

# IGCSE Accounting 0452

## Unit no 8: Accounting principles and policies

### Recommended prior knowledge

Students should have a good grounding of the preparation of financial statements. This should include accounting adjustments and the preparation of the balance sheet.

### Context

It may seem strange that the section dedicated to the accounting rules and principles is left until quite late in the syllabus. It is, however, necessary that students are familiar with the various processes involved in preparing accounts and subsequently the rules and principles fall into place. Some of the applications of the rules will already be familiar although no title will have been applied. Some principles will appear obvious but will be given their formal title.

### Outline

Students will learn the reasons why accounts are prepared with certain rules and principles. At this stage teachers can use the financial statements prepared previously and engage students in making changes to those accounts to illustrate the rules and principles.

### 8.1 Learning outcomes

Accounting principles

- To be able to show understanding of the following accounting principles:

accruals (matching) : that costs must

### Suggested teaching activities

Divide the class into two groups and present the same problem to each. However, give different criteria to each group (e.g. different depreciation methods) and ask them to work through the task. Look at the results and what the consequences are. This could lead to a lively debate!

Use examples to illustrate what happens to profit figures without

### Learning resources

#### Textbooks

IGCSE & O Level Accounting – Catherine Coucom Chapter 10  
 IGCSE & O Level Accounting Workbook – Catherine Coucom Questions 46-49  
 Frank Wood's Book-keeping and Accounts – Sheila Robinson & Frank Wood Chapter 13  
 Frank Wood's Business Accounting 1  
 Frank Wood and Alan Sangster Chapter 10

Past examination question:  
[http://teachers.cie.org.uk/login/login\\_for\\_m?came\\_from=http%3A//teachers.cie.org.uk/index.html](http://teachers.cie.org.uk/login/login_for_m?came_from=http%3A//teachers.cie.org.uk/index.html)  
 P2 May 2009Q1 (a) and (b)  
 P3 May 2009 Q3 (e)

## 8.1 Learning outcomes

be matched against related income

business entity and ownership: that a distinction is made between the financial transactions of a business and those of its owners

consistency: that the same accounting treatment should be applied to similar items at all times

duality: the two-fold aspect of every transactions

going-concern: that accounting assumes that a business will continue to operate indefinitely

money measurement: that transactions must be expressed in monetary terms

prudence: that profit should not be overstated by ignoring foreseeable losses or that revenue should not be recorded before it is earned

realisation: that revenue is recognised as being earned when legal liability to pay is incurred by the customer (i.e. when ownership of goods passes to the customer)

## Suggested teaching activities

adjustments. Probably a good idea to do two years and look at the impact on profit figures.

A good way to explain this principle is by a diagram. The owner as a separate person from the business – list all the assets the owner may have and those the business will have.

An exercise on how different depreciation methods can distort profit figures and hence disclosure on the balance sheet.

This could be illustrated by the giving/receiving principle in conjunction with double entry.

Use an existing balance sheet and look at the value of the business (revise how assets are disclosed). Now substitute assets with revised values as if the company was to be sold/closed down.

Students will enjoy a discussion about football clubs (particularly premier league) where the value of players is entered on the balance sheet but this does not apply to the vast majority of businesses where no monetary value is made of the work force.

Work through an example using two different inventory valuations and look at profits – ask students to suggest the possible consequences.

Re-visit the business documents required to create a transaction – order, goods received and invoice.

## Learning resources

P3 Oct 2009 Q1 (e)  
P2 May 2008 Q1 (c)  
P3 May 2008 Q5 (a)  
P2 Oct 2008 Q1 (c), Q2 (d), Q3 (a)  
P2 Oct 2008 Q5 (b)

## 8.2 Learning outcomes

Accounting policies

- To be able to recognise the influence of international accounting standards and understand the following objectives in selecting accounting policies:

comparability: to recognise that a financial report can only be compared with reports for other periods if similarities and differences can be identified

relevance: that financial information is relevant only if it affects the business decisions

reliability: that financial information is reliable only if it can be depended upon to represent actual events and is free from error and bias

understandability: that a financial report be capable of being understood by the users of that report

## Suggested teaching activities

Students could be presented with a variety of financial statements and to prepare a number of questions they would want to know the answers to before any financial decisions should be made.

Use the phrase 'what if'.

## Learning resources

Past examination question:

[http://teachers.cie.org.uk/login/login\\_for\\_m?came\\_from=http%3A//teachers.cie.org.uk/index\\_html](http://teachers.cie.org.uk/login/login_for_m?came_from=http%3A//teachers.cie.org.uk/index_html)

P3 May 2009 Q3 (d)

P3 Oct 2009 Q2 (d)

## Useful general web links for notes and resources:

- <http://www.bized.co.uk/learn/business/accounting/index.htm>
- <http://www.bbc.co.uk/dragonsden/business/glossary/d>
- <http://www.osbornebooks.co.uk/resources>
- <http://www.bbc.co.uk/schools/gcsebitesize/business/finance/>