

## UNIT 4 Adjustments required for Final Accounts

**Recommended Prior Knowledge:** Students should be competent in preparing Profit and Loss accounts and Balance Sheets from a Trial Balance including making adjustments for depreciation, bad debts, and the owner taking goods for his own use. They should be familiar with either a horizontal or a vertical Balance Sheet presentation.

**Context:** Having studied the previous 3 units they should have an appreciation that these financial statements can be produced more often than once a year in order to give information to the owner on how the business is progressing. The students should by now acknowledge that through the application of adjustments the most accurate picture of the financial state of the business is being prepared.

**Outline:** This unit involves the student in further adjustments to the accounts. They should practise the system that adjustments or notes to the accounts require two ticks (one for the Profit and Loss adjustment and one for the balance Sheet adjustment). The adjustments in this unit are concerned with the disposal of fixed assets and bad debts recovered.

	Learning Outcomes	Suggested Teaching Activities	Online Resources	Other resources
5.1	To recognise the importance of matching costs and revenues.  To understand and prepare the accounting entries for accrued and prepaid expenses and accrued and prepaid income.	<ul style="list-style-type: none"> <li>Roll play situation of a business declaring profits and subsequently lots more bills come in for that accounting period.</li> </ul>		<ul style="list-style-type: none"> <li><i>IGCSE Accounting</i> chapters 8 and 9</li> <li>Frank Wood chapter 11</li> <li>0452/01 June 2003 Q29</li> </ul>
5.2	To understand the importance of the distinction between capital and revenue expenditure and receipts.	<ul style="list-style-type: none"> <li>Use classroom contents to illustrate the difference. A small project could be to ask students to select a favourite business and to investigate capital/revenue expenditure and receipts.</li> </ul>		<ul style="list-style-type: none"> <li><i>IGCSE Accounting</i> chapter 8</li> <li>Frank Wood chapter 18</li> <li>0452/01 June 2003 Q24</li> </ul>
5.3	To recognise that depreciation measures the partial consumption of a fixed asset during its use. <ul style="list-style-type: none"> <li>to understand and prepare the accounting entries for the operation of the straight line (equal instalment), reducing (diminishing) balance and revaluation methods.</li> </ul>	<ul style="list-style-type: none"> <li>Pose the question 'I bought a car last year and now it is only worth a third what I paid for it'. Ask students to offer reasons.</li> </ul>	<a href="http://www.yutor2u.net/revision">www.yutor2u.net/revision</a>  Accounting for Fixed Assets  Depreciation	<ul style="list-style-type: none"> <li>Second hand columns in newspapers.</li> <li><i>IGCSE Accounting</i> chapter 10</li> <li><i>Business Accounts</i> chapter 14</li> <li>Frank Wood chapter 27</li> </ul>

	<ul style="list-style-type: none"> <li>to prepare accounting entries to record the sale of fixed assets, including the use of disposal accounts</li> </ul>			
5.4	<p>To understand and prepare the accounting entries to record bad debts written off.</p> <p>To explain why a bad debt recovered needs to be recorded in the books.</p> <ul style="list-style-type: none"> <li>to understand the meaning of bad debts recovered and make the necessary entries when bad debts are recovered</li> <li>to prepare the accounting entries for the creation of, and adjustments to, a provision for doubtful debts</li> </ul>	<ul style="list-style-type: none"> <li>Work through an example of 'writing off' a debt and then reinstating it.</li> <li>Explain how historical cost and the concept of prudence are involved.</li> </ul>		<ul style="list-style-type: none"> <li><i>IGCSE Accounting</i> chapter 11</li> <li>Frank Wood chapter 28</li> <li>0452/03 June 2003 Q4(b)</li> </ul>
5.5	<p>To understand the basis of stock valuation at the lower of cost and net realisable value.</p> <ul style="list-style-type: none"> <li>to prepare simple stock valuation statements.</li> </ul>			<ul style="list-style-type: none"> <li><i>IGCSE Accounting</i> chapter 8</li> <li><i>Business Accounts</i> chapter 17</li> <li>Frank Wood chapter 30</li> </ul>