



Unit 10: Recording Financial Transactions

Delivery guidance

Approaching the unit

This unit is a practical unit, which allows your learners to calculate, complete and balance a set of accounting records. The focus should be on typical business transactions so that learners can prepare ledger accounts and statements that are as realistic as possible.

Learners will need to be able to produce accounts that are clear, accurate, concise and balanced off correctly. They will also need to deal with the many and varied adjustments and errors which inevitably affect accounting records. They will be expected to complete various control and checking mechanisms to ensure that the financial records are accurate and up to date.

All accounting records and statements are prepared in accordance with a number of concepts and conventions and these should be adhered to throughout the learners' work. In this way, they will appreciate not only how to prepare accurate accounting records but also why such layouts, procedures and systems are so important to the business as a whole.

You can use a range of delivery methods in this unit, such as:

- discussions, e.g. class and small group discussions on the importance of accurate records
- individual or group presentations, e.g. covering possible errors in accounting systems
- case studies illustrating how accounts work in practice.

Group work is an acceptable form of delivery, but you must ensure that each learner produces sufficient evidence on their own for assessment.

You can involve local employers in the delivery of this unit by inviting them as:

- guest speakers
- providers of work experience for learners, and of business materials as exemplars and case studies
- mentors for learners.

Delivering the learning aims

For Learning aim A, it would be worthwhile starting with a class discussion about typical accounting terms such as costs/expenses, revenues/incomes and profit/loss. A simple business scenario could be used to break down the terms into separate headings with a definition and some typical examples. A table might be a useful way to present this information. The discussion could then be developed into group work where learners are given a different industry structure and then asked to discuss typical costs and revenues for that particular industry. In this way, learners become familiar with a range of costs and revenues associated with different types of business – manufacturing, retail, services and so on. This could lead into work on different types of transactions, and learners could perhaps do their own research on all the ways in which they are conducted.

The focus of Learning aim A is to enable learners to complete a realistic set of accounting entries and ledger accounts right through to trial balance. The order in which this should be done is open to interpretation. Some tutors start with the double entry ledger accounts first and the accounting principle of debits and credits. Others start with the source documents, books of original entry and then ledger accounts. Either approach will work, but it is important to ensure that the steps are clearly distinguished so that learners can appreciate how the whole double entry book keeping process works. Equally it would be advisable to start with more straightforward double entry exercises and build up all the different kinds of transactions. Foreexample:

- the first transactions could involve starting up a business such as capital, assets and liabilities
- then purchases, sales, purchase returns and sales returns, distinguishing between cash and credit transactions
- next, ledger accounts for expenses and revenues and drawings, and so on.

It is also important to build in cash books (both two-column and three-column) somewhere in the book keeping exercises. Again, this could be done right from the start, or learners could open separate ledger accounts first on simpler exercises and then cash books and discounts could be introduced in more complex exercises. Although source documents are not needed as evidence for the pass criteria, it is important to do one or two exercises so that learners understand and can calculate both trade and cash discount. This will then give a link into how and where cash discounts are recorded in the ledger accounts.

Learners must appreciate that larger businesses use books of original entry to help condense and subtotal multiple separate transactions of the same type, for example a sales daybook for all credit sales and so on. This could be taught separately at first, but at some stage the link must be made from the book of original entry to the appropriate ledger account so that learners can make those entries for themselves.

Balancing off the accounts is important to show totals and the correct narrative, i.e. balance c/d and balance b/d, as well as a trial balance extracted so that learners complete the whole process. Again, these steps could be done right from the start or introduced in later exercises when learners are more confident about the double entry process itself.

Note that the accounting equation can be used to explain or reinforce the double entry principle if you feel it is helpful at the beginning.

It may be beneficial to consider the importance of accurate records at the end of this learning aim once learners have completed the whole process themselves and can see why such accounting records are so crucial. It might be worthwhile using a set of completed ledger accounts and trial balance as examples to support the points learners make.

This learning aim has more content than the others, although much of it is very straightforward. But it is important that learners appreciate that the rule of double entry underpins all accounting systems and mirrors the actual job role of book keeping.

For Learning aim B, before starting any practical bank reconciliation exercises it might be useful to begin with a class discussion about why the bank column of a



cash book may differ from a bank statement. You could present learners with a balanced cashbook and typical bank statement in support of this discussion.

Learners could then identify some immediate differences and this would generate discussion on what they are and why they might have occurred. For independent research, learners could be asked to print off their own bank statement approximately two or three days before the next lesson. Then they could analyse their own printout by considering all the transactions they have conducted since the statement was produced.

Next, plenty of practical exercises should be used to build up the bank reconciliation process. There are two main ways to do this, and perhaps the most common involves these steps:

- identify transactions which match on both the cash book (bank column) and the bank statement
- identify transactions which are missing from either cash book or bank statement
- revise/update cash book with missing entries and balance off
- prepare bank reconciliation statement starting with the bank statement balance and then to include missing entries.

It would also be useful for some exercises to incorporate a cashbook used from exercises done for Learning aim A. This would give a link as to how the process fits together with the double entry process and makes the work more cohesive.

Learners could perhaps design a short information booklet about the importance of bank reconciliations and the reasons why it is vital to the overall control mechanisms of financial control. They should consider the implications for business if it is not conducted regularly. Perhaps learners could think about the usefulness of simple bank reconciliation for personal bank accounts too.

Learning aim C is another example of a control mechanism for goods and services bought and sold on credit, so it would be useful to return once again to a double entry exercise completed in Learning aim A. Stage a class discussion about how time consuming it was to open, complete and balance off separate personal debtor and creditor accounts. This could be extended to consider the length and difficulty with totalling the trial balance too. This should lead into a general discussion about other issues which are connected to this such as the greater likelihood of mistake, casting (totalling) errors and so on.

As with bank reconciliation, there are a couple of different ways to do control accounts. Below is a typical approach:

- decide whether the error or omission affects the control account, the personal account or both
- revise/update the relevant control account(s) and balance off
- prepare reconciliation statement(s) starting with the balance on schedule of debtors/creditors (the list of individual debtor and creditor accounts) and include entries to revise/update the list.

Learners should appreciate the need and purpose of memorandum accounts (the individual debtor and creditor accounts) but completion of these is not required. Using class discussion and role-play, learners could then consider the reasons why control accounts are significant in terms of financial control and accuracy. The role-play could include an exercise where one or two learners complete the day books, another completes the control accounts and another completes the individual debtor/creditor accounts. In this way, learners can see how different people are responsible for different stages in the overall accounting process and why this is also important. This may help with their understanding of segregation of duty and

the reduced risk of errors.

Learning aim D considers how to deal with errors and omissions in financial accounting systems. Once again, it might be useful to refer back to the double entry ledger account exercises completed in Learning aim A. Ask learners 'what kind of errors did you make?', 'did you miss any transactions out?', 'did you transpose your figures or do your debit and credit entries the wrong way round?' and so on. Encourage discussion about how the trial balance assisted learners in knowing that they had made an error or errors somewhere in their accounts. But were all their errors identified in this manner? Did they make errors and trial balance was still in agreement?

Now you can move on to identifying and explaining formally the type of errors by using the actual examples that the learners encountered themselves. This 'real life' scenario will help them appreciate that it is inevitable errors and omissions will occur when you consider just how many separate transactions flow through a book keeping system everyday.

Move on to exercises which detail errors that do and do not affect the trial balance agreement. Learners must complete journal entries to correct the errors as well as a suspense account. Again, you could start with more straightforward errors (those that do not affect the trial balance and therefore do not need a suspense account) and then move on to more complex errors using journals and suspense accounts. Learners should complete the narrative on the journal entries to identify the type of error. A useful way to demonstrate the stages involved in the correction of errors is:

- decide the entries needed to correct each error, this can be made easier by adopting a 'was' and 'should be' approach
- complete the journal entries
- complete the suspense account including the opening balance, balance off to show a 'nil' balance.

Next, extend the original exercises to incorporate the effect of errors on the final accounts. Learners must be able to prepare a statement of revised profit to show how the correction of the given errors and omissions affect profit. Learners must also show how errors and omissions affect the statement of financial position (balance sheet). It would not be advisable to expect them to complete a full statement of financial position, but a statement of financial position extract would be one way to present the changes, or they could use a table to identify and explain the effect of the correction of the errors and omissions on the statement of financial position.

Once learners have completed the whole process of the correction of errors they should be able to have a much greater understanding of continuous checks and balances in the accounting process so that errors and omissions are minimised and where they do occur are dealt with rapidly. Their knowledge on how profit/loss is affected and the statement of financial position will enable them to evaluate the importance more fully. Once again, using completed exercises as 'real life' examples will enhance their evaluative points and they can use the errors and omissions that they dealt with as supporting evidence points when they make their evaluation.



Learning aim	Key content areas	Recommended assessment approach
<p>A Undertake the accurate recording of financial transactions using the double entry accounting system</p>	<p>A1 Importance of accurate records</p> <p>A2 Financial documents</p> <p>A3 Types of transactions</p> <p>A4 Double entry system</p> <p>A5 Books of original entry</p> <p>A6 Double entry ledger accounts and cash books</p> <p>A7 The trial balance</p>	<p>A detailed assessment of the importance of keeping accurate financial records. Draw up books of original entry and make entries from a given set of transactions for a business, including purchase, sales, returns, cash and bank transactions. Draw up double entry accounts from a given set of transactions for a business and extract the trial balance. Draw up and make entries to a bank reconciliation statement from a given set of financial data for a typical business. Write a report to analyse the importance of bank reconciliation statements.</p>
<p>B Carry out bank reconciliation as a function of accurate financial control</p>	<p>B1 Need for bank reconciliation</p> <p>B2 Completion of bank reconciliation</p> <p>B3 Importance of bank reconciliation</p>	
<p>C Construct control accounts for trade receivables and trade payables for accurate financial control</p>	<p>C1 Definition and purpose of control accounts</p> <p>C2 Preparation and calculation of control accounts</p> <p>C3 Correction of errors in the control accounts and the schedule of trade receivables and trade payables</p>	<p>Prepare and make entries in the 'total trade receivables' and 'total trade payables' accounts from a given set of financial transactions. Identify and correct errors in the control of accounts and schedule of trade receivables and trade payables from given set of errors. Write a report to evaluate the benefits of control accounts. Write a report to examine and explain errors affecting a typical accounting system. Draw up a journal and suspense account, make entries to correct errors from a given set of errors. Table or list calculations to show how errors have changed the final accounts. Write a report to assess how and why errors have affected financial statements. Write a report to evaluate the implications of errors and inaccurate financial records.</p>
<p>D Examine the correction of errors in accounting records for financial control</p>	<p>D1 Identification and explanation of different types of errors</p> <p>D2 Correction of errors not affecting the trial balance</p> <p>D3 Correction of errors and suspense accounts</p> <p>D4 The effect of errors on financial statements.</p>	



Assessment guidance

This unit is internally assessed through two assignments. The first covers learning aims A and B, and the second covers Learning aims C and D.

All learners must independently generate individual evidence that can be authenticated. The main sources of evidence are likely to be individual reports and records of recording financial transactions.

BTEC assessors could complete observation records and learners' colleagues in placements or part-time work could complete witness statements. Note that observation records alone are not sufficient sources of learner evidence, the original learner-generated evidence must also support them.



Getting started

This gives you a starting place for one way of delivering the unit, based around the specification.

Unit 10: Recording Financial Transactions

Introduction

The accurate recording of financial transactions is crucial to business success. This unit could be introduced by inviting in a guest speaker from a local accountant to discuss their own job role as well as the overall function of an accountant. This should generate discussion about the many and varied aspects to financial accounting.

Learning aim A – Undertake the accurate recording of financial transactions using the double entry accounting system

- Start with a discussion or group work about key accounting terms and the different categories of financial transactions including assets, liabilities, revenues, costs and expenses. Learners could complete a table or keep an ongoing glossary of accounting terminology that can be updated as they progress through the book keeping process.
- Use some typical kinds of transactions such as cash and credit, which involve learners in completing source documents particularly invoices, credit/debit notes and statements. Learners could update their glossary of terms to include these different kinds of transactions and they could use their completed source documents as examples to support their work.
- The double entry book keeping process is best taught using double entry exercises which are realistic and relevant to a particular business scenario. Try to build up the exercises so that different kinds of transactions are introduced gradually. You could design these yourself and/or use examples from textbooks or other book keeping resources.
- Allow learners to gain confidence about debits and credits before introducing exercises that require them to balance off the accounts and extract a trial balance, although this should be done early enough for them to gain confidence on these skills too.
- Use one or two quite lengthy and more complex book keeping exercises so that learners also complete and total the books of original entry before posting to the ledger accounts, cash book, balancing off and completing a trial balance. Finally using a completed double entry exercise, you could have a class discussion about some of the difficulties and issues learners faced in recording the transactions. For example, errors they may have made, transactions they missed out or miscalculated. This would lead well into the work on the importance of accurate financial record keeping. Then, learners could prepare a table or notes and use them when they are completing their final assignment.

Learning aim B – Carry out bank reconciliation as a function of accurate financial control

- Give learners a copy of a bank statement and cashbook and ask them to identify where there are items that match and items that do not. Use a whole group discussion to consider why these items are missing from either the bank statement or the cashbook.
- Practical exercises to reconcile a cashbook and bank statement should be completed. Use straightforward items and differences to begin with and then build

up issues that are more difficult. There are plenty of good examples in textbooks and online resources or you could design them yourself using local business knowledge/examples.

- You could also give a useful link by incorporating a bank reconciliation statement for the cashbook completed for a double exercise from Learning aim A.
- Using one or more bank reconciliation statements you could use a class discussion and/or group work to consider the reasons why bank reconciliation is such an important control mechanism, and the implications for a business if it is not conducted regularly.

Learning aim C – Construct control accounts for trade receivables and trade payables for accurate financial control

- Return once again to a completed double entry exercise and use that in a class discussion about how time consuming it is to open, complete and balance off separate personal debtor and creditor accounts. Debate the other issues connected to this such as greater likelihood of mistakes, casting errors and so on.
- Introduce the idea of control accounts and demonstrate how they work. Learners could then put together their own flow chart to identify and explain the steps involved.
- Learners should be given practical exercises to complete control accounts for both total debtors and total creditors.
- Using the same or more complex exercises involving errors and omissions, complete control accounts for both total debtors and total creditors. Prepare reconciliation statements of control account balances and the schedule of debtors and/or creditors.
- Using one or more of the exercises completed you could use class discussion and/or group work to consider the reasons why control accounts are so important for financial control and accuracy.

Learning aim D – Examine the correction of errors in accounting records for financial control

- Discuss as a group some of the potential errors that may occur in the recording process of financial transactions. Learners could complete an information table to explain the different types of errors together with relevant examples.
- Use practical exercises to prepare journals to correct errors that do not affect the trial balance. Then introduce exercises to prepare journals to correct errors that do affect the trial balance and prepare a suspense account.
- Develop the exercises to include explanations of how and why the errors affect the final accounts. Learners will also need to complete a revised profit statement to show how the errors have altered the final accounts.
- Using the completed exercises you could have a whole class discussion to consider how such errors affect a business, including the financial and non-financial implications.



Details of links to other BTEC units and qualifications, and to other relevant units/qualifications

- Unit 3: Business Finance.
- Unit 7: Business Decision Making.
- Unit 11: Financial Statements for Public Limited Companies.
- Unit 12: Financial Statements for Specific Businesses.
- Unit 13: Cost and Management Accounting.

Resources

In addition to the resources listed below, publishers are likely to produce Pearson-endorsed textbooks that support this unit of the BTEC International Level 3 Qualifications in Business. Check the Pearson website (<http://qualifications.pearson.com/endorsed-resources>) for more information as titles achieve endorsement.

Textbooks

- Hedges R – *Book keeping made easy* (Lawpack Publishing Ltd, 2012) ISBN 9781907765940. An accounting text that covers the main accounting topics.
- Jones R – *Business accounting*, (Causeway Press, 2004) ISBN 9781902796413. An accounting text that covers the main book keeping and accounting topics.
- Wood F, and Robinson S – *Book keeping and Accounts*, eighth edition (Pearson, 2013) ISBN 9780273773061. An accounting text that covers the main accounting topics with many book keeping practise exercises.

Websites

- www.bized.co.uk – A website containing a range of business education resources.
- www.tutor2u.net – Educational website for business and economics.

Pearson is not responsible for the content of any external internet sites. It is essential for tutors to preview each website before using it in class so as to ensure that the URL is still accurate, relevant and appropriate. We suggest that tutors bookmark useful websites and consider enabling learners to access them through the school/college intranet.