

Skills Exercises

AO1 Knowledge and understanding

Cambridge IGCSE™ / IGCSE (9–1)
Accounting 0452 / 0985

Cambridge O Level
Accounting 7707

For examination from 2023



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Introduction

Cambridge IGCSE / O Level Accounting attracts a variety of learners from many different backgrounds. For some learners Accounting is a new subject and an opportunity to explore an area of study that interests them, while developing a set of transferable skills. Other learners have previously studied Accounting and are looking to continue developing their knowledge of the subject. Either way, the study of Accounting allows learners to experience the diverse and dynamic world within which organisations exist and gain the knowledge needed to understand how organisations operate within real contexts, analyse alternative courses of action and develop the ability to make justified recommendations.

Skills and why they are important?

Skills are the key to success. The performance of candidates in Cambridge IGCSE/ O Level Accounting examinations have shown a range of areas where improvement would be helpful. These areas of improvement tend to centre around the assessment objectives (AOs) of the course and we have addressed these AOs in three Skills Exercise booklets.

- Skills Exercises – AO1 Knowledge and understanding
- Skills Exercises – AO2 Analysis
- Skills Exercises – AO3 Evaluation

Skills Exercises make use of examination questions and data and include activities and worksheets to help skills development and incorporate suggested teaching approaches, such as group work, discussion, structured support and writing in sequence. They do not attempt to cover all possible aspects of the examinations, only those problem areas which have presented consistently over time.

How will these skills be developed?

The Skills Exercise booklets aim to help learners develop skills in:

- applying knowledge and understanding of facts, terms, concepts, policies, procedures and techniques relating to financial and management accounting in a variety of accounting situations and present outcomes in the most appropriate manner
- developing skills of analysis by selecting, calculating and interpreting financial and management accounting information to communicate outcomes in the most appropriate manner
- building evaluation skills, including making judgements and drawing conclusions based on financial and non-financial data to make recommendations and decisions.

Skills Exercises provide suggestions so you can have confidence that the materials you prepare and use in the classroom are building skills and resilience in your learners. This document should be used alongside the other teaching and learning resources provided on the [School Support Hub](#).

AO1 Knowledge and understanding

Learners demonstrate knowledge and understanding of facts, terms, concepts, policies, procedures and techniques relating to financial accounting and cost and management accounting.

Learners will apply this knowledge and understanding to a variety of accounting situations and problems.

The ability to apply knowledge and understanding to these accounting situations and problems is essential to be able to access AO1 Knowledge and Understanding marks and to produce good quality analysis and evaluation. Learners need to:

- demonstrate knowledge and understanding of facts, terms, concepts, policies, procedures and techniques relating to financial accounting and cost and management accounting
- apply this knowledge and understanding to a variety of accounting situations and problems and present outcomes in the most appropriate form.

The following table contains some command words that might indicate to learners that they need to demonstrate and apply knowledge and understanding.

| Command word | What it means |
|------------------|---|
| Calculate | work out from given facts, figures or information |
| Define | give precise meaning |
| Describe | state the point of a topic/give characteristics and main features |
| Prepare | present information in a suitable format |
| State | express in clear terms |

Exercise 1: Answering the question

When a learner reads an examination question for knowledge and understanding, they should know what is required, whether to demonstrate knowledge and understanding by stating the terms and facts or apply the knowledge and understanding of accounting concepts, policies, procedures and techniques.

Activity 1: How to answer the question

Provide learners with a series of knowledge and understanding questions from either past examination or specimen papers. The questions on **Worksheet 1: How to answer the question** can be used along with any other knowledge and understanding questions.

Skills Exercises

For each question, learners decide what is required. This provides a starting point to answer the question. Go through the worksheet with learners to check they understand what is required of the task. For this activity learners may work individually, in pairs or groups.

Use **Worksheet 1: How to answer the question answers** and ask learners to peer assess each other's work. Lead a class discussion to develop learners' understanding. Ensure any misconceptions are addressed.

Worksheet 1: How to answer the question

For each of the following questions, decide whether it is a demonstration and/or application of knowledge and understanding.

1. Identify two advantages to the business of preparing a purchases ledger control account.

What are you identifying?

Is it demonstration or application of knowledge and understanding or both?

2. State two limitations of preparing accounting statements.

What are you identifying?

Is it demonstration or application of knowledge and understanding or both?

3. Calculate the profit/loss on disposal of a non-current asset for the year ended 31 December 2020.

What are you identifying?

Is it demonstration or application of knowledge and understanding or both?

4. Calculate the adjustment to the provision for doubtful debts for the year ended 31 December 2020.

What are you identifying?

Is it demonstration or application of knowledge and understanding or both?

5. Prepare Stazi's ledger account for the provision for depreciation at 31 May 2020.

What are you identifying?

Is it demonstration or application of knowledge and understanding or both?

6. State three clauses that may be included in a partnership agreement.

| |
|---|
| What are you identifying? |
| Is it demonstration or application of knowledge and understanding or both? |

7. Prepare Angela's cash book for the month ended 31 August 2023 and bring down the balance on 1 September 2023.

| |
|---|
| What are you identifying? |
| Is it demonstration or application of knowledge and understanding or both? |

Worksheet 1: How to answer the question answers

1. Identify two advantages to the business of preparing a purchases ledger control account.

What are you identifying?

Advantages of preparing a purchases ledger control account.

Is it demonstration or application of knowledge and understanding or both?

Demonstration of knowledge and understanding.

2. State two limitations of preparing accounting statements.

What are you identifying?

Limitations of preparing accounting statements.

Is it demonstration or application of knowledge and understanding or both?

Demonstration of knowledge and understanding.

3. Calculate the profit/loss on disposal of a non-current asset for the year ended 31 December 2020.

What are you identifying?

The profit/loss on disposal of a non-current asset.

Is it demonstration or application of knowledge and understanding or both?

Both, demonstration and application of knowledge and understanding.

4. Calculate the adjustment to the provision for doubtful debts for the year ended 31 December 2020.

What are you identifying?

The adjustment to the provision for doubtful debts.

Is it demonstration or application of knowledge and understanding or both?

Both, demonstration and application of knowledge and understanding.

5. Prepare Stazi's ledger account for the provision for depreciation at 31 May 2020.

What are you identifying?

The ledger account for the provision for depreciation.

Is it demonstration or application of knowledge and understanding or both?

Both, demonstration and application of knowledge and understanding.

6. State three clauses that may be included in a partnership agreement.

What are you identifying?

Three items for partnership agreement.

Is it demonstration or application of knowledge and understanding or both?

Demonstration of knowledge and understanding.

7. Prepare Angela's cash book for the month ended 31 August 2023 and bring down the balance on 1 September 2023.

What are you identifying?

The cash book.

Is it demonstration or application of knowledge and understanding or both?

Both, demonstration and application of knowledge and understanding.

Exercise 2: Key terminology

Cambridge IGCSE / O Level Accounting has terminology that learners need to know and understand so they can interpret what is happening in an organisation, select and analyse data and apply this knowledge as required in the examination.

Activity 1: Using accounting terminology

Give learners two similar statements using different accounting terminology. Use the phrases in **Worksheet 2: Using accounting terminology** or select examples from other areas of the syllabus. Go through the worksheet with learners to check they understand what is required of the task. For this activity learners may work individually or in pairs.

Use **Worksheet 2: Using accounting terminology answers** and ask learners to peer assess each other's work. Lead a group discussion about how each term changes the nature of the phrase. Ensure any misconceptions are addressed.

Worksheet 2: Using accounting terminology

Explain the difference between the following business statements.

1.

| Statement 1 | Statement 2 |
|---|--|
| The business makes cash sales. | The business sells a non-current asset for cash. |
| What is the difference between Statement 1 and Statement 2? | |

2.

| Statement 1 | Statement 2 |
|---|---------------------------------------|
| Soham is a shareholder of a business. | Soham is a stakeholder of a business. |
| What is the difference between Statement 1 and Statement 2? | |

3.

| Statement 1 | Statement 2 |
|--|---|
| The business has prepared the trade payables ledger control account. | The business has prepared the trade payables subsidiary ledger account. |
| What is the difference between Statement 1 and Statement 2? | |

4.

| Statement 1 | Statement 2 |
|---|--|
| The business has prepared the income statement. | The business has prepared the statement of financial position. |
| What is the difference between Statement 1 and Statement 2? | |

Worksheet 2: Using accounting terminology answers

1.

| Statement 1 | Statement 2 |
|--|--|
| The business makes cash sales. | The business sells a non-current asset for cash. |
| What is the difference between Statement 1 and Statement 2? <i>Statement 1 is an example of revenue receipts whereas statement 2 is an example of a capital receipt.</i> | |

2.

| Statement 1 | Statement 2 |
|---|---------------------------------------|
| Soham is a shareholder of a business. | Soham is a stakeholder of a business. |
| What is the difference between Statement 1 and Statement 2? <i>A shareholder owns a part of a company whereas a stakeholder is anyone who is interested in a business. All shareholders are stakeholders but not all stakeholders are shareholders.</i> | |

3.

| Statement 1 | Statement 2 |
|---|---|
| The business has prepared the trade payables ledger control account. | The business has prepared the trade payables subsidiary ledger account. |
| What is the difference between Statement 1 and Statement 2? <i>The trade payables ledger control account shows the balance of total trade payables whereas the trade payables subsidiary ledger account shows the balance of the individual trade payables.</i> <i>Ledger control account provides the balance for trade payables to prepare the financial statements whereas the individual balances of subsidiary ledger accounts are to be added together to get the total figure for trade payables to prepare the financial statements.</i> | |

4.

| Statement 1 | Statement 2 |
|---|--|
| The business has prepared the income statement. | The business has prepared the statement of financial position. |
| What is the difference between Statement 1 and Statement 2? <i>The income statement consists of two sections the trading section and the profit and loss section.</i> <i>The statement of financial position shows the assets and liabilities of a business on a certain date.</i> | |

Activity 2: Key terminology meanings

Many terms in accounting can mean the same thing. It is important that learners understand these terms and what they mean.

Provide learners with a list of key terminology, some of which have the same meaning. The list in **Worksheet 3: Key terminology meanings** can be used as a basis for some of these.

Learners find the odd one out which has a completely different meaning to the other terms and explain why. Go through the worksheet with learners to check they understand what is required of the task. For this activity learners may work individually or in pairs.

Use **Worksheet 3: Key terminology meanings answers** and ask learners to peer assess each other's work. Lead a group discussion about how and why the odd one out has a different meaning. Ensure any misconceptions are addressed.

Worksheet 3: Key terminology meanings

Which of the following terms has a different meaning to the other terms and is the odd one out?

Highlight the word and explain why in the box below.

1.

- Invoice
- Debit note
- Credit note

Why is it the odd one out?

2.

- Consistency
- Comparability
- Materiality

Why is it the odd one out?

3.

- Cash discount
- Settlement discount
- Trade discount

Why is it the odd one out?

4.

- Sales daybook
- Sales journal
- Sales account

Why is it the odd one out?

Worksheet 3: Key terminology meanings answers

1.

- **Profit**
- Revenue
- Turnover

Why is it the odd one out?

The other two terms mean the amount gained from selling goods. Profit requires the subtraction of costs/expenses from this amount.

2.

- Consistency
- **Comparability**
- Materiality

Why is it the odd one out?

Comparability is an accounting policy whereby accounts are prepared under international guidelines. The other two terms are accounting principles which are rules for recording financial information

3.

- Cash discount
- Settlement discount
- **Trade discount**

Why is it the odd one out?

The other two terms mean that the discount is allowed for early payment of the amount due, but trade discount is not dependent on payment made, it is allowed for bulk buying and for loyalty.

4.

- Sales daybook
- Sales journal
- **Sales account**

Why is it the odd one out?

The other two terms are books of prime entry to record the credit sales, but the purchases account records the sales whether cash or credit.

Activity 3: Stating different examples

An examination question can have a simple topic at its core but require different examples to be given to allow a full answer.

Learners need to be able to link these different types together so they can choose the most important or most relevant ones to use in an answer.

Give learners a topic area from the syllabus. The topics in **Worksheet 4: Stating different examples** can be used as a basis for these terms or any other topic from the syllabus could be used. Go through the worksheet with learners to check they understand what is required of the task. For this activity learners may work individually or in pairs.

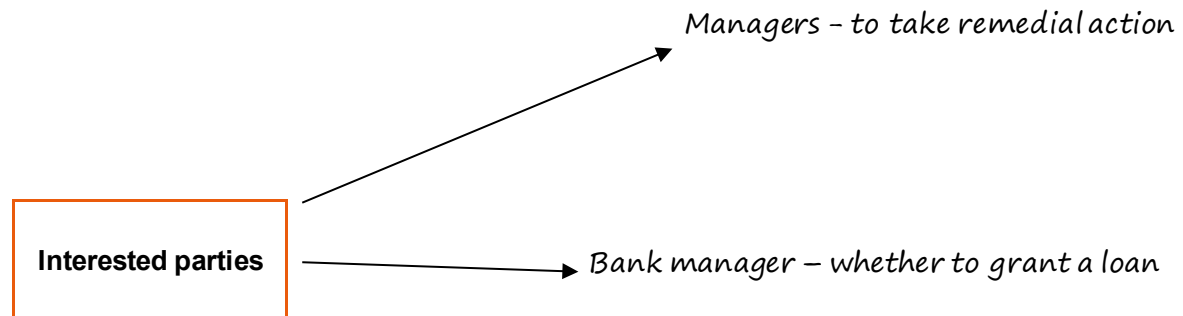
Learners create a mind-map using different examples that link to the specific topic.

Use **Worksheet 4: Stating different examples answers** and ask learners to peer assess each other's work. Lead a class discussion so that learners can share each group's ideas. Where a group has added an example that no-one else has, ask for an explanation as to why/how it links to the topic.

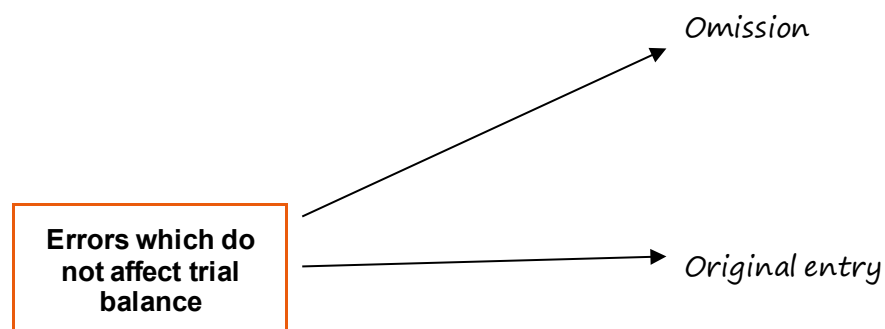
Develop this into a discussion on which example might be most relevant when answering different examination questions. Ensure any misconceptions are addressed.

Worksheet 4: Stating different examples

1. State as many as possible different examples of interested parties of accounting information. The first two have been added for you.



2. State as many as possible different types of errors which do not affect the trial balance. The first two have been added for you.



Worksheet 4: Stating different examples answers**1.****Interested parties of financial information***Owners**Employees**Managers**Customers**Bank manager**Trade unions**Trade payables**Government departments**Potential buyer**Club members***2.****Errors which do not affect the trial balance***Omission**Original entry**Commission**Reversal**Principle**Compensating*

Activity 4: Key terminology definitions

Learners should have access to a set of definitions for as many key terms as possible. Most of the key terminology is found in the syllabus and can be found in a good textbook or on the internet.

Provide pairs of learners with a different topic from the syllabus. For example, the subject content, Topic 5.2 Partnerships, can be split into the following topics depending on how many learners you have.

| Topic | Sub-topics |
|-------------------------|---|
| 5.2 Partnerships | <ul style="list-style-type: none"> • explain the advantages and disadvantages of forming a partnership • outline the importance of a partnership agreement • explain the purpose of an appropriation account • prepare income statements, appropriation accounts and statements of financial position • record interest on partners' loan, interest on capital, interest on drawings, partners' salaries and the division of profit or loss • make adjustments to financial statements, e.g. goods taken by a partner for own use • explain the uses and differences between capital and current accounts • draw up partners' capital and current accounts in ledger account form as part of a statement of financial position. |

Learners list every key term they can find in their topic from the syllabus.

Learners then find a definition for that key term and record it.

When completed, discuss and fill in any gaps so learners have a complete definition list.

Alternatively, it is possible to build a vocabulary list while teaching the syllabus. As each topic of the syllabus is taught, give learners the correct definitions.

Exercise 3: Calculations

The ability to use numbers is an essential skill in Cambridge IGCSE / O Level Accounting. However, many calculations are based on a formula which must be known and understood.

Activity 1: Formulae

In addition to formulae for specific ratios in the syllabus, give learners a list of the most common formulae which are listed on **Worksheet 5: Formulae** or add to this to create a complete list for the course. Go through the worksheet with learners to check they understand what is required of the task. For this activity learners may work individually or in pairs.

Use **Worksheet 5: Formulae answers** and ask learners to peer assess each other's work. Lead a discussion about the information that each formula shows and how useful it may be to the business.

Ensure any misconceptions are addressed.

Worksheet 5: Formulae

Identify the correct formula for each of the following calculations:

| Calculations | Formula |
|---|---------|
| Total revenue / Sales revenue / Turnover = | |
| Profit/Loss = | |
| Depreciation (Straight-line method) = | |
| Depreciation (Reducing value method) = | |
| Profit/loss on disposal of non-current assets = | |
| Accumulated depreciation | |
| Gross margin = | |
| Mark up = | |
| Profit margin | |
| Return on capital employed = | |
| Net current assets (Working capital) = | |
| Current ratio = | |
| Liquid (Acid test) ratio = | |
| Rate of inventory turnover = | |
| Trade receivables turnover = | |
| Trade payables turnover = | |

Worksheet 5: Formulae answers

| Calculations | Formula |
|---|--|
| Total revenue / Sales revenue / Turnover = | Units sold X selling per unit |
| Profit/Loss = | Selling price per unit – Costs per unit <i>OR</i> Total revenue – total costs/expenses |
| Depreciation (Straight-line method) = | Cost of non-current asset X rate of depreciation |
| Depreciation (Reducing value method) = | (Cost of non-current asset – Accumulated depreciation on non-current asset) X rate of depreciation |
| Profit/Loss on disposal of non-current assets = | Sale proceeds of non-current assets – Carrying value of non-current assets |
| Accumulated depreciation= | Depreciation to date + current year's depreciation |
| Gross margin = | $\frac{\text{Gross Profit}}{\text{Revenue}} \times 100$ |
| Mark up = | $\frac{\text{Gross Profit}}{\text{Cost of Sales}} \times 100$ |
| Profit margin | $\frac{\text{Profit for the year}}{\text{Revenue}} \times \frac{100}{1}$ |
| Return on capital employed = | $\frac{\text{Net profit before interest}}{\text{Capital Employed}} \times 100$ |
| Net current assets (Working capital) = | Current assets – Current liabilities |
| Current ratio = | $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ |
| Liquid (Acid test) ratio = | $\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$ |
| Rate of inventory turnover = | $\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$ |
| Trade receivables turnover = | $\frac{\text{Trade Receivables}}{\text{Credit Sales}} \times \frac{365}{1}$ |
| Trade payables turnover = | $\frac{\text{Trade Payables}}{\text{Credit Purchases}} \times \frac{365}{1}$ |

Activity 2: Use of formulae

Learners need to understand and apply the formulae for the provided situation to find the required information to answer the multiple-choice questions.

Provide learners with formulae to be completed for different accounting problems. **Worksheet 6: Use of formulae** can be used or replaced with other accounting formulae. Go through the worksheet with learners to check they understand what is required of the task. For this activity learners may work individually or in pairs. Learners complete the formulae sheet by writing the formulae.

Use **Worksheet 6: Use of formulae answers** and ask learners to peer assess each other's work. The completed formulae sheet can be circulated as handouts to the class.

Ensure any misconceptions are addressed.

Worksheet 6: Use of formulae

Identify the correct answer by using the correct formula.

1. A trader provided the following information for the year ended 30 September 2021.

| | \$ |
|---------------|---------|
| Revenue | 150 000 |
| Cost of sales | 95 000 |
| Expenses | 18 000 |

What was the profit for the year as a percentage of revenue?

- A.** 24.67% **B.** 36.67% **C.** 38.95% **D.** 57.89

2. A business provided the following information:

| | \$ |
|-------------------------------------|---------|
| Year-end capital | 230 000 |
| Long term loan | 45 000 |
| Profit for the year before interest | 27 000 |
| Finance costs | 1800 |

What was the return on capital employed?

- A.** 9.16% **B.** 9.82% **C.** 10.96% **D.** 11.74%

3. Robbi's working capital consisted of the following:

| Current assets | \$ | Current liabilities | \$ |
|-------------------|--------|---------------------|--------|
| Inventory | 10 600 | Trade payables | 14 600 |
| Trade receivables | 13 200 | Bank overdraft | 5900 |
| Cash | 1140 | | |

Calculate Robbi's current (working capital) ratio.

- A.** 0.70:1 **B.** 0.82:1 **C.** 1.22:1 **D.** 2.11:1

4. Jim provided the following information for the year ended 31 December 2021:

| | \$ |
|-----------------------|---------|
| Revenue | 226 000 |
| Cost of sales | 169 500 |
| Inventory 1 January | 19 600 |
| Inventory 31 December | 18 200 |

Calculate Jim's rate of inventory turnover.

- A.** 9.32 times **B.** 9.97 times **C.** 11.96 times **D.** 12.42 times

5. Remi provided the following information for the year ended 31 March 2022:

| | |
|-----------------------|--------|
| | \$ |
| Revenue- credit sales | 74 000 |
| cash sales | 2800 |
| Trade receivables | 6900 |

What is the rate of trade receivables turnover for the year? Calculate to the nearest whole day.

- A.** 11 days **B.** 12 days **C.** 33 days **D.** 35 days

Worksheet 6: Use of formulae answers**1. What was the profit for the year as a percentage of revenue?****A.** 24.67%

Formula

$$\text{Profit (\%)} = \frac{\text{Profit}}{\text{Revenue}} \times 100 \qquad \frac{37\,000}{150\,000} \times 100 = 24.67\%$$

Capital employed = issued shares + reserves + non-current liabilities

2. What was the return on capital employed?**B.** 9.82%

Formula

$$\text{Return on capital employed (\%)} = \frac{\text{Profit from operations}}{\text{Capital employed}} \times 100 \qquad \frac{27\,000}{275\,000} \times 100 = 9.82\%$$

3. Calculate Robbi's current (working capital) ratio.**C.** 1.22:1

Formula

$$\text{Current assets: current liabilities} \qquad 24\,940:20\,500 = 1.22:1$$

4. Calculate Jim's rate of inventory turnover.**B.** 9.97 times

Formula

$$\frac{\text{Cost of sales}}{\text{Average inventory}} \times 365 \qquad \frac{169\,500}{18\,900} \times 365 = 9.97 \text{ times}$$

5. What is the rate of trade receivables turnover for the year? Calculate to the nearest whole day.**D.** 35 days

Formula

$$\frac{\text{Trade receivables}}{\text{Credit sales}} \times 365 \qquad \frac{6\,900}{74\,000} \times 365$$

Exercise 4: Accounting principles and policies

The syllabus includes the accounting principles and policies that need to be known and understood. The basic elements of each accounting principle can be summarised so they can be easily recalled by learners.

Activity 1: Complete the principles

Accounting concepts are an important foundation for gaining knowledge and understanding of the subject. Learners need to understand how each principle can be used to help with the higher level skills of analysis and evaluation.

Learners should develop a comprehensive knowledge of all the accounting included in the syllabus.

Provide learners with a partially completed diagram representing one or more of the accounting principle from the syllabus. The principles in **Worksheet 7: Complete the principles** can be replaced with different ones as required. Go through the worksheet with learners to check they understand what is required of the task. For this activity learners may work individually or in pairs.

Use **Worksheet 7: Complete the principles answers** and ask learners to peer assess each other's work. Lead a group discussion around when the specific principle might be used.

Ensure any misconceptions are addressed.

Worksheet 7: Complete the principles

Complete each concept by inserting the missing words.

1. Matching principle...

| | | |
|--------------|--------------------|-------------|
| states that | incurred are | |
| to the | earned | during that |
| particular | year. | |

2. Historic...

| | | |
|--------------------|--------------|----------|
| states that | and | |
| should be recorded | in the | at their |
| | | |

3. Business entity...

| | | |
|------------------|-------|---------------|
| states that | | is treated as |
| | from | |
| of the business. | | |

Worksheet 7: Complete the principles answers

1. Matching principle...

| | | |
|-----------------------|------------------------------|----------------|
| states that | <i>expenses</i> incurred are | <i>matched</i> |
| to the <i>revenue</i> | earned | during that |
| particular | <i>accounting</i> year. | |

2. Historic...

| | | |
|----------------------|-------------------------------|-----------------|
| states that | <i>all assets</i> and | <i>expenses</i> |
| should be recorded | in the <i>ledger</i> accounts | at their |
| <i>actual cost</i> . | | |

3. Business entity...

| | | |
|----------------------------|---------------------|------------------|
| states that | <i>the business</i> | is treated as |
| <i>completely separate</i> | from | <i>the owner</i> |
| of the business. | | |

Activity 2: Accounting techniques/methods presentations

Provide each learner with an accounting technique/method. Depending on the number of learners, you may need to give each learner more than one technique.

Learners prepare a presentation and notes on their accounting technique. Learners give the presentation to the whole group and hand out the notes. The most common techniques/methods are shown below.

- sources and recording of data
- verification of accounting records
- accounting procedures
- preparation of financial statements.

Exercise 5: Facts, terms and principles

Learners need to demonstrate knowledge and understanding of facts, terms, principles, policies, procedures and techniques relating to book-keeping and financial accounting.

Learners apply this knowledge and understanding to a variety of accounting situations and problems. These accounting situations and problems are ones that learners are likely to be familiar with and may have encountered during their study.

The ability to apply knowledge and understanding to these accounting situations and problems is essential to be able to access AO1 Knowledge and Understanding marks and to produce good quality analysis and evaluation.

Activity 1: Knowing facts, terms and concepts

Learners need to understand that for facts, terms and principles, there is only one correct answer.

Give learners different questions with four possible answers **A**, **B**, **C** and **D**. **Worksheet 8: Knowing facts, terms and principles** can be used or replaced with other ones.

For each question, learners choose the correct answer. Go through the worksheet with learners to check they understand what is required of the task. For this activity learners may work individually or in pairs.

Use **Worksheet 8: Knowing facts, terms and principles answers** and ask learners to peer assess each other's work. Ensure any misconceptions are addressed.

Worksheet 8: Knowing facts, terms and principles

For each question, choose one correct option.

1. In financial statements, inventories are valued at the lower cost and net realisable value in the statement of financial position. Which accounting principle is being applied?

- A duality
- B historic cost
- C matching
- D prudence

2. In which book of prime entry is the contra between the sales ledger control account and the purchases ledger control account recorded?

- A cash book
- B general journal
- C purchases journal
- D sales journal

3. Which statement about debentures is not correct?

- A Debentures have a fixed rate of interest.
- B Debenture interest must be paid regardless of profit.
- C Debentures carry voting rights.
- D Debentures are a non-current liability.

4. In Arlo's books an invoice received from Bill was credited to Phil's account.

Which type of error has been made?

- A commission
- B compensating
- C complete reversal
- D principle

5. What is the role of a book-keeper?

- A to advise on business plans
- B to analyse the profit or loss for the period
- C to maintain records of financial transactions
- D to prepare financial statements

Worksheet 8: Knowing facts, terms and principles answers

1. In financial statements, inventories are valued at the lower cost and net realisable value in the statement of financial position. Which accounting principle is being applied?

D prudence

2. In which book of prime entry is the contra between the sales ledger control account and the purchases ledger control account recorded?

B general journal

3. Which statement about debentures is not correct?

D debentures carry voting rights

4. In Arlo's books an invoice received from Bill was credited to Phil's account.

Which type of error has been made?

A commission

5. What is the role of a book-keeper?

C to maintain records of financial transactions

Activity 2: Different statements

Learners need to understand how different accounting statements can apply to the context / term / situation / scenario.

Provide learners with a mixture of different accounting statements which may or may not apply to the context / term / situation / scenario provided. The different statements in **Worksheet 9: Different statements** can be used or replaced with other accounting statements. Go through the worksheet with learners to check they understand what is required of the task. For this activity learners may work individually or in pairs. Learners identify the correct statements applied to the context / term / situation / scenario.

Use **Worksheet 9: Different statements answers** and ask learners to peer assess each other's work. Lead a discussion around the different statements and how they apply or do not apply to the provided context / term / situation / scenario.

Ensure any misconceptions are addressed.

Worksheet 9: Different statements

Identify the correct statements that apply to the provided context / term / situation / scenario.

1. The costs relating to the purchase of a new van include the following:

1. Costs to customise the new van
2. Initial cost of the van
3. Insurance
4. Petrol expense

What were the costs recorded in capital expenditure?

- A.** 1 and 2
- B.** 1 and 4
- C.** 2 and 3
- D.** 2 and 4

2. A book-keeper reconciles the control accounts with the sales and purchases ledgers. Which errors are identified in this way?

1. A figure was transposed when copied from a book of prime entry to a personal account
2. An incorrect amount was entered in a book of prime entry
3. A total in a book of prime entry was incorrect
4. A transaction was omitted from a book of prime entry

- A.** 1, 2 and 3
- B.** 1, 2 and 4
- C.** 1 and 3 only
- D.** 2 and 4 only

3. What are the advantages to a sole trader of forming a partnership?

1. Losses can be shared by all partners
2. More capital may be available to the business
3. Profits will be greater than those of a sole trader
4. There may be disagreements between partners

- A. 1 and 2
- B. 1 and 3
- C. 2 and 3
- D. 3 and 4

4. A business wants to increase its working capital. Which of the following actions will increase working capital?

- 1. Delaying payment to credit suppliers
- 2. Obtaining a long term bank loan
- 3. Selling inventory at cost price
- 4. Selling unused non-current assets

- A. 1 and 2
- B. 1 and 3
- C. 2 and 4
- D. 3 and 4

5. Which statements about a bank reconciliation are correct?

- 1. It includes cheques not yet presented to the bank
- 2. It is a statement of the trader's account as it appears in the books of the bank
- 3. It is sent by the bank at regular intervals
- 4. Receipts not yet recorded by the bank are included

- A. 1 and 2
- B. 2 and 3
- C. 1 and 4
- D. 2 and 4

Worksheet 9: Different statements answers

1. The costs relating to the purchase of a new van include the following.

1. Costs to customise the new van
2. Initial cost of the van
3. Insurance
4. Petrol expense

What were the costs recorded in capital expenditure?

A. 1 and 2

Costs 3 and 4 are considered revenue expenditure.

2. A book-keeper reconciles the control accounts with the sales and purchases ledgers. Which errors are identified in this way?

1. A figure was transposed when copied from a book of prime entry to a personal account
2. An incorrect amount was entered in a book of prime entry
3. A total in a book of prime entry was incorrect
4. A transaction was omitted from a book of prime entry

C. 1 and 3

Statements 2 and 4 are incorrect as an incorrect amount in prime entry will be carried forward to all the subsequent posting to ledger accounts and a transaction omitted would not be posted anywhere.

3. What are the advantages to a sole trader of forming a partnership?

1. Losses can be shared by all partners
2. More capital may be available to the business
3. Profits will be greater than those of a sole trader
4. There may be disagreements between partners

A. 1 and 2

Statements 3 and 4 are incorrect as profits will be shared among the partners and when there is more than one person, disagreements happen as the decisions are taken collectively.

4. A business wants to increase its working capital. Which of the following actions will increase working capital?

1. Delaying payment to credit suppliers
2. Obtaining a long term bank loan
3. Selling inventory at cost price
4. Selling unused non-current assets

C. 2 and 4

Statements 1 and 3 are incorrect as those actions only change elements within the existing working capital whereas statements 2 and 4 realise an injection of cash to the working capital.

5. Which statements about a bank reconciliation are correct?

1. It includes cheques not yet presented to the bank
2. It is a statement of the trader's account as it appears in the books of the bank
3. It is sent by the bank at regular intervals
4. Receipts not yet recorded by the bank are included

C. 1 and 4

Statements 2 is incorrect as there may be timing differences between what is recorded in the cash book and the account at the bank. Statement 3 is incorrect as the bank reconciliations are prepared by the business on a regular basis.

Activity 3: Use of formats

Learners need to understand and apply the formats for the provided situation to find the required information to answer the multiple-choice questions.

Provide learners with formats to be completed for different ledger accounts and financial statements.

The formats for the financial statements can be split into different sections such as current assets section or total equity section, etc. **Worksheet 10: Use of formats** can be used or replaced with other accounting formats. Go through the worksheet with learners to check they understand what is required of the task. For this activity learners may work individually or in pairs. Learners complete the formats provided by writing the description/details.

Use **Worksheet 10: Use of formats answers** and ask learners to peer assess each other's work. The completed formats can be discussed, and the finalised format can be circulated as handouts to the class.

Ensure any misconceptions are addressed.

Worksheet 10: Use of formats

Identify the correct answer by completing the required formats.

1. A business has a financial year end of 31 December. It purchased a motor vehicle on 1 January 2017 for \$30 000. The estimated useful life of the motor vehicle was four years. The estimated residual value at the end of four years was \$10 000. The business depreciates motor vehicles at 25% per year using the reducing balance method. No depreciation is charged in the year of disposal.

What was the profit/loss on the sale of the motor vehicle?

- A.** \$1344 profit **B.** \$6500 profit **C.** \$1000 loss **D.** \$18 437

2. Zain provided the following information for the year ended 31 December 2021.

| | | \$ |
|--------------------------------------|-------------|--------|
| Amount owing by credit customers | 1 Jan 2021 | 1290 |
| | 31 Dec 2021 | 2170 |
| Cheques paid by credit customers | | 15 320 |
| Discount allowed to credit customers | | 120 |
| Goods returned by credit customers | | 1160 |

How much were the credit sales for the year?

- A.** \$15 160 **B.** \$15 720 **C.** \$17 240 **D.** \$17 480

3. Amrit is a trader. For the year ended 31 December 2021, the following information is available:

| | \$ |
|--------------------------------------|---------|
| • Revenue for the year | 100 000 |
| • Inventory at the start of the year | 12 000 |
| • Purchases for the year | 75 000 |
| • Carriage inwards | 1500 |

The mark-up is 25%

What is the value of inventory at the end of the year?

- A.** \$5500 **B.** \$8500 **C.** \$10 500 **D.** \$13 500

Skills Exercises

4. Aden and Bill commenced a partnership in 1 June 2020, sharing profits and losses. They provided the following information at 31 May 2021.

| | \$ | \$ |
|---------------------------|---------------|--------|
| Profit for the year | | 74 000 |
| Interest on capital: Aden | 5000 | |
| Bill | <u>4000</u> | 9000 |
| Salary: Bill | | 12 000 |
| Drawings: Aden | 20 000 | |
| Bill | <u>15 000</u> | 25 000 |

What is the balance on Bill's current account at 31 May 2021?

- A.** \$14 200 **B.** \$22 200 **C.** \$24 800 **D.** \$32 800

5. Some members of a sports club had not paid their annual subscriptions at the end of the financial year.

Where will these unpaid subscriptions be shown in the financial statements?

Complete the table by placing a tick (✓) in the correct columns.

| | receipts and payments account | income and expenditure account | statement of financial position |
|----------|----------------------------------|-----------------------------------|------------------------------------|
| A | | | |
| B | | | |
| C | | | |
| D | | | |

Worksheet 10: Use of formats answers

1. What was the profit/loss on the sale of the motor vehicle?

A. \$1875 – This required a disposal account format.

Disposal Account

| Debit (DR) | | | Credit (CR) | | |
|-------------|---|-------------|--------------|---|-----------|
| Date | Details | Amount \$ | Date | Details | Amount \$ |
| 1 Jan 2017 | Cost | 30 000 | 31 Dec 2020 | Accumulated Depreciation | 17 344 |
| 31 Dec 2020 | Profit on disposal/Statement of profit or loss/Income statement | 1344 | 30 July 2020 | Sale proceeds/Bank | 14 000 |
| | | | | Loss on disposal/Statement of profit or loss/income statement | - |
| | | 31 344 | | | 31 344 |

2. How much were the credit sales for the year?

D. \$17 480 debit

Sales Ledger Control Account

| Debit (DR) | | Credit (CR) | |
|-------------|---------------|------------------|-----------|
| Details | Amount \$ | Details | Amount \$ |
| Balance b/d | 1290 | Sales returns | 1160 |
| Sales | 17 480 | Bank | 15 320 |
| | - | Balance c/d | 2170 |
| | | Discount allowed | 120 |
| | 18 770 | | 18 770 |

3. What is the value of inventory at the end of the year?**B. \$8500**

| Amount \$ | | |
|-------------------|-------------|---------|
| Revenue | | 100 000 |
| Opening inventory | 12 000 | |
| Purchases | 75 000 | |
| Carriage inwards | <u>1500</u> | |
| | 88 500 | |
| Closing inventory | 8500 | 80 000 |
| Gross Profit | | 20 000 |

4. What is the balance on Bill's current account at 31 May 2021?**B. \$22 200****Bill's current account**

| Debit (DR) | | Credit (CR) | |
|-------------|---------------|---------------------|-----------|
| Details | Amount \$ | Details | Amount \$ |
| Drawings | 15 000 | Interest on capital | 4000 |
| Balance c/d | 22 200 | Salary | 12 000 |
| | | Profit share | 21 200 |
| | 37 200 | | 37 200 |

5. Where will these unpaid subscriptions be shown in the financial statements?**D. Income statement and statement of financial position**

| | receipts and payments account | income and expenditure account | statement of financial position |
|----------|----------------------------------|-----------------------------------|------------------------------------|
| D | | ✓ | ✓ |

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