



Cambridge Assessment
International Education

Skills Exercises
Evaluation (AO3)

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

The skills exercises in these booklets 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.

The 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](#).

Evaluation (AO3)

The skill of evaluation is the least understood and often confused with analysis. It is important that learners not only understand the difference but can also write according to the AO3 Evaluation criteria:

- evaluate book-keeping and accounting information to make informed recommendations and decisions
- make judgements and draw conclusions based on financial and non-financial data.

The following table contains some command words that might indicate to learners that they need to evaluate.

Command word	What it means
Advise	<p>Write down a suggested course of action in each situation after building chains of analysis, weigh-up the arguments and then advise the business or stakeholder on what it should do.</p> <p>Does your advice depend on anything, or would it change in different circumstances?</p> <p>Advice is often linked closely with strategy and as such may require more than just a judgement or suggestion.</p>
Discuss	<p>Write about issue(s) or topic(s) in depth in a structured way. Whilst this does not necessarily require a judgement to be made, it is usually a good idea to come to a judgement if you can.</p>
Evaluate	<p>Judge or calculate the quality, importance, amount, or value of something after building chains of analysis; weigh up the arguments and then make a judgement over which arguments are most persuasive.</p> <p>Does your judgement depend on anything, such as performance ratios or external factors/financial factors?</p>
Suggest/justify your answer	<p>Apply knowledge and understanding to situations where there are a range of valid responses to make proposals / put forward considerations after building chains of analysis; weigh up the arguments and then make a suggestion for the business or stakeholder.</p> <p>Does your suggestion depend on anything, or would it change in different circumstances?</p>

Exercise 1: Answering the question

When a learner sees an evaluative question, it should be clear what the judgement will be about.

Knowing what the judgement is about helps learners structure their answer, because all of the analytical points will create arguments to back up that judgement.

Activity 1: How to answer the question

Provide learners with a series of evaluative questions from either past examination or specimen papers. Learners will not need the case study or data to work out what the judgement should be.

The questions on **Worksheet 1: How to answer the question** or any other evaluative questions can be used.

For each question, learners decide what the judgement would be about and then write what they think the first sentence of the conclusion should be. This gives a target for the analytical arguments to work towards.

Lead a class discussion listening to learners' judgements. Ask learners for their opinions on what the first sentence of each conclusion should be, giving guidance and feedback where required.

Worksheet 1: How to answer the question

For each of the following questions, decide what your judgement will be and what the first sentence of your conclusion would be.

1. Advise a sports club committee on whether to rent out unused premises in order to improve the bank overdraft.

What are you making a judgement about?
What should the first sentence of your conclusion be?
.....
.....
.....

2. Discuss whether James should offer Andrew a partnership in his business or to employ him as a manager.

What are you making a judgement about?
What should the first sentence of your conclusion be?
.....
.....
.....

3. Taking into consideration the given information regarding machines X and Y make a recommendation to the directors on which machine to purchase.

What are you making a judgement about?
What should the first sentence of your conclusion be?
.....
.....
.....

4. Advise the owner of a business on whether to cease credit sales and to trade in cash only and offer a trade discount of 12% to customers.

What are you making a judgement about?
What should the first sentence of your conclusion be?

5. Evaluate whether Ibbi should maintain a full set of accounting records.

What are you making a judgement about?
What should the first sentence of your conclusion be?

6. Discuss whether a business should prepare monthly bank reconciliations or continue with preparing bank reconciliations every 3 months.

What are you making a judgement about?
What should the first sentence of your conclusion be?

7. Discuss the directors' decision to issue the debenture to fund the planned expansion.

What are you making a judgement about?
What should the first sentence of your conclusion be?

Worksheet 1 answers:

1. Advise a sports club committee on whether to rent out unused premises in order to improve the bank overdraft.

What are you making a judgement about? *Should the club take up the option of renting out premises. Would renting out premises have a beneficial effect on the club? Would the additional income make a significant difference to the bank balance?*

2. Discuss whether James should offer Andrew a partnership in his business or to employ him as a manager.

What are you making a judgement about? *Whether the benefits of taking on a partner outweigh the disadvantages. Would Andrew benefit from this strategy?*

3. Taking into consideration the given information regarding machines X and Y make a recommendation to the directors on which machine to purchase.

What are you making a judgement about? *Whether machine X or machine Y is more beneficial for the business. Or which machine is more beneficial looking at the business's profitability/revenue.*

4. Advise the owner of a business on whether to cease credit sales and to trade in cash only and offer a trade discount of 12% to customers.

What are you making a judgement about? *Whether the business would increase or decrease revenue by only selling in cash and offering customers a trade discount of 12%.*

5. Evaluate whether Ibbi should maintain a full set of accounting records.

What are you making a judgement about? *Whether Ibbi would benefit from maintaining a full set of accounting records. How would maintaining a full set of accounting records this benefit the day to day running of his business.*

6. Discuss whether a business should prepare monthly bank reconciliations or continue with preparing bank reconciliations every 3 months.

What are you making a judgement about? *The benefits of changing from the preparation of 3 monthly bank reconciliations to monthly bank reconciliations.*

7. Discuss the directors' decision to issue the debenture to fund the planned expansion.

What are you making a judgement about? *Whether the directors' decision to issue debentures is beneficial (or not) for the business to fund the planned expansion.*

Activity 2: Find the conclusion

A good conclusion is an essential part of a response to a question.

Give learners a copy of **Worksheet 2: Find the conclusion** and ask them to decide which of the two conclusions best answers the question.

Discuss ways in which common mistakes can be avoided.

Worksheet 2: Find the conclusion

Look at the start of each conclusion below, written to answer the questions. Based on only the first sentence of the conclusion, identify which is better and why.

1. Advise the directors of a company whether to take 5% cash discount for payment on delivery of goods from their main supplier. Justify your answer.

Response 1	Response 2
Based on the arguments, the directors should take this offer as goods will be cheaper.	The directors would be advised to accept the offer of 5% cash discount for payment on delivery of goods as cost of sales will be less and this may lead to increased gross profit.

2. Evaluate whether the owner of a business should charge interest on overdue accounts.

Response 1	Response 2
Based on the trade receivables the business should introduce interest on overdue accounts as it may lead to earlier payment of debts.	The owners of the business should charge interest on overdue accounts as they will make more money.

3. Advise whether or not the business should pay all suppliers over \$50 by credit transfer.

Response 1	Response 2
The owners of the business should pay all suppliers of over \$50 by credit transfer because there will be less cash to handle leading to less chance of theft.	Yes, they should pay suppliers of \$50 and above by credit transfer as it will be a lot easier to handle.

4. Evaluate why a partner should invest more capital in the business in order to pay off the bank loan.

Response 1	Response 2
Yes, the partner should invest additional capital as there will be more capital in the business.	The partnership should accept this offer of additional capital because there will be no fixed interest to pay on the bank loan which may lead to higher profit share to partners.

Worksheet 2 answers:

1. Advise the directors of a company whether to take 5% cash discount for payment on delivery of goods from their main supplier. Justify your answer.

Response 1 is too basic. There is little to support the decision. Response 2 is the better response as there is more detail supporting the decision to accept the offer by indicating that gross profit may increase.

2. Evaluate whether the owner of a business should charge interest on overdue accounts.

Response 2 is incorrect. The making of more 'money' is too vague. It may cost more to administer the collection of interest. Response 1 is a more accurate response as it is more likely that customers may pay on time or early if there is the chance of being charged for paying late.

3. Advise whether or not the business should pay all suppliers over \$50 by credit transfer.

Response 1 gives reasons to support the strategy. There will be less cash retained on the premises which should reduce the chance of theft. Response 2 is too basic. Although it may be easier there is no guarantee as there may be the need to employ an extra book-keeper to administer payments.

4. Evaluate why a partner should invest more capital in the business in order to pay off the bank loan.

Response 2 is the better response as it demonstrated that takes place when additional capital is introduced to the partnership. Whilst Response 1 is correct there will be more capital in the partnership. Response 2 is more detailed.

Activity 3: Making a judgement

Most evaluation questions require a judgement. However, a business is a dynamic organisation that changes regularly. It also operates in an external environment of which the business has little control. Therefore, it is important to make a provision in your judgement that it might need to change if the circumstances change.

Provide learners with a series of evaluative questions. The ones on **Worksheet 3: Making a judgement** can be used, or these can be replaced with other suitable questions.

Learners decide what judgement they would make and state two things that the judgement could depend upon.

Discuss which 'depends upon' is most appropriate.

Worksheet 3: Making a judgement

For each of the following evaluative questions, decide what your judgement would be and then think about what that judgement might depend upon.

1. Assess whether a cricket club should rent out unused premises in order to reduce the overdraft.

What are you making a judgement about?
What does your judgement depend upon?

2. Advise the directors whether or not they should increase the proposed dividend.

Justify your answer by discussing the benefits and drawbacks of your advice for both the company and the shareholders.

What are you making a judgement about?
What does your judgement depend upon?

3. Evaluate whether a sole trader should take on a new partner or employ a manager.

What are you making a judgement about?
What does your judgement depend upon?

Worksheet 3 answers:

1. Assess whether a cricket club should rent out unused premises in order to reduce the overdraft.

What are you making a judgement about? *Whether the club will benefit from renting out unused premises.*

What does your judgement depend upon?

The rental income.

How long the contract will last.

The opinion of existing members to renting out premises.

The perception of the club from potential members.

2. Advise the directors whether or not they should increase the proposed dividend. Justify your answer by discussing the benefits and drawbacks of your advice for both the company and the shareholders.

What are you making a judgement about? *Advice whether or not to increase the proposed dividend.*

What does your judgement depend upon?

The cash available in the business.

The retained earnings balance.

The need for future funds.

The market value of the shares.

3. Evaluate whether a sole trader should take on a new partner or employ a manager.

What are you making a judgement about? *Whether or not to take on a new partner or employ a manager.*

What does your judgement depend upon?

The business profitability.

The salary needs to be paid regardless of profits.

Could lead to lower profit share for partners if salary is paid.

There may be greater commitment from a new partner.

Could lead to higher profit for partners.

Exercise 2: Early evaluation

Many learners assume evaluation only occurs at the end of their answer in a conclusion. However, the best responses evaluate throughout the answer.

The questions requiring evaluation generally appear in the form of 3 five-mark questions.

The table below shows the mark allocations for Paper 2.

Total marks	AO1 Knowledge and understanding	AO2 Analysis	AO3 Evaluation
100	60	25	15

It should be noted that these marks are accessible to all learners by following some simple rules, e.g. asking what is being assessed? What the judgement is based on and a final justified recommendation.

Activity 1: Mini-conclusions

Learners can begin to include evaluation in an answer by developing a mini-conclusion after every analytical point.

A mini-conclusion can occur after a chain of analysis and brings the point back to provide an answer to the question.

Provide each learner with a copy of **Worksheet 4: Mini-conclusions**.

Explain to learners that the first analytical point has been evaluated in the second paragraph. Discuss why it is evaluation and how it is different from analysis.

Learners evaluate the second analytical point using the same style as the example.

Lead a class discussion asking learners to share their own mini conclusions and offering feedback as needed.

Worksheet 4: Mini-conclusions

Look at the following question and part-response.

1. Advise the owners of a business whether or not the business should introduce an interest charge on late customer payments. Justify your answer.

If customers regularly pay their debts late the business may experience cashflow problems. Charging interest may encourage some customers to pay on time which will be positive for cashflow. On the other hand, customers may not be happy with this strategy and seek an alternate supplier who does not charge interest on late payments.

If customers are unwilling to pay the interest charge sales revenue may fall and hence profits.

The first analytical point in the response has a mini-conclusion for the second paragraph, 'If customers are unwilling to pay the interest charge sales revenue may fall and hence profits.'

Now write a mini-conclusion for the next analytical point by following the same structure as the mini-conclusion above.

The introduction of an interest for late payment of debts may be costly for the business to administer than the actual amount gained.

.....

.....

.....

.....

Worksheet 4 answers:

A good mini-conclusion should have:

- Something that marks it out as an end of the analysis. 'Therefore' works well.
- A judgement linked to the wording of the question (the command word is 'Advise) so a clear judgement is needed).
- What that judgment depends upon.
- Context.

The following could be used as a good example of a mini-conclusion:

Therefore, the administration costs to carry out the collection of the interest charge may outweigh the income gained leading to an increase overhead costs and hence lower profits. I believe it is not advisable to introduce a charge on overdue accounts but review credit control procedures.

Activity 2: Two-sided arguments

One of the most important routes into evaluating is by spotting the two sides of each question. There is always a way to argue both sides of any evaluative question and in doing so learners can include evaluation in their responses.

Provide learners with several evaluative questions. The data or case study that goes with these questions is not important to be able to spot the two sides of the response.

The questions in **Worksheet 5: Two-sided arguments** can be used or any other evaluative questions from past examination papers.

Learners decide what the two sides of the argument are.

There are sometimes different perspectives; discuss as a class why different approaches are sometimes still appropriate.

Worksheet 5: Two-sided arguments

For each of the following questions, decide what the two sides of the argument are.

1. Evaluate whether the directors should take the 5% discount offered from a supplier for payment on delivery rather than normal credit terms.

One side of the argument	Other side of the argument

2. Discuss whether a business should charge interest on overdue accounts.

One side of the argument	Other side of the argument

3. Advise a business whether to cease purchases from a local supplier or to purchase from a cheaper overseas supplier.

One side of the argument	Other side of the argument

4. Advise the directors whether a new machine should be purchased through a bank loan or 90-day interest free credit.

One side of the argument	Other side of the argument

5. Discuss whether a business should depreciate motor vehicles using the straight-line method or the reducing balance method.

One side of the argument	Other side of the argument

Worksheet 5 answers:

1. Evaluate whether the directors should take the 5% discount offered from a supplier for payment on delivery rather than normal credit terms.

One side of the argument	Other side of the argument
<i>Yes. The cost of goods will decrease which should increase profit.</i>	<i>No. Paying on delivery may result in cash flow problems.</i>

2. Discuss whether a business should charge interest on overdue accounts.

One side of the argument	Other side of the argument
<i>No. Customers may seek alternate supplier who does not charge interest. Sales revenue may decrease.</i>	<i>It may encourage existing customers to pay early.</i>

3. Advise a business whether to cease purchases from a local supplier or to purchase from a cheaper overseas supplier.

One side of the argument	Other side of the argument
<i>Cost of goods sold may decrease which will increase gross profit.</i>	<i>No. Reliability of supplier may lead to delivery problems and customers may go to alternate supplier.</i>

4. Advise the directors whether a new machine should be purchased through a bank loan or 90-day interest free credit

One side of the argument	Other side of the argument
<i>Interest will have to be paid on the bank loan. There is a long time to have funds ready for repayment.</i>	<i>No interest is payable but payment in full in 90 days may be a problem for cashflow.</i>

5. Discuss whether a business should depreciate motor vehicles using the straight-line method or the reducing balance method.

One side of the argument	Other side of the argument
<i>The straight-line method is easy to calculate and is equal amounts each year. This method also recognises a scrap value for the vehicle.</i>	<i>The reducing balance method is difficult to calculate. It is a suitable method for assets that lose more value at the start of their life.</i>

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