

UNIT 6 Accounting Concepts and Conventions

Recommended Prior Knowledge: Students should have a good grounding of the preparation of financial statements. This should include accounting adjustments and the presentation of the Balance Sheet.

Context: It may seem strange that the section dedicated to the accounting rules and conventions 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 concepts fall into place. Some of the applications of the rules will already be familiar although no title will have been applied. Some concepts will appear obvious but will be given their formal title.

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

	Learning Outcomes	Suggested Teaching Activities	Online Resources	Other resources
	To show an understanding of the main principles underlying the preparation of accounting statements	<ul style="list-style-type: none"> Divide 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. 	www.tutor2u.net/revision Accounting Conventions and Concepts	<ul style="list-style-type: none"> <i>IGCSE Accounting</i> chapter 8 <i>Business Accounts</i> chapter 17- excellent chapter on The Regulatory framework. Good selection of questions. Frank Wood Chapter 10: Accounting Concepts
2.1	To know there is a distinction between the financial transactions of a business and those of its owners: Business entity and ownership	<ul style="list-style-type: none"> A good idea to explain this principle is by a diagram. The owner as separate from the business – list all the assets the owner may have and those the business will have. 		
2.2	To understand the twofold aspect of every transaction: Duality	<ul style="list-style-type: none"> This could be illustrated by the giving / receiving principle in conjunction with double entry. 		
2.3	To know that all transactions must be expressed in monetary terms: Money measurement	<ul style="list-style-type: none"> 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. 		<ul style="list-style-type: none"> <i>IGCSE</i> chapter 20 p240 0452/01 November 2002 Q5

2.4	To appreciate that revenue is earned when ownership of goods passes to the customer that is when legal liability to pay is incurred by the customer: Realisation	<ul style="list-style-type: none"> Re-visit the business documents required to create a transaction – order, goods received note and invoice. 		<ul style="list-style-type: none"> 0452/01 November 2002 Q6
2.5	To understand that the same accounting treatment should be applied to similar items at all times: Consistency	<ul style="list-style-type: none"> An exercise on how different depreciation methods can distort profit figures and hence disclosure on the Balance Sheet. 		
2.6	To understand that all costs must be matched against related income: Matching	<ul style="list-style-type: none"> Use examples to illustrate what happens to profit figures without adjustments. Probably a good idea to do two years and look at the impact on profit figures. 		<ul style="list-style-type: none"> 0452/01 November 2002 Q8
2.7	To know that profit should not be overstated by ignoring foreseeable losses or that revenue should not be recorded before it is earned: Prudence	<ul style="list-style-type: none"> Work through an example using two different stock valuations and look at profits – what could be the consequences? 		<ul style="list-style-type: none"> 0452/01 November 2002 Q9
2.8	To understand that accounting assumes that a business will continue to operate indefinitely: Going concern	<ul style="list-style-type: none"> 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. 		<ul style="list-style-type: none"> 0452/03 June 2003 Q1(c)
	<p>To understand the objectives in selecting accounting policies:</p> <p>Relevance: to understand that financial information is relevant only if it affects the business decisions.</p> <p>Reliability: to understand that financial information is reliable only if it can be depended upon to represent actual events and is free from error and bias.</p> <p>Comparability: to recognise that a financial report can only be compared with reports for other</p>		Company web sites	<ul style="list-style-type: none"> Annual reports Frank Wood chapter 11: Excellent questions which would provide a discussion lesson.

	periods if similarities and differences can be identified. Understandability: to recognise that a financial report must be capable of being understood by the users of that report.			
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