

UNIT 5 The Purpose and Functions of Accounting

Recommended Prior Knowledge <Text starts here>

Context: Students will now be familiar with the various adjustments to the accounts (bad debts, bad debt provision, depreciation, purchases/disposals of fixed assets, accruals, prepayments). Students should be practising as many problems as possible working on their accuracy and presentation. Manufacturing accounts, in particular, should be emphasised as students have problems in remembering what costs contribute to Prime Cost and Cost of Production. This unit generally consolidates what has been learnt so far, looking at what the figures produced actually mean.

Outline: In this unit students will be looking at the figures produced in the accounts to analyse and compare with either previous years or other organisations. Ratio analysis forms the basis of this work and students should be able to select the relevant figures necessary for the calculations. Whilst there are many exercises in the various text books students could use the many final accounts they prepared previously. Negative figures often confuse students and this arises with Net Profit %, ROCE% and Quick or Acid Test ratio.

	Learning Outcomes	Suggested Teaching Activities	Online Resources	Other resources
1.1	To understand the need for businesses to record financial information	<ul style="list-style-type: none"> An examination of local high street businesses. What do they do? How many people do they employ? 	www.s-cool.co.uk Click on AS& A level Business Studies and then choose Company Accounts	<ul style="list-style-type: none"> <i>IGCSE Accounting</i> chapter 20 0452/01 June 2003 Q1
1.2	To understand the purposes of measuring business profit and loss. <ul style="list-style-type: none"> to explain how past performance can be analysed to provide a guide for future decision making. 	<ul style="list-style-type: none"> Use of different ratios: liquidity, profitability, efficiency. Teach the students to write a simple report on solving present problems using past performance data 		<ul style="list-style-type: none"> Although not part of the syllabus, an annual report for a PLC could be shown to the class indicating the interested parties in the accounts. <i>IGCSE Accounting</i> chapters 1 and 20 <i>Business Accounts</i> chapter 28
1.3	To identify business assets and liabilities and understand the differences between them	<ul style="list-style-type: none"> As a fun session, prepare cards with figures for assets and liabilities and ask students to assemble the accounting equation. 		<ul style="list-style-type: none"> <i>IGCSE Accounting</i> chapters 1 and 7 0452/01 November 2002 Q1/2 0452/01 June 2003 Q37 0452/02 June 2003 Q2

1.4	<p>To recognise the forms of accounting statements -Trading and Profit and Loss Accounts and Balance Sheets.</p> <ul style="list-style-type: none"> • to evaluate the usefulness of Trading and Profit and Loss accounts and Balance Sheets in presenting information for users. 	<ul style="list-style-type: none"> • This is a nice time to discuss the different terms used in the students' country as opposed to the ones used in the syllabus E.G. In New Zealand : P&L Account is known as the Statement of Financial Performance. 		IGCSE Ch 1,7,20
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