

UNIT 3 Accounting Adjustments

Recommended Prior Knowledge Students need some understanding of commercial transactions and an understanding of double entry principles.

Context The Unit covers aspects of accounting which are required because business is continuous but accounting covers discrete periods of time. The adjustments largely derive from the application of accounting concepts and look at the accounting bases and methods used to apply those concepts. This could be studied in conjunction with the latter part of Unit 10.

Outline The unit concentrates on adjustments which feature in virtually every examination, either as part of final accounts and/or in separate questions.

Syllabus Ref.	Learning Outcomes	Suggested Teaching Activities	Online Resources	Other resources															
2.1	<p>Candidates should be able to:</p> <ul style="list-style-type: none"> • show understanding of the differing accounting treatment of capital and revenue expenditure and income • calculate and comment on the effect on profit and asset valuation of incorrect treatment 	<p>Explain the matching concept. Income and revenue expenditure should be matched to the year they were incurred.</p> <p>Capital and revenue expenditure is an important distinction because an error in categorisation affects the profit and balance sheet.</p> <p>Students should be able to provide definitions, identify and state examples and calculate the effects of incorrect categorisation. Students may find making notes in a matrix form will help revision, for example:</p> <table border="1" data-bbox="779 1145 1303 1289"> <thead> <tr> <th></th> <th>Definition</th> <th>Example</th> </tr> </thead> <tbody> <tr> <td>Capital expenditure</td> <td></td> <td></td> </tr> <tr> <td>Capital income</td> <td></td> <td></td> </tr> <tr> <td>Revenue expenditure</td> <td></td> <td></td> </tr> <tr> <td>Revenue income</td> <td></td> <td></td> </tr> </tbody> </table>		Definition	Example	Capital expenditure			Capital income			Revenue expenditure			Revenue income			<p>http://www.bized.ac.uk/stafsu/p/options/accounting/work03.htm</p> <p>http://teachers.cie.org.uk/teacher_support/pdf/7110_w03_qp_1.pdf</p>	<p>BKA 18 IGSCE 8</p> <p>CIE Nov 2003 Paper 1 Q11</p>
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2.2	<p>Candidates should be able to:</p> <ul style="list-style-type: none"> • define depreciation • explain the reasons for accounting for depreciation • name and describe the straight line, diminishing (reducing) balance and revaluation methods of depreciation • explain the circumstances in which each method is used • prepare ledger accounts and journal entries for the provision of depreciation and the disposal of fixed assets 	<p>A fixed asset arises from capital expenditure. Depreciation of the fixed asset is revenue expenditure.</p> <p>Students should be able to define depreciation clearly and show brief calculations as an example. Comparing different methods of depreciation for one asset over a period of two to three years should clearly show the differences to students. Students should, at this stage, be aware that depreciation is an example of an 'accounting base' and is applied by various 'methods' such as straight-line.</p> <p>A useful exercise to help students is to prepare ledger accounts for specific assets and their respective provisions for depreciation accounts at this stage and then bring these accounts into a later profit and loss account and balance sheet when studying final accounts. This will help them see the connections</p> <p>Students often experience difficulties with preparing disposal accounts. Clear diagrams of the various accounts and how they interrelate and practice in preparing disposal accounts is recommended.</p>	<p>http://www.staffs.ac.uk/schools/business/bsadmin/staff/s5/accsys/wfour.htm#1</p> <p>http://www.accaglobal.com/publications/studentaccountant/12013?session=ffffffeffffffc28288ca40a137f0d9a9c4f8c6ad2017d5a4837ffa10d34f</p> <p>http://teachers.cie.org.uk/teacher_support/pdf/7110_w03_qp_1.pdf</p> <p>http://teachers.cie.org.uk/teacher_support/pdf/7110_w03_qp_1.pdf</p>	<p>BKA 25, 26 IGSCE 10 BM 38, 39, 40, 41</p> <p>CIE Nov 2003 Paper 1 Q14</p> <p>BM 61, 62 CIE Nov 2003 Paper 1 Q13</p>

Syllabus Ref.	Learning Outcomes	Suggested Teaching Activities	Online Resources	Other resources
2.3	<p>Candidates should be able to:</p> <ul style="list-style-type: none"> • make entries in the journal and ledger accounts to record accrued and prepaid expenses and outstanding and prepaid incomes <ul style="list-style-type: none"> • make entries in the journal and ledger accounts to write off bad debts and to make provision for doubtful debts as instructed, and discounts 	<p>Explain that accounting adjustments are required because accounts are produced for a period of time (often a year) but business is continuous. So amounts are outstanding at the end of the period (e.g. wages are owed to employees – an accrual).</p> <p>A progressive approach is the best way to illustrate accruals and prepayments, for example:</p> <ol style="list-style-type: none"> 1) illustrate an accrual followed by practice 2) illustrate a prepayment, then practice 3) take the illustrations on another period where an account starts a year with an accrual and ends with a prepayment and vice versa. <p>Candidates often find this subject confusing so time and practice are essential to reinforce understanding.</p> <p>Ensure students are clear on the difference between actual bad debts and a provision. By considering them separately rather than together, they are less likely to confuse the two. Practice journal and ledger account entries together as further reinforcement of double entry principles.</p>	<p>http://www.staffs.ac.uk/schools/business/bsadmin/staff/s5/accsys/wthree.htm#t</p> <p>http://www.bized.ac.uk/stafsup/options/accounting/work05.htm</p> <p>http://teachers.cie.org.uk/teacher_support/pdf/7110_w03_qp_1.pdf</p> <p>http://www.accaglobal.com/publications/studentaccountant/11983?session=ffffffffffffc28288ca40a137f0d9a9c4f8c6ad2017d5a4837ffa10d34f</p> <p>http://teachers.cie.org.uk/teacher_support/pdf/7110_s02_qp_2.pdf</p>	<p>BKA 28 IGSCE 9 BM 29</p> <p>CIE Nov 2003 Paper 1 Q22</p> <p>BKA 27, 28 IGSCE 11 BM 42, 43</p> <p>CIE Jun 2002 Paper 2 Q3</p>