they would expect if they were given the opportunity to join/form a partnership.
- To be able to outline the importance and contents of a partnership agreement
Get students to share their ideas in pairs and feedback to the group regarding what they think should be in a partnership agreement.
- To be able to explain the purpose of an appropriation account
Visually and verbally demonstrate the appropriation account. Followed with student questions, and past examination questions.
- To be able to prepare income statements, appropriation accounts and balance sheets in either horizontal or vertical form
- To be able to calculate the interest on partners' loans, interest on capital, interest on drawings, partners' salaries and the division of the balance of profit and loss

Past examination question:

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

P3 Oct 2009 Q4 (b)

P2 Oct 2008 Q1 (g)

P3 May 2009 Q1 (b)

P3 Oct 2009 Q4 (c)

P3 Oct 2008 Q5

P2 Oct 2009 Q1 (g)

6.2 Learning outcomes

- To be able to make adjustments to financial statements as detailed in 6.1
- To explain the uses of, and the differences between, capital and current accounts
- To be able to draw up partners' capital and current accounts in ledger account form and as part of a balance sheet presentation
- Knowledge of the accounting treatment of the admission of a new partner or the dissolution of a partnership is not required.

Suggested teaching activities

Advantages of fixed and fluctuating capital accounts

Visually and verbally demonstrate the production of capital and current accounts. Followed with student questions.

Learning resources

6.3 Learning outcomes

Limited liability companies

Suggested teaching activities

- To understand the meaning of the term limited liability

A wall chart could be prepared to show the capital structure of a sole trader, partnership and a limited company.

A discussion could take place of the advantages/disadvantages of becoming a limited company.

Learning resources

Textbooks

IGCSE & O Level Accounting –

Catherine Coucom Chapter 23

IGCSE & O Level Accounting

Workbook – Catherine Coucom

Questions 116-120

Frank Wood's Book-keeping and

Accounts – Sheila Robinson & Frank Wood Chapter 37

Frank Wood's Business Accounting 1

Frank Wood and Alan Sangster

Chapter 44

6.3 Learning outcomes

- To be able to prepare simple appropriation accounts in either horizontal or vertical form
- To understand and distinguish between called-up and paid-up share capital
- To understand and distinguish between share capital (preference shares and ordinary shares) and loan capital (debentures)
- To understand the capital structure of a limited company comprising preference share capital, ordinary share capital, general reserve and retained profits (profit and loss account)
- To be able to prepare appropriate accounts in either horizontal or vertical format
- To be able to prepare balance sheets in either horizontal or vertical format. Candidates do **not** need to know about cumulative and non-cumulative preference shares, deferred and founders shares, participating shares, redeemable shares, rights issues, share premium or capital redemption reserve. Recording share issues, entries for corporation tax and the accounting requirements of the Companies Acts are not required.

Suggested teaching activities

Visually and verbally demonstrate the appropriation account for a limited company. Followed with student questions

Students to produce a diagram of the issue of shares in stages.

In groups student to produce a flowchart of the ordinary share capital, preference share capital and debentures displaying their advantages and disadvantages.

Visually and verbally demonstrate the balance sheet for a limited company. Followed with student questions.

Learning resources

6.4 Learning outcomes

Clubs and societies

Suggested teaching activities

Learning resources

Textbooks

IGCSE & O Level Accounting – Catherine Coucom Chapter 18
IGCSE & O Level Accounting Workbook – Catherine Coucom Questions 92-97
Frank Wood's Book-keeping and Accounts – Sheila Robinson & Frank Wood Chapter 35
Frank Wood's Business Accounting 1 Frank Wood and Alan Sangster Chapter 36

- To be able to distinguish between receipts and payments accounts and income and expenditure accounts
Subscriptions prepaid/overdue can cause problems – understanding that a member who has paid subscriptions in advance is a liability to the organisation and a member who is overdue with his subscriptions is a debtor.
Explanations should take the form of 'what would actually happen to these subscriptions prepaid/overdue if the club were to close down.
- To be able to prepare receipts and payment accounts
Visually and verbally demonstrate the receipts and payments account, stressing it is basically a cashbook. Followed with student questions.
- To be able to prepare accounts for revenue-generating activities ,e.g. refreshments, subscriptions
Students to complete various revenue generating questions.
- To be able to prepare income and expenditure accounts and balance sheets
Visually and verbally demonstrate the income and expenditure account. Followed with student questions.
- To be able to make adjustments as detailed in 6.1 as appropriate
- To be able to calculate accumulated fund
Use Quiz 12

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 Q4 (a), (b) (c)

P3 May 2008 Q2 (g)

Quiz 12 Non-profit making organisations

6.5 Learning outcomes

Manufacturing accounts

- To be able to distinguish between direct and indirect costs
- To be able to distinguish between direct material, direct labour, prime costs and factory overheads
- To understand and make adjustments for work in progress
- To be able to calculate factory cost of production
- To be able to prepare manufacturing accounts, income statements and balance sheets

- To be able to make adjustments to financial statements as detailed in 6.1

Suggested teaching activities

Students should be introduced to the concept of costing goods to get them into saleable condition.
Students could prepare wall charts illustrating a product and showing all the direct and indirect costs that go into the production of that product.

This could be illustrated pictorially for opening and closing work in progress as this aspect often causes problems

Visually and verbally demonstrate the preparation of the manufacturing account. Followed with student questions.

Use Quiz 9

Learning resources

Textbooks

IGCSE & O Level Accounting – Catherine Coucom Chapter 21
IGCSE & O Level Accounting Workbook – Catherine Coucom Questions 109-112
Frank Wood's Book-keeping and Accounts – Sheila Robinson & Frank Wood Chapter 38
Frank Wood's Business Accounting 1
Frank Wood and Alan Sangster Chapter 37

Past examination question:

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

P3 May 2008 Q4 (b), (c)

Quiz 9 Manufacturing accounts

6.6 Learning outcomes

- Incomplete records
 - To be able to prepare opening and closing statements of affairs
- To be able to calculate net profit or loss from changes in capital over time
- To be able to calculate sales, purchases, gross profit, trade receivables (debtors) and trade payables (creditors) and other figures from incomplete information
- To be able to prepare income statements and balance sheets
- To be able to make adjustments to financial statements as detailed in 6.1
- To be able to apply the techniques of mark-up, margin and inventory turnover to arrive at missing figures

Suggested teaching activities

Revise accounting equation.
Teach equation: Closing capital = Opening capital + profit - drawings

Number cards with figures for assets/liabilities and ask students to prepare a balance sheet. Eliminate some numbers and ask students complete the gaps. Probably a good idea to have more than one set of cards depending on the size of the group. It can be run as a competition between groups. The game could also be used to calculate closing trade receivables/trade payables or purchases/sales for the year.

It maybe useful to re-visit the preparation of control accounts in order to prepare them with missing information.

Visually and verbally demonstrate a full example of preparing financial statements from incomplete information. Followed with student questions.

Use Quizzes 10 and 11

Learning resources

IGCSE & O Level Accounting – Catherine Coucom Chapter 17
IGCSE & O Level Accounting Workbook – Catherine Coucom Questions 86-91
Frank Wood's Book-keeping and Accounts – Sheila Robinson & Frank Wood Chapter 35
Frank Wood's Business Accounting 1 Frank Wood and Alan Sangster Chapter 34

Past examination question:
http://teachers.cie.org.uk/login/login_for_m?came_from=http%3A//teachers.cie.org.uk/index.html
P3 Oct 2008 Q3 (a), (b)

Quiz 10 and 11 Incomplete records