

## Scheme of Work

Cambridge IGCSE<sup>®</sup>

Accounting 0452

Cambridge O Level

Accounting 7707

For examination from 2020



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## Contents

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Contents .....	3
Introduction .....	4
1. The fundamentals of accounting .....	7
2. Sources and recording of data .....	9
3. Verification of accounting records .....	12
4. Accounting procedures .....	16
5. Preparation of financial statements .....	20
6. Analysis and interpretation .....	30
7. Accounting principles and policies.....	33

## Introduction

This scheme of work has been designed to support you in your teaching and lesson planning. Making full use of this scheme of work will help you to improve both your teaching and your learners' potential. It is important to have a scheme of work in place in order for you to guarantee that the syllabus is covered fully. You can choose what approach to take and you know the nature of your institution and the levels of ability of your learners. What follows is just one possible approach you could take and you should always check the syllabus for the content of your course.

Suggestions for independent study (**I**) and formative assessment (**F**) are also included. Opportunities for differentiation are indicated as **Extension activities**; there is the potential for differentiation by resource, grouping, expected level of outcome, and degree of support by teacher, throughout the scheme of work. Timings for activities and feedback are left to the judgment of the teacher, according to the level of the learners and size of the class. Length of time allocated to a task is another possible area for differentiation.

## Guided learning hours

Guided learning hours give an indication of the amount of contact time you need to have with your learners to deliver a course. Our syllabuses are designed around 130 hours for Cambridge IGCSE courses. The number of hours may vary depending on local practice and your learners' previous experience of the subject. The table below give some guidance about how many hours we recommend you spend on each topic area.

Topic	Suggested teaching time (hours / % of the course)
The fundamentals of accounting	It is recommended that this unit should take about 5 hours / 4% of the course
Sources and recording of data	It is recommended that this unit should take about 36 hours / 28% of the course
Verification of accounting records	It is recommended that this unit should take about 16 hours / 12% of the course
Accounting procedures	It is recommended that this unit should take about 16 hours / 12% of the course
Preparation of financial statements	It is recommended that this unit should take about 40 hours / 31% of the course
Analysis and interpretation	It is recommended that this unit should take about 12 hours / 9% of the course
Accounting principles and policies	It is recommended that this unit should take about 5 hours / 4% of the course

## Resources

The up-to-date resource list for this syllabus, including textbooks endorsed by Cambridge International, is listed at [www.cambridgeinternational.org](http://www.cambridgeinternational.org). Endorsed textbooks have been written to be closely aligned to the syllabus they support, and have been through a detailed quality assurance process. As such, all textbooks endorsed by Cambridge International for this syllabus are the ideal resource to be used alongside this scheme of work as they cover each learning objective.

## School Support Hub

The School Support Hub [cambridgeinternational.org/support](http://cambridgeinternational.org/support) is a secure online resource bank and community forum for Cambridge teachers, where you can download specimen and past question papers, mark schemes and other resources. We also offer online and face-to-face training; details of forthcoming training opportunities are posted online. This scheme of work is available as PDF and an editable version in Microsoft Word format; both are available on the School Support Hub at [cambridgeinternational.org/support](http://cambridgeinternational.org/support). If you are unable to use Microsoft Word you can download Open Office free of charge from [www.openoffice.org](http://www.openoffice.org).

## Websites

Website links have been provided below which provide direct access to internet resources for teacher reference and inspiration. Cambridge International is not responsible for the accuracy or content of information contained in these sites and it is important to note that Accounting terminology may deviate from terminology used in the 0452 syllabus. The supplied links should not be understood to be an endorsement of that website or the site's owners (or their products/services) and caution should be exercised in their use.

[www.bbc.com/education](http://www.bbc.com/education)

[www.dineshbakshi.com](http://www.dineshbakshi.com)

[www.dwmbeancounter.com](http://www.dwmbeancounter.com)

[www.myaccountingcourse.com](http://www.myaccountingcourse.com)

[www.osbornebooks.co.uk/quiz](http://www.osbornebooks.co.uk/quiz)



## 1. The fundamentals of accounting

Syllabus ref.	Learning objectives	Suggested teaching activities
1.1 The purpose of accounting	<p>understand and explain the difference between book-keeping and accounting</p> <p>state the purposes of measuring business profit and loss</p> <p>explain the role of accounting in providing information for monitoring progress and decision-making</p>	<p>Complete a brainstorming session with the teacher and the learners on the role of the book-keeper and the accountant.</p> <p>Ask learners to list the businesses in the local high street, shopping centre, local manufacturing businesses, other local businesses such as estate agents, etc. <b>(I)</b></p> <p>This can lead on to an explanation by the teacher of the different types of businesses.</p> <p>In small groups the learners can share their lists and then categorise each business listed. <b>(I)</b></p> <p>Complete a brainstorming session about the duties of a book-keeper and an accountant by one of the businesses listed can follow.</p> <p>The teacher and the learners brainstorm the purposes of measuring business profit and loss.</p> <p><b>Extension activity:</b> It is useful to refer to articles in the local press (or local knowledge) about businesses which have recently closed. For a comparison local businesses which are expanding can be referred to. Learners can be asked to offer suggestions on why some businesses have closed and why others are expanding.</p> <p>The lists prepared for the different types of businesses can also be used as the basis of a class discussion of the need for accounting and the role it plays in decision-making.</p> <p>Ask learners to list why people may be interested in the information in the accounting records and the sorts of decisions they may need to make <b>(I)</b>. Build up a central list on the board of the types of decisions which may need to be made.</p>
1.2 The accounting equation	<p>explain the meaning of assets, liabilities and owner's equity</p> <p>explain and apply the accounting equation</p>	<p>Explain the meaning of the terms assets and liabilities.</p> <p>Prepare a series of cards with examples of assets and liabilities. Working individually, ask learners to classify each example. <b>(I)</b></p>



## 2. Sources and recording of data

<p>2.1 The double entry system of book-keeping</p>	<p>outline the double entry system of book-keeping</p> <p>process accounting data using the double entry system</p> <p>prepare ledger accounts</p> <p>post transactions to the ledger accounts</p> <p>balance ledger accounts as required and make transfer to financial statements</p> <p>interpret ledger accounts and their balances</p> <p>recognise the division of the ledger into the sales ledger, the purchases ledger and the nominal (general) ledger</p>	<p>Explain why it is impractical to prepare a new statement of financial position after each transaction (reference can be made to the statements prepared under 1.2).</p> <p>Prepare a pro-forma ledger account on the board or on a PowerPoint and explain the use of the columns.</p> <p>Prepare a number of blank ledger accounts on the board or a PowerPoint and demonstrate the double entry system of book-keeping.</p> <p>Use one of the exercises completed when preparing statements of financial position after a few transactions, to demonstrate the double entry exercises. Invite individual learners to make the double entries on the board. <b>(I)</b></p> <p>Ask learners to work through double entry exercises. <b>(I)</b></p> <p>It is essential that learners have a thorough knowledge of double entry so plenty of practice is required. The exercises can get progressively more difficult with different types of transactions being introduced. <b>(I)</b></p> <p><b>Extension activity:</b> Before actually teaching balancing of ledger accounts ask learners to calculate how much cash is left at the end of the month, the total sales for the month etc. This can then be used as the basis for teaching the correct way to balance ledger accounts.</p> <p>After year-end financial statements have been taught, the ledger can be re-visited and year-end transfers introduced. Again, plenty of practice is essential. <b>(I)</b></p> <p>Display a completed ledger account on the board or a PowerPoint. Complete a brainstorming session with the teacher and the learners on the meaning of the entries within the account. The importance of precise and complete descriptions of the entries must be emphasised. Ask learners to work through similar exercises individually. <b>(I)</b></p> <p><b>Extension activity:</b> Working in pairs, ask learners to prepare a completed ledger account. This is then passed to another pair of learners who should interpret the account and produce a list of transactions which are recorded in the account. The two groups then get together and discuss the results.</p> <p><b>Extension activity:</b> The teacher and the learners brainstorm about the viability of recording every transaction in the same ledger. Encourage learners to identify a better system of recording transactions.</p> <p>Prepare a series of cards with the names of accounts. Divide learners into pairs. One learner holds up each card and the other names the ledger in which that account would be found. <b>(I)</b></p>
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<p>2.2 Business documents</p>	<p>recognise and understand the following business documents: invoice, debit note, credit note, statement of account, cheque, receipt</p> <p>complete pro-forma business documents</p> <p>understand the use of business documents as sources of information: invoice, credit note, cheque counterfoil, paying-in slip, receipt, bank statement</p>	<p>Teacher and the learners brainstorm on the documents which may be issued during the purchase and sale of goods. Encourage learners to bring in any documents they or their family may have obtained.</p> <p>Explain any business documents which are not familiar to learners.</p> <p>Provide a few partially complete documents and ask learners, working individually to complete them by inserting any missing words and figures. <b>(I)</b></p> <p>Ask learners, working in individually or in pairs to prepare a series of business documents for a complete transaction (sales or purchase/ returns/payment) and then exchange them with another learner or group for peer assessment. <b>(I)</b></p> <p><b>Extension activity:</b> Ask learners to write on each document how many copies would be required, by whom and for what purpose.</p> <p>Teacher and the learners brainstorm on the use of business documents as sources of information. Build up a diagram on the board or PowerPoint to show how documents are used to record transactions.</p>
<p>2.3 Books of prime entry</p>	<p>Explain the advantage of using various books of prime entry</p> <p>explain the use of and process accounting data in the books of prime entry: cash book, petty cash book, sales journal, purchases journal, sales returns journal, purchases returns journal and the general journal</p>	<p>Prepare a set of business documents (sales and purchase invoices, credit notes, debit notes, cheques, paying-in slips, etc.) Divide the learners into groups as give each group a set of documents. Ask each group to enter the documents in the appropriate books of prime entry and ledger accounts. <b>(I)</b></p> <p>Once the entries have been made, exchange the accounting records with another group for peer assessment. <b>(I)</b></p> <p>As with the basic double entry exercises, it is essential that learners have a thorough understanding so plenty of practice is required. The exercises can get progressively more difficult with different types of transactions being introduced. <b>(I)</b></p> <p>Discuss the two types of discount with the learners and draw from them the reasons for these discounts.</p> <p>Prepare a few short exercises involving the calculation of trade discount and cash discount. <b>(I)</b></p> <p>Introduce learners to a two column and a three column cash book by displaying a template on the board or PowerPoint.</p> <p>Demonstrate how transactions are entered in the cash book and posted to the ledger. Individual learners can be invited to make the double entries on the board. <b>(I)</b></p>

<p>Post the ledger entries from the books of prime entry</p> <p>distinguish between and account for trade discounts and cash discounts</p> <p>explain the dual function of the cash book as a book of prime entry and as a ledger account for bank and cash</p> <p>explain the use of and record payments and receipts made by bank transfers and other electronic means</p> <p>explain the apply the imprest system of petty cash</p>	<p>Ask learners to work through double entry exercises involving books of prime entry and the posting to the ledger. <b>(I)</b></p> <p>These can get progressively more difficult.</p> <p><b>Extension activity:</b> Ensure that at least one of the exercises results in a bank overdraft. Discuss with the learners how this arose and how it could have been avoided.</p> <p><b>Extension activity:</b> Provide learners with a list of cash transactions and ask them to determine, giving a reason, which could be regarded as petty.</p> <p>Demonstrate the use of a petty cash book and the posting to the ledger.</p> <p>Provide some learners with petty cash voucher and nominate one learner to act as petty cashier who will then provide the others with “pretend” cash in exchange for the vouchers. The other learners can record these transactions in a petty cashbook on the board. This can then be used to demonstrate the restoration of the imprest. <b>(I)</b></p> <p>Ask learners to work though exercises involving petty cash and the posting to the ledger. These can get progressively more difficult so that they involve the preparation of a cash book as well as a petty cash book. <b>(I)</b></p>
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### Past and specimen papers

Please note, past paper questions are provided for exemplification only and weightings of past paper questions prior to 2020 will longer be relevant for assessment from 2020. Past/specimen papers and mark schemes are available to download at [www.cambridgeinternational.org/support](http://www.cambridgeinternational.org/support) **(F)**

Specimen Paper 2	Question 1, Question 3e
7110 Jun 2017 Paper 22	Question 1a – b
7110 Nov 2017 Paper 21	Question 1b
0452 Nov 2016 Paper 21	Question 2
0452 Mar 2017 Paper 22	Question 1a
0452 Jun 2017 Paper 22	Question 1a
0452 Nov 2017 Paper 22	Question 1a

### 3. Verification of accounting records

Syllabus ref.	Learning objectives	Suggested teaching activities
3.1 The trial balance	<p>understand that a trial balance is a statement of ledger balances on a particular date</p> <p>outline the uses and limitations of a trial balance</p> <p>prepare a trial balance from a given list of balances and amend a trial balance which contains errors</p> <p>identify and explain those errors which do not affect the trial balance: commission compensating complete reversal, omission original entry principle</p>	<p>Make use of an exercise previously worked through by the learners to demonstrate the preparation of a trial balance.</p> <p>Use this to explain what a trial balance is and why it is used.</p> <p>Ask learners to work through exercises involving the preparation of trial balances. These can get progressively more difficult so that they involve the calculation of missing items such as capital. <b>(I)</b></p> <p><b>Extension activity:</b> Working pairs, ask learners to establish a list of what sort of items goes on each side of the trial balance.</p> <p>Use the lists provided by learners to draw up a table on the board covering the rules for the entries in a trial balance.</p> <p>Display a list of errors which could have occurred (reversal, omission, etc.). Workings in groups, or individually, ask learners to consider how each of these errors affects the trial balance. <b>(I)</b></p> <p>Present learners with a handout containing a short double-entry exercise and answer. The answer should contain examples of each of the errors which will not be revealed by a trial balance. Working individually or in pairs ask learners to identify the errors which have been made. <b>(I)</b></p> <p>Working in groups, learners should be asked to identify one error from each category. Exchange these with the list produced by a different group. Each group must identify the type of error and state how that error can be corrected. <b>(I)</b></p>
3.2 Correction of errors	<p>correct errors by means of journal entries</p>	<p>Display a list of errors. The teacher and the learners then brainstorm on how those errors could be corrected.</p> <p>Re-visit the general principle of journal entries. Demonstrate the correction of errors by means of journal entries.</p>

Syllabus ref.	Learning objectives	Suggested teaching activities
	<p>explain the use of a suspense account as a temporary measure to balance the trial balance</p> <p>correct errors by means of suspense accounts</p> <p>adjust a profit or loss for an accounting period after the correction of errors</p> <p>understand the effect of correction of errors on a statement of financial position</p>	<p>Individual learners can be invited to make journal entries on the board. <b>(I)</b></p> <p>Display a trial balance with an imbalance and explain the use of a suspense account.</p> <p>Provide a list of examples of errors which affect the agreement of the trial balance and demonstrate the entries required to correct those errors in the journal and the suspense account.</p> <p>Prepare a series of cards each containing an error. Ask learners to prepare entries to correct the errors. Once the entries have been made the learners exchange their answers for peer assessment. <b>(I)</b></p> <p><b>Extension activity:</b> Before teaching the effect of errors on the financial statements, ask learners to discuss how the errors they have just corrected may have affected the profit calculation and the items in the statement of financial position.</p> <p>Provide a list of errors and ask the learners to state which affect the profit calculation and which affect the statement of financial position. <b>(I)</b></p> <p>Demonstrate the preparation of a statement of revised profit.</p> <p>Demonstrate the effect of errors on the statement of financial position.</p> <p>Ask learners to work through exercises involving correction of errors using the journal and a suspense account. These can get progressively more difficult. <b>(I)</b></p>
3.3 Bank reconciliation	<p>understand the use and purpose of a bank statement</p> <p>update the cash book for bank charges, bank interest paid and received correction of errors, credit transfers, direct debits, dividends and standing orders</p>	<p>The teacher and the learners brainstorm known banking terms (may be able to link up with their business studies lessons).</p> <p>Lead a discussion about bank statements. Do the learners have their own bank accounts? Do their parents have a bank account? Do they keep their own records of money in and money out? Does this always agree with the balance shown on the bank statement? Compile a list of reasons for the differences on the board.</p> <p>Ask learners to write down how each of the each of the items on the list would affect the cash balance. <b>(I)</b></p>

Syllabus ref.	Learning objectives	Suggested teaching activities
	<p>understand the purpose or and prepare a bank reconciliation statement to include bank errors, uncredited deposits and unrepresented cheques</p>	<p>Prepare a list of transactions involving money in and out of the bank. Invite one learner to act as a trader and another to act as a bank employee. Each requires a board or flip chart and enters the transactions from their point of view as “directed” by the other learners. <b>(I)</b></p> <p>The differences in the entries made and the balances shown on the two documents can be discussed.</p> <p>Demonstrate the up-dating of the bank columns of a cash book. Individual learners can be invited to make the entries on the board. <b>(I)</b></p> <p><b>Extension activity:</b> Before actually teaching preparation of a bank reconciliation statement ask learners, working individually or in pairs, to try to prepare a statement to show why bank statement balance does not agree with the updated cash book balance. This can then be used as the basis for teaching the correct way to prepare a bank reconciliation statement.</p> <p>Ask learners to work through exercises involving updating the cash book and preparing a bank reconciliation statement. These can get progressively more difficult such as including overdrawn balances. <b>(I)</b></p>
3.4 Control accounts	<p>understand the purposes of purchases ledger and sales ledger control accounts</p> <p>identify the books of prime entry as sources of information for the control account entries</p> <p>prepare purchases ledger and sales ledger control accounts to include credit purchases and sales, receipts and payments, cash discounts, returns,</p>	<p>Re-visit the preparation of ledger accounts of credit customers and credit suppliers and the division of the ledger.</p> <p>Complete a brainstorming session with learners about the purposes of control accounts. Build up a list on the board.</p> <p>Prepare cards containing items which may be found in a control account. In pairs or small groups learners name the control account in which the item would appear and whether it is a debit or a credit entry. <b>(I)</b></p> <p>The information on the cards and the learners’ lists can then be used to demonstrate the preparation of a purchases ledger and a sales ledger control account. Individual learners can be invited to make entries on the board. <b>(I)</b></p> <p>Re-visit the preparation of books of prime entry.</p> <p>Discuss with the class the advantages of obtaining the information from these books rather than the ledger accounts.</p> <p>Ask learners to make a list of which book of prime entry would be used to obtain the information required to prepare control accounts. <b>(I)</b></p> <p>Ask learners to work through exercises involving the preparation of control accounts. <b>(I)</b></p>

Syllabus ref.	Learning objectives	Suggested teaching activities		
	irrecoverable debts, dishonoured cheques, interest on overdue accounts, contra entries, refunds, opening and closing balance (debit and credit within each account)	<p>Introduce more difficult aspects.</p> <p>A debit balances on a purchases ledger control account can be demonstrated by using a simple ledger account of a credit supplier who has been overpaid by the trader. Get the learners to suggest how this will appear in a purchases ledger control account. Discuss reasons for “minority” balances. Ask learners to prepare control accounts containing such balances. <b>(I)</b></p> <p>Ask two learners to act as traders who buy from and sell to each other. Each learner will need a board or flip chart. Following “directions” from the other learners they prepare the accounts of the two traders as they would appear in each other’s books. <b>(I)</b> Discuss with learners how one account can be set off against the other.</p> <p>Ask learners to prepare control accounts including more challenging items such as contras and minority balances. <b>(I)</b></p>		
<b>Past and specimen papers</b>				
<p>Please note, past paper questions are provided for exemplification only and weightings of past paper questions prior to 2020 will longer be relevant for assessment from 2020. Past/specimen papers and mark schemes are available to download at <a href="http://www.cambridgeinternational.org/support">www.cambridgeinternational.org/support</a> <b>(F)</b></p> <table border="0" data-bbox="152 858 1075 981"> <tr> <td data-bbox="152 858 640 981">           Specimen Paper 2            0452 Nov 2015 Paper 23            7110 Jun 2017 Paper 21            0452 Mar 2018 Paper 22         </td> <td data-bbox="640 858 2085 981">           Question 4            Question 3a – b            Question 1d – f, Question 2            Question 1a – c, Question 4a – b         </td> </tr> </table>			Specimen Paper 2 0452 Nov 2015 Paper 23 7110 Jun 2017 Paper 21 0452 Mar 2018 Paper 22	Question 4 Question 3a – b Question 1d – f, Question 2 Question 1a – c, Question 4a – b
Specimen Paper 2 0452 Nov 2015 Paper 23 7110 Jun 2017 Paper 21 0452 Mar 2018 Paper 22	Question 4 Question 3a – b Question 1d – f, Question 2 Question 1a – c, Question 4a – b			

## 4. Accounting procedures

Syllabus ref.	Learning objectives	Suggested teaching activities
4.1 Capital and revenue expenditures and receipts	<p>distinguish between and account for capital expenditure and revenue expenditure</p> <p>distinguish and account for capital receipts and revenue receipts</p> <p>calculate and comment on the effect on profit of incorrect treatment</p> <p>calculate and comment on the effect on asset valuations of incorrect treatment</p>	<p><b>Extension activity:</b> Before teaching this topic ask learners, working in pairs, to write down the name of a local business and then to make a list of say 8 payments and 8 receipts which that business may have. Ask them to try to divide these receipts and payments into different classes (giving clues to the learners about considering the length of time the payment/receipt will last, whether something tangible was sold/purchased, etc.)</p> <p>Follow this up with a formal introduction to capital and revenue.</p> <p>Provide learners with a table containing say 20 transactions and four columns labelled capital expenditure, revenue expenditure, capital receipt, revenue receipt. Learners tick the appropriate column for each item and exchange sheets with another learner for peer assessment. <b>(I)</b></p> <p><b>Extension activity:</b> Learners can then be provided with the same list of transactions which has been incorrectly completed. Before formally teaching profit correction, ask learners, working in groups, to calculate the effect of the errors on both the profit and the assets.</p> <p>This can then be used as the basis for teaching the correct way to prepare a statement of corrected profit and appropriate extracts from a statement of financial position.</p> <p>Ask learners to complete exercises classifying capital and revenue items and preparing statements of corrected profit.</p> <p>These can get progressively harder and vary in format. <b>(I)</b></p>
4.2 Accounting for depreciation and disposal of non-current assets	<p>define depreciation</p> <p>explain the reasons for accounting for depreciation</p> <p>name and describe the straight-line, reducing balance and revaluation methods of depreciation</p>	<p>Brainstorm with learners on why non-current assets lose value and compile a list on the board.</p> <p>The topic of capital and revenue can be briefly re-visited.</p> <p>If not already covered, learners can be introduced to the accounting principles of matching, prudence and historic cost and how they apply to non-current assets. If accounting principles have already been taught, these three principles can be re-visited.</p> <p>Introduce the main methods of calculating depreciation and demonstrate the calculations involved.</p>

Syllabus ref.	Learning objectives	Suggested teaching activities
	<p>prepare ledger accounts and journal entries for the provision of depreciation</p> <p>prepare ledger accounts and journal entries to record the sale of non-current assets, including the use of disposal accounts</p>	<p>Provide exercises for the learners to complete involving calculations of depreciation using the three methods. Learners to exchange books for peer assessment. <b>(I)</b></p> <p>Demonstrate the ledger entries to record depreciation. Individual learners can be invited to make entries on the board. <b>(I)</b></p> <p>Follow a similar pattern for recording depreciation in the journal and ask learners to complete exercises to record depreciation in the books of account. <b>(I)</b></p> <p>Introduce the disposal of a non-current asset by demonstrating the calculation of profit/loss on disposal on the board.</p> <p>Provide exercises for the learners involving calculation of profit/loss on disposal of a non-current asset. Learners to exchange books for peer assessment. <b>(I)</b></p> <p>Demonstrate the ledger entries to record the disposal of a non-current asset.</p> <p>Follow a similar pattern for recording depreciation in the journal.</p> <p>Ask learners to complete exercises to record depreciation in the books of account. <b>(I)</b> The exercises can get progressively harder.</p>
4.3 Other payables and other receivables	<p>recognise the important of matching costs and revenues</p> <p>prepare ledger accounts and journal entries to record accrued and prepaid expenses</p> <p>prepare ledger accounts and journal entries to record accrued and prepaid incomes</p>	<p>If not already covered, learners can be introduced to the accounting principle of matching and how it applies to expenses and items of income. If accounting principles have already been taught, this principle can be re-visited.</p> <p>Illustrate the matching of expenses and incomes to the financial year by means of a “time line”.</p> <p>Ask learners (working individually or in pairs) to complete a series of calculations of increasing level of difficulty involving the calculation of the expense or income for the year. Encourage the use of “time-lines”. <b>(I)</b></p> <p>Demonstrate the ledger entries to record a prepaid expense and an accrued expense. Repeat using a similar exercise but inviting individual learners to make entries on the board. <b>(I)</b></p> <p>Follow a similar pattern for a prepaid and an accrued item of income and ask learners to complete exercises to record accrued and prepaid income and expenses in the ledger. <b>(I)</b></p>

Syllabus ref.	Learning objectives	Suggested teaching activities
		<p>Demonstrate the journal entries to record a prepaid expense and an accrued expense. Repeat using a similar exercise but inviting individual learners to make entries on the board. <b>(I)</b></p> <p>Ask learners to complete exercises to record accrued and prepaid income and expenses in the journal. <b>(I)</b></p>
4.4 Irrecoverable debts and provision for doubtful debts	<p>understand the meaning of irrecoverable debts and recovery of debts written off</p> <p>prepare ledger accounts and journal entries to record irrecoverable debts</p> <p>prepare ledger accounts and journal entries to record recovery of debts written off</p> <p>explain the reasons for maintaining a provision for doubtful debts</p> <p>prepare ledger accounts and journal entries to record the creation or, and adjustments to, a provision for doubtful debts</p>	<p>Brief explanation of the meaning of the term irrecoverable debts.</p> <p><b>Extension activity:</b> Before teaching this topic, ask learners, working in pairs, to write down what book-keeping entries they think will be required and to list a few reasons why an irrecoverable debt occurs and steps which could be taken to try to avoid irrecoverable debts.</p> <p>A brainstorming session with the teacher and the learners on why irrecoverable debts occur and how they can be reduced. Compile lists on the board.</p> <p>Demonstrate the ledger and journal entries required to write off irrecoverable debts.</p> <p>Explain what is meant by recovery of debts written off. Demonstrate ledger and journal entries to record these.</p> <p>Ask learners to complete exercises involving irrecoverable debts and recovery of debts written off. <b>(I)</b></p> <p>Explanation of a provision for doubtful debts.</p> <p>If not already covered, learners can be introduced to the accounting principles of matching and prudence and how they apply to a provision for doubtful debts. If accounting principles have already been taught, these principles can be re-visited.</p> <p>Demonstrate the ledger entries required for creating and adjusting a provision for doubtful debts. Individual learners can be invited to make the entries on the board. <b>(I)</b></p> <p>Demonstrate the journal entries required to creating and increase a provision for doubtful debts. Follow a similar pattern for a provision which requires reducing. Invite individual learners to make entries on the board. <b>(I)</b></p> <p>Ask learners to complete exercises involving irrecoverable debts, recovery of debts written off and creating and adjusting a provision of doubtful debts. <b>(I)</b></p>

Syllabus ref.	Learning objectives	Suggested teaching activities
		Working in pairs or small groups, ask learners to prepare a few ledger accounts (these could include the account of one or more credit customers, an irrecoverable debts account, a debts recovered account and a provision for doubtful debts account). Exchange books with another group who should then write down an interpretation of each of the entries in the accounts. <b>(I)</b>
4.5 Valuation of inventory	<p>understand the basis of the valuation of inventory at the lower of cost and net realisable value</p> <p>prepare simple inventory valuation statements</p> <p>recognise the importance of valuation of inventory and the effect of an incorrect valuation of inventory on gross profit, profit for the year, equity and asset valuation</p>	<p>Explanation of the principles of inventory valuation.</p> <p>If not already covered, learners can be introduced to the accounting principle of prudence and how it applies to inventory valuation. If accounting principles have already been taught, this principle can be re-visited.</p> <p>Provide details of cost, selling price and amendments such as carriage, damaged goods, etc. for a few items of inventory. Working in groups, ask learners to prepare a simple inventory valuation statement. Exchange books with another group for peer assessment. <b>(I)</b></p> <p>Ask learners to complete a few inventory valuation statements. <b>(I)</b></p> <p>Re-visit profit correction and the effects of errors on asset valuation.</p> <p>Demonstrate the effects on the profit and the assets of incorrect valuation of inventory.</p> <p>Ask learners, working individually, to complete a few short exercises on the effect on financial statements of incorrect inventory valuation. <b>(I)</b></p>

### Past and specimen papers

Please note, past paper questions are provided for exemplification only and weightings of past paper questions prior to 2020 will no longer be relevant for assessment from 2020. Past/specimen papers and mark schemes are available to download at [www.cambridgeinternational.org/support](http://www.cambridgeinternational.org/support) **(F)**

Specimen Paper 2	Question 3a – d
0452 Nov 2017 Paper 22	Question 3a – e, Question 5c – d
7110 Nov 2017 Paper 21	Question 2a – d
0452 Nov 2016 Paper 21	Question 4
0452 Jun 2016 Paper 22	Question 5d – e

## 5. Preparation of financial statements

Syllabus ref.	Learning objectives	Suggested teaching activities
5.1 Sole traders	<p>explain the advantages and disadvantages of operating as a sole trader</p> <p>explain the importance of preparing income statements and statements of financial position</p> <p>explain the difference between a trading business and a service business</p> <p>prepare income statements for trading businesses and for service businesses</p> <p>understand that statements of financial position record assets and liabilities on a specified date</p> <p>recognise and define the content of a statement of financial position: non-current assets, intangible assets, current assets,</p>	<p><b>Extension activity:</b> Before explaining the advantages and disadvantages of operating as a sole trader ask learners, working in pairs, to list as many as they can.</p> <p>The teacher and the learners brainstorm on advantages and disadvantages of operating as a sole trader, compiling lists on the board.</p> <p>Re-visit the introduction to accounting and the reasons for preparing financial statements.</p> <p>Ask learners, working individually, to make a list of sole-trader businesses and to divide them into trading businesses and service businesses. <b>(I)</b></p> <p>Using a prepared list of suitable items, demonstrate the preparation of an income statement for a trading business.</p> <p>Use a simple example initially. Explain how the cost of sales is calculated.</p> <p>Provide learners with a template for a typical income statement for a trading business. Ask them to work through a few short exercises. <b>(I)</b></p> <p>Demonstrate the effect of items such as returns, carriage, etc. and ask learners to work through additional exercises, which get progressively more difficult. <b>(I)</b></p> <p>Brainstorm with learners on how an income statement of a service business may differ from that of a trading business.</p> <p>Demonstrate the preparation of an income statement of a service business.</p> <p>Ask learners to work through exercises on the preparation of income statements of service businesses. <b>(I)</b></p> <p>Re-visit previous work on the preparation of elementary statements of financial position.</p> <p>Introduce the division of the assets and liabilities into different categories.</p>

Syllabus ref.	Learning objectives	Suggested teaching activities
5.1 (cont.)	<p>current liabilities, non-current liabilities and capital</p> <p>understand the inter-relationship of items in a statement of financial position</p> <p>prepare statement of financial position for trading businesses and service businesses</p> <p>make adjustments for provision for depreciation using the straight-line, reducing balance and revaluation methods</p> <p>make adjustments for accrued and prepaid expenses and accrued and prepaid income</p> <p>make adjustments for irrecoverable debts and provisions for doubtful debts</p> <p>make adjustments for goods taken by the owner for own use</p>	<p>Prepare a series of cards with the names of assets and liabilities. Divide learners into pairs. One learner holds up each card and the other names the section of the statement of financial position in which the item would be found <b>(I)</b></p> <p>Re-visit previous work on the effect of transactions on the items within a statement of financial position.</p> <p>Demonstrate how transactions will affect items within a balanced statement of financial position.</p> <p>Introduce the term “working capital”. Demonstrate how transactions can affect this.</p> <p>Ask learners, working in pairs, to work through exercises on how various transactions will affect statement of financial position items. <b>(I)</b></p> <p>Using a prepared list of items, demonstrate the preparation of a statement of financial position for a sole trader business.</p> <p>Provide learners with a template for a typical statement of financial position. Ask them to work through a few short exercises, which can get progressively more difficult. <b>(I)</b></p> <p>Demonstrate the preparation of an income statement and a statement of financial position using a balanced trial balance and show how items are “ticked off” as they are entered in the statements.</p> <p>Ask learners to complete exercises preparing financial statements from trial balances. Learners to exchange books for peer assessment. <b>(I)</b></p> <p>Re-visit previous work on depreciation of non-current assets (types, calculation, ledger entries, and journal entries) and demonstrate how depreciation is entered in the financial statements.</p> <p>Ask learners to complete exercises involving the preparation of financial statements which include depreciation <b>(I)</b></p> <p>Re-visit previous work on accrued and prepaid incomes and expenses (calculation, ledger entries and journal entries) and demonstrate how accruals and prepayments are entered in the financial statements.</p> <p>Ask learners to complete exercises involving the preparation of financial statements which include accrued and prepaid items of income and expenses. <b>(I)</b></p>

Syllabus ref.	Learning objectives	Suggested teaching activities
		<p>Re-visit previous work on irrecoverable debts, and provisions for doubtful debts (calculation, ledger entries, and journal entries) and demonstrate how irrecoverable debts and provisions for doubtful debts are entered in the financial statements.</p> <p>Ask learners to complete exercises involving the preparation of financial statements which include irrecoverable debts and a provision for doubtful debts. <b>(I)</b> and demonstrate how goods taken by the owner for personal use are recorded in the financial statements.</p> <p>Ask learners to work through double entry exercises. <b>(I)</b></p> <p>It is essential that learners have a thorough knowledge of the preparation of financial statements so plenty of practice is required. The exercises can get progressively more difficult with different types of transactions being introduced. <b>(I)</b></p> <p>The types of exercises can be varied – some working from a balanced trial balance, some from a list of balances, some using information provided in prose format. The method of working through exercises can be varied – some prepared individually, some in groups, some as a class exercise, some using templates and so on.</p>
5.2 Partnerships	<p>explain the advantages and disadvantages of forming a partnership</p> <p>outline the importance and contents of a partnership agreement</p> <p>explain the purpose of an appropriation account</p> <p>prepare income statements, appropriation accounts and statements of financial position</p>	<p><b>Extension activity:</b> It may be able to link up with this topic in the business studies lessons.</p> <p>Before explaining the advantages and disadvantages of forming a partnership ask learners, working in pairs, to list these advantages and disadvantages.</p> <p>Complete a brainstorming session with the teacher and the learners on advantages and disadvantages of forming a partnership. Compile lists on the board.</p> <p><b>Extension activity:</b> Before explaining the importance and contents of a partnership agreement ask learners, working in groups, to discuss why a partnership agreement is advisable and suggest suitable items for inclusion.</p> <p>Brainstorm with learners on the reasons for and the composition of a partnership agreement. Compile lists on the board.</p> <p>Introduce learners to the terms interest on capital, interest on drawings, partners' salaries, and residual profit.</p> <p>Demonstrate the preparation of an appropriation account.</p>

Syllabus ref.	Learning objectives	Suggested teaching activities
	<p>record interest on partners' loans, interest on capital, interest on drawings, partners' salaries and the division of the balance of profit or loss</p> <p>make adjustments to financial statements as detailed in 5.1 (sole traders)</p> <p>explain the uses of and difference between capital and current accounts</p> <p>draw up partners' capital and current accounts in ledger account form and as part of a statement of financial position</p>	<p>Provide learners with a template for a partnership appropriation account. Ask them to work through a few short exercises. These should include both residual profits and residual losses. <b>(I)</b></p> <p>Explain how the preparation of an income statement, with adjustments, is exactly the same as that for a sole trader, and that the appropriation statement shows how the profit calculated in the income statement is shared between the partners.</p> <p>Ask learners, working in pairs, to complete a few exercises involving the preparation of an income statement and appropriation account of a partnership business. <b>(I)</b></p> <p>Explain the use of capital and current accounts and demonstrate how to prepare them, making use of one of the completed exercises preparing an income statement and an appropriation account. Individual learners can be invited to make the changes on the board or PowerPoint. <b>(I)</b></p> <p>Brainstorm with learners on why these separate accounts are maintained.</p> <p>Ask learners to complete exercises involving the preparation of capital and current accounts (at least one of these should include debit balances on a current account). <b>(I)</b></p> <p><b>Extension activity:</b> Working in groups, ask learners to discuss how a debit balance on a current account may have arisen and how it can be "removed".</p> <p>Explain how the preparation of a statement of financial position is exactly the same as that for a sole trader apart from the capital section.</p> <p>Demonstrate the presentation of the capital section of a statement of financial position of a partnership, making use of the exercise for which the capital and current accounts have just been prepared.</p> <p>Ask learners to work through a few exercises on the preparation of financial statements of partnerships, and the capital and current accounts of the partners. <b>(I)</b></p>
5.3 Limited companies	explain the advantages and disadvantages of operating as a limited company	<p>Explain the meaning of the term limited liability. It may be possible to link up with the business studies lessons.</p> <p>Ask learners to list the names of any local, national, and international limited companies they have heard of. Take the opportunity to briefly mention the difference between private and public limited companies.</p>

Syllabus ref.	Learning objectives	Suggested teaching activities
5.3 (cont.)	<p>understand the meaning of the term limited liability</p> <p>understand the meaning of the term equity</p> <p>understand the capital structure of a limited company comprising preference share capital, ordinary share capital, general reserve and retained earnings</p> <p>understand and distinguish between issued, called-up and paid-up share capital</p> <p>understand and distinguish between share capital (preference shares and ordinary shares) and loan capital (debentures)</p> <p>prepare income statements, statements of changes in equity and statements of financial position</p>	<p><b>Extension activity:</b> Before explaining the advantages and disadvantages of operating as a limited company ask learners, working in groups, to draw up lists of these advantages and disadvantages. The groups can also compare a limited company with a partnership.</p> <p>Brainstorm with learners the advantages and disadvantages of operating as a limited company. Compile lists on the board. A list of similarities and differences between a limited company and as partnership can also be made.</p> <p>Explain the meaning of the term equity when applied to a limited company. This explanation can be expanded after teaching the capital structure.</p> <p>Explain the capital structure of a limited company – the different types of shares (ordinary and preference) how and why reserves arise and how the retained earnings arises.</p> <p>Explain the difference between ordinary shares and preference shares and how these differ from debentures. It will be necessary to mention the difference between redeemable and non-redeemable preference shares in order to teach learners the different treatment of these types of preference shares.</p> <p>Explain how shareholders receive dividends but debenture holders receive interest.</p> <p>Ask learners, working in groups to complete short-answer questions, true/false questions and multiple choice questions on the differences between ordinary shares, preference shares and debentures. <b>(I)</b></p> <p>Ask learners to complete a series of short calculation exercises on the calculation of debenture interest, preference share dividend and ordinary share dividend, including interim dividends. Learners to exchange books for peer assessment. <b>(I)</b></p> <p>Prepare a series of cards with various terms connected to limited companies. Divide learners into pairs. One learner holds up each card and the other briefly states what is meant by that term. <b>(I)</b></p> <p>Explain how the preparation of an income statement, with adjustments, is exactly the same as that for a sole trader.</p> <p>Explain how the preparation of a statement of financial position is exactly the same as that for a sole trader apart from the capital and reserves section.</p> <p>Explain the reason for the preparation of a statement of changes in equity.</p>

Syllabus ref.	Learning objectives	Suggested teaching activities
	<p>make adjustments to financial statements as detailed in 5.1 (sole traders)</p>	<p>Discuss the entries with the learners and demonstrate the preparation of a statement of changes in equity.</p> <p>Provide learners with a template for a statement of changes in equity. Ask them to work through a few short exercises. Learners can exchange books for peer assessment. <b>(I)</b></p> <p>Demonstrate the presentation of the capital and reserves section of a statement of financial position.</p> <p>Ask learners, working individually, to work through a few exercises on the financial statements of limited companies. <b>(I)</b></p> <p><b>Extension activity:</b> Ask learners, working in pairs, to discuss how the items in a statement of financial position may change as a result of various transactions e.g. issue of ordinary share, transfer to general reserve, payment of a dividend, etc.</p>
5.4 Clubs and societies	<p>distinguish between receipts and payments accounts and income and expenditure accounts</p> <p>prepare receipts and payments accounts</p> <p>prepare accounts for revenue-generating activities, e.g. refreshments, subscriptions</p> <p>prepare income and expenditure accounts and statements of financial position</p> <p>make adjustments to financial statements as</p>	<p>Introduce the topic of clubs and societies by asking learners about any clubs or societies which they know of, or of which they are a member.</p> <p><b>Extension activity:</b> Before explaining the topic further, ask learners, working in groups, to list the differences between a club and a business. They can also list the ways in which a club raises its funds.</p> <p>Complete a brainstorming session with the teacher and the learners on the group discussions on clubs.</p> <p>Re-visit the topic of cash books.</p> <p>Re-visit the topic of capital and revenue expenditure.</p> <p>Demonstrate the preparation of a receipts and payments account. Individual learners can be invited to make entries on the board. <b>(I)</b></p> <p>Ask learners, working individually, to prepare receipts and payments accounts. One exercise could also involve listing items which would not be included in the account and providing reasons for this exclusion. <b>(I)</b></p> <p>Re-visit the preparation of income statements for businesses.</p>

Syllabus ref.	Learning objectives	Suggested teaching activities
	<p>detailed in 5.1 (sole traders) define and calculate the accumulated fund</p>	<p>Demonstrate the preparation of an income statement for a trading activity of a club then ask learners to complete a few exercise on this topic. Learners to exchange books for peer assessment. <b>(I)</b></p> <p>Re-visit the topic of accrued and pre-paid income and the use of a “time-line”.</p> <p>Provide exercises and ask learners to calculate the subscriptions relating to a financial year. <b>(I)</b></p> <p>Demonstrate the preparation of a subscriptions account and ask learners to prepare subscriptions accounts. <b>(I)</b></p> <p>Re-visit the preparation of an income statement of a business, including adjustments.</p> <p>Demonstrate the preparation of an income and expenditure account and ask learners to complete exercises on the preparation of income and expenditure accounts. <b>(I)</b></p> <p>Working in groups, ask learners to make a list of the differences between a receipts and payments account and an income and expenditure account. <b>(I)</b> Brainstorm with learners on the lists prepared by the groups.</p> <p>Explain what is meant by the accumulated fund of a club and how it arises.</p> <p>Explain how the preparation of a statement of financial position is exactly the same as that for a business except that the accumulated fund replaces the capital and demonstrate the presentation of this section of the statement.</p> <p>Ask learners, working individually, to complete exercises on the financial statements of clubs and societies. <b>(I)</b></p> <p><b>Extension activity:</b> Before teaching the topic, ask learners, working in groups, to discuss how clubs can raise funds for various purposes.</p>
5.5 Manufacturing accounts	<p>distinguish between direct and indirect costs</p> <p>understand direct material, direct labour, prime cost and factory overheads</p>	<p>Introduce the topic of manufacturing accounts by asking learners to name any local, national, or international manufacturing businesses they have heard of.</p> <p><b>Extension activity:</b> Before explaining the topic further, ask learners, working in groups, to list all the costs that may result from a named object. Vary the object to suit the learners e.g. if the learners are female, the cost of marking a garment; if the learners are male, the cost of making a motor bike, etc.</p>

Syllabus ref.	Learning objectives	Suggested teaching activities
	<p>understands and make adjustments for work in progress</p> <p>calculate factory cost of production</p> <p>prepare manufacturing accounts, income statements and statement of financial position</p> <p>make adjustments to financial statements as detailed in 5.1 (sole traders)</p>	<p>Brainstorm on the suggestions made by the groups. Make lists on the board or PowerPoint of the costs suggested. The lists should be divided into groups (but not headed at this point) to cover things like materials, labour costs, expenses, assets.</p> <p>These lists can then be broken down into factory costs and admin costs / direct costs and indirect costs / prime cost and cost of production.</p> <p>Ask learners, working individually, to classify a list of costs. <b>(I)</b></p> <p>Demonstrate the preparation of a simple manufacturing account, then provide learners with a template for a manufacturing account. Ask them to work through a few short exercises. Learners can exchange books for peer assessment. <b>(I)</b></p> <p>Introduce the topic of work in progress and how this affects the cost of production and demonstrate the effect of work in progress on the simple manufacturing account used for demonstration.</p> <p>Re-visit the preparation of an income statement of a business, including adjustments and explain how the trading section of an income statement for a manufacturing business differs from that of a trading business.</p> <p>Demonstrate the transfer of the cost of production to the income statement.</p> <p>Demonstrate how the three types of inventory of a manufacturer are presented in a statement of financial position.</p> <p>Ask learners, working individually, to complete exercises on the financial statements of a manufacturing business. <b>(I)</b></p>
5.6 Incomplete records	<p>explain the disadvantages of not maintaining a full set of accounting records</p> <p>prepare opening and closing statements of affairs</p> <p>calculate profit or loss for the year from</p>	<p>Briefly explain that not all businesses maintain a full set of accounting records.</p> <p><b>Extension activity:</b> Before giving further explanation ask learners, working in groups, to list any disadvantages which a trader may encounter if a full set of records is not maintained.</p> <p>Re-visit the accounting equation.</p> <p>Re-visit the preparation of the capital account of a sole trader to remind learners how profit and drawing affect capital.</p>

Syllabus ref.	Learning objectives	Suggested teaching activities
5.6 (cont.)	<p>changes in capital over time</p> <p>calculate sales, purchases, gross profit, trade receivables and trade payables and other figures from incomplete information</p> <p>prepare income statements and statements of financial position from incomplete records</p> <p>make adjustments to financial statements as detailed in 5.2 (sole traders)</p> <p>apply the techniques of mark-up, margin and inventory turnover to arrive at missing figures</p>	<p>Demonstrate the calculation of profit from change in capital over time and ask learners, working individually, to complete a few exercise on the calculation of profit. <b>(I)</b></p> <p>Demonstrate the preparation of opening and closing statements of affairs and the preparation of a capital account to calculate profit.</p> <p>Prepare cards listing names and amounts of assets and liabilities at the start and end of a trader's financial year. Ask the learners, working in pairs, to use the information on the cards to prepare opening and closing statements of affairs and the calculation of profit in a capital account. <b>(I)</b></p> <p>Re-visit the preparation of ledger accounts of credit customers and credit suppliers.</p> <p>Demonstrate the entries in an account for total trade receivables and total trade payables (compare with control accounts which are similar but prepared from different sources and for a different purpose).</p> <p>Demonstrate how "missing" figures can be calculated from these total accounts.</p> <p>Ask learners, working in groups, to complete exercises involving the calculation of "missing" figures. The exercises can get progressively more difficult. For example it may be necessary to prepare a bank account to calculate the amount paid to trade payables before credit purchases can be calculated. <b>(I)</b></p> <p>Re-visit the preparation of financial statements of a sole trader, including adjustments.</p> <p>Ask learners, working individually, to complete exercises on the preparation of financial statements from incomplete information. <b>(I)</b></p> <p>Introduce the topic of calculating mark-up and margin and rate of inventory turnover.</p> <p>Demonstrate calculations and then ask learners, working in pairs, to complete some calculations of these items.</p> <p>Demonstrate the application of these calculations to prepare the trading section of an income statement which has missing information such as revenue, purchase, opening inventory, closing inventory, where it may be necessary to "work backwards".</p> <p>Ask learners, working individually to complete exercises on the topic. These can get progressively more difficult. For example introduce a scenario where part of the inventory was destroyed and part was salvaged. <b>(I)</b></p>

Syllabus ref.	Learning objectives	Suggested teaching activities
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Past and specimen papers		
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Specimen Paper 2	Question 2a – c, Question 5a
0452 Nov 2017 Paper 22	Question 4a
0452 Jun 2017 Paper 21	Question 3a – b
7110 Nov 2016 Paper 22	Question 3
0452 Mar 2018 Paper 22	Question 3
0452 Mar 2017 Paper 22	Question 3
0452 Jun 2017 Paper 22	Question 4a – c
7110 Jun 2016 Paper 21	Question 3

## 6. Analysis and interpretation

Syllabus ref.	Learning objectives	Suggested teaching activities
6.1 Calculation and understanding of accounting ratios	<p>understand, calculate and explain the importance of the following accounting ratios:</p> <ul style="list-style-type: none"> <li>• Gross margin</li> <li>• Profit margin</li> <li>• Return on capital employed (ROCE)</li> <li>• Current ratio</li> <li>• Liquid (acid test) ratio</li> <li>• Rate of inventory turnover (times)</li> <li>• Trade receivables turnover (days)</li> <li>• Trade payables turnover (days)</li> </ul>	<p>Provide each learner with a set of financial statements for a sole trader covering two financial years and a sheet of formulae for the ratios covered by the syllabus.</p> <p>Briefly explain what each ratio shows.</p> <p>Demonstrate the calculation of these ratios for the first financial year.</p> <p>Ask the learners, working individually, to calculate the ratios for the second financial year. <b>(I)</b></p> <p>Ask learners to complete a few exercises involving ratio calculation. <b>(I)</b></p>
6.2 Interpretation of accounting ratios	<p>prepare and comment on simple statements showing comparison of results for different years</p> <p>make recommendations and suggestions for improving profitability and working capital</p> <p>understand the significance of the</p>	<p>Complete a brainstorm with learners comparing the ratios for the two years in the exercise involving the calculation of ratios for two financial years.</p> <p>Ask learners, working in pairs, to complete exercises on comparisons of results. <b>(I)</b></p> <p>Re-visit previous work on the inter-relationship of items in a statement of financial position.</p> <p><b>Extension activity:</b> Before teaching the topic of recommendations for improving profitability and working capital provide learners with a set of financial statements and completed ratios. Ask learners working in groups, to discuss the information provided and suggest how the various ratios can be improved.</p> <p>Ask learners, working in groups, to complete exercise involving the calculation and interpretation of ratios and recommendations for improvement. <b>(I)</b></p>

Syllabus ref.	Learning objectives	Suggested teaching activities
	<p>difference between the gross margin and the profit margin as an indicator of a business's efficiency</p> <p>explain the relationship of gross profit and profit for the year to the valuation of inventory, rate of inventory turnover, revenue, expenses and equity</p>	<p>Re-visit the preparation of an income statement and the calculation of gross profit and profit for the year.</p> <p>Re-visit the calculation of gross margin and profit margin.</p> <p>Discuss with the learners the significance of the difference between these ratios.</p> <p>Re-visit the calculation of the gross profit and profit for the year.</p> <p>Discuss with the learners how these are related to the valuation of inventory, rate of inventory turnover and other items in the financial statements.</p>
6.3 Inter-firm comparison	<p>understand the problems of inter-firm comparison</p> <p>apply accounting ratios to inter-firm comparison</p>	<p>Briefly introduce the topic inter-firm comparison.</p> <p><b>Extension activity:</b> Before giving detailed explanations ask learners, working in groups, to make a list of possible problems of trying to compare two different businesses (two specific businesses can be used for this purpose).</p> <p>Discuss the lists they have made and build up an overall list on the board.</p> <p>Divide learners into groups. Provide each group with a set of financial statements for a sole trader and ask them to calculate a set of accounting ratios. <b>(I)</b></p> <p>Brainstorm with learners on the ratios calculated for each business. Discuss which business has produced better results and why and how the other businesses may be able to improve their ratios.</p> <p>Ask learners, working in pairs, to complete exercises involving the comparison of ratios of different businesses. <b>(I)</b></p>
6.4 Interested parties	<p>explain the uses of accounting information by the following interested parties for decision-making:</p>	

Syllabus ref.	Learning objectives	Suggested teaching activities												
	<ul style="list-style-type: none"> <li>• owners</li> <li>• managers</li> <li>• trade payables</li> <li>• banks</li> <li>• investors</li> <li>• club members</li> <li>• other interested parties such as government tax authorities, etc.</li> </ul>													
6.5 Limitations of accounting statements	be able to recognise the limitations of accounting statements due to such factors as: <ul style="list-style-type: none"> <li>• historic cost</li> <li>• difficulties of definition</li> <li>• non-financial aspects</li> </ul>	Re-visit the work on problems of inter-firm comparison.  Discuss with learners the factors which limit the financial statements. The teacher will probably have to explain the first factor but, by asking directed questions, it may be possible to get learners to provide examples of the last two factors.												
<b>Past and specimen papers</b>														
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7110 Nov 2017 Paper 21	Question 4													
0452 Nov 2017 Paper 22	Question 4													
0452 Mar 2017 Paper 22	Question 2f													
0452 Mar 2018 Paper 22	Question 1d													

## 7. Accounting principles and policies

Syllabus ref.	Learning objectives	Suggested teaching activities
7.1 Accounting principles	<p>explain and recognise the application of the following accounting principles:</p> <ul style="list-style-type: none"> <li>• matching</li> <li>• business entity</li> <li>• consistency</li> <li>• duality</li> <li>• going concern</li> <li>• historic cost</li> <li>• materiality</li> <li>• money measurement</li> <li>• prudence</li> <li>• realisation</li> </ul>	<p>Re-visit previous work on accruals and prepayments, accounting equation and double entry.</p> <p>Explain the accounting principles of matching, business entity, consistency and duality.</p> <p>Divide learners into groups. Ask each group to provide an example from their previous studies of each of the above topics. <b>(I)</b></p> <p>Describe the principles of going concern, historic cost, materiality, money measurement, prudence and realisation.</p> <p>Demonstrate the practical application of the concepts referring to previous topics such as double entry, capital and revenue etc.</p> <p>Prepare a series of cards with the names of accounting principles. Divide learners into pairs. One learner holds up each card and the other briefly describes that accounting principle (alternatively the cards could give the description and the learner be asked to name the principle). <b>(I)</b></p> <p>Ask learners, working individually to complete theoretical exercises on accounting principles. <b>(I)</b></p>
7.2 Accounting policies	<p>recognise the influence of international accounting standards and understand the following objectives in selecting accounting policies:</p> <ul style="list-style-type: none"> <li>• comparability</li> <li>• relevance</li> <li>• reliability</li> <li>• understandability</li> </ul>	<p>Brainstorm with learners on general differences between one country and another.</p> <p>Re-visit the previous work on inter-firm comparison and link to the additional problems of comparing businesses based in different countries.</p> <p>Explain the importance of international accounting standards.</p> <p>Explain the four accounting objectives listed on the syllabus.</p>

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