

ACCOUNTING
(Advanced Higher)

First edition – published April 2005

National Course Specification

COURSE Accounting (Advanced Higher)

COURSE CODE C209 13

COURSE STRUCTURE

This course has two mandatory Units:

DF47 13	<i>Financial Accounting (Advanced Higher)</i>	<i>1.5 credits (60 hours)</i>
DF4T 13	<i>Management Accounting (Advanced Higher)</i>	<i>1.5 credits (60 hours)</i>

All Courses include 40 hours over and above the 120 hours for the Units. This may be used for induction, extending the range of learning and teaching approaches, support, consolidation, integration of learning and preparation for external assessment.

RECOMMENDED ENTRY

While entry is at the discretion of the centre, candidates will normally be expected to have attained one of the following or equivalent:

- ◆ Accounting Higher
- ◆ the *Financial Accounting* (Higher) Unit and *Management Accounting* (Higher) Unit

PROGRESSION

This Course or its Units may provide progression to:

- ◆ Higher National programmes
- ◆ Higher education programmes
- ◆ training or employment

Administrative Information

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Additional copies of this specification (including unit specifications) can be purchased from the Scottish Qualifications Authority for £7.50. **Note:** Unit specifications can be purchased individually for £2.50 (minimum order £5).

National Course Specification (cont)

COURSE Accounting (Advanced Higher)

CORE SKILLS

Core Skills components for this Course: Critical Thinking at Higher

CREDIT VALUE

The Advanced Higher Course in Accounting is allocated 32 SCQF credit points at SCQF level 7*.

**SCQF points are used to allocate credit to qualifications in the Scottish Credit and Qualifications Framework (SCQF). Each qualification is allocated a number of SCQF credit points at an SCQF level. There are 12 SCQF levels, ranging from Access 1 to Doctorates.*

National Course Specification: Course details (cont)

COURSE Accounting (Advanced Higher)

RATIONALE

Business and enterprise are at the heart of national growth and development and this is reflected in the important place that business education assumes in the curriculum. This provision offers opportunities for individuals to develop the crucial skills and knowledge which allow them to access, understand and contribute to the dynamic and complex business and information environment. Whatever the career pathway or progression route, business education can provide a valuable context which enhances individual effectiveness.

The study of accounting at Advanced Higher develops the ability to identify, calculate, measure and communicate financial and other relevant information to allow for informed judgements and decision-making to take place. The use of a variety of contexts, concentrating on the aspects of input, processing and output, helps develop skills not only in the handling of information, but also in interpretation, analysis and evaluation. This will involve a wide range of accounting contexts and the use of complex data. The Course methodology encourages candidates to think logically and to apply accounting principles in a consistent and effective manner, thus developing their problem-solving and decision-making skills.

The Course structure is designed to allow candidates to build on their knowledge and understanding of both financial and management accounting.

The study of financial accounting enables candidates to further develop their skills and techniques relating to the structure, finance, management and control of entrepreneurial organisations. It will also enable candidates to extend their ability to prepare financial statements and the analytical skills required to evaluate business performance for a range of business organisations.

The study of management accounting enables candidates to further develop their skills and techniques in preparing costing statements, including standard and absorption costing techniques, for a range of production and service concerns, and to make decisions including investment appraisal for more complex situations.

The increasing use of business concepts within a range of organisations has led to a need for a greater awareness and understanding of financial information among a wide range of users. This not only includes creditors, shareholders and management, but also the wider community, including consumers of local authority services, employees, and those involved in not-for-profit organisations. The study of accounting at this level will enable candidates to consider, and make informed comment on, a range of published accounting information.

The processes of accounting are being facilitated by the developments which are taking place in information technology with consequent implications for the role of accounting. These developments provide greater opportunities for the analysis and interpretation of information.

The study of Accounting at Advanced Higher provides candidates with a basis for further study of accountancy, law or other business related subjects at degree level at university or Higher National level at college. This qualification may also be used to enter the world of work for a wide variety of business occupations or to undertake on-the-job accountancy training.

Whatever career pathway or progression route chosen, the Accounting Course at Advanced Higher can provide a valuable experience in which to develop skills and to enhance an individual's effectiveness.

National Course Specification: Course details (cont)

COURSE Accounting (Advanced Higher)

AIMS

The aims of the Course are to build on the knowledge, understanding, information-handling skills and practical abilities gained in Accounting (Higher) and to:

- ◆ develop an understanding:
 - of the principles and practices of finance and of financial and management accounting by further studying these areas in a range of contexts
 - of aspects of finance and financial management
 - of the statutory and legal requirements in reporting financial data including the work of the Accounting Standards Board

- ◆ develop the skills:
 - to analyse and discuss problems of an accounting and financial nature and to communicate viewpoints in an effective manner to a range of stakeholders
 - to understand and make informed comment upon financial information published by a variety of organisations
 - of interpreting accounting information in relation to exercising control, analysing performance, making decisions and solving problems
 - of accuracy and precision when preparing and analysing accounting records

- ◆ promote and encourage:
 - the use and application of information technology and accounting packages across the Course content
 - a greater understanding of accounting as a means of presenting and communicating information to interested parties, both external and internal

and to provide a basis for further study.

National Course Specification: Course details (cont)

COURSE Accounting (Advanced Higher)

COURSE CONTENT

The Course content has been organised in two Units: *Financial Accounting* (Advanced Higher) and *Management Accounting* (Advanced Higher).

All of the Course content will be subject to sampling in the Course assessment.

Course Content - *Financial Accounting* (Advanced Higher)

Dissolution of a Partnership	<p>Reasons and procedures for the dissolution of a partnership to include:</p> <ul style="list-style-type: none">◆ preparation of a realisation account (gain/loss)◆ partners taking over assets at valuations above, equal to or less than book value,◆ debtors (receipts from, bad debts, discount allowed)◆ creditors (payments to and discount received),◆ treatment of<ul style="list-style-type: none">○ partners' current account balances○ loans to and from partners◆ goodwill◆ dissolution where partner is unable to meet shortfall.
Final Accounts and Balance Sheets of a plc	<p>Preparation of final accounts for internal and external reporting purposes.</p> <p>Main provisions of the Companies Acts including:</p> <ul style="list-style-type: none">◆ procedures for the formation of a plc◆ stewardship◆ statutory accounts. <p>Preparation of accounting statements for external reporting purposes including a knowledge of:</p> <ul style="list-style-type: none">◆ Directors' Report to include information on:<ul style="list-style-type: none">○ the principal activities of the company○ a fair review of the current and future activities of the company

National Course Specification: Course details (cont)

COURSE Accounting (Advanced Higher)

	<ul style="list-style-type: none"> ○ details of the sale, purchase or valuation of assets ○ recommended dividends ○ employee statistics, including details of health and safety statistics, employment of disabled people ○ details of directors – names, and shareholding in the company ○ details of any political or charitable donations <p>◆ Notes to the Accounts :</p> <ul style="list-style-type: none"> ○ disclosure of the accounting policies eg depreciation and a note of any changes in these policies ○ detailed explanation of any deviation from accounting standards ○ sources of turnover from different geographical markets ○ details of fixed assets, investments, share capital, debentures and reserves ○ directors’ emoluments – pensions, earnings and other benefits ○ calculation of basic earnings per share <p>Published Profit and Loss Account which takes account of</p> <ul style="list-style-type: none"> ◆ turnover ◆ cost of sales ◆ gross profit or loss ◆ distribution and administration expenses ◆ other operating or investment income ◆ interest or financial charges ◆ profit before and after tax ◆ corporation tax ◆ proposed and paid dividends ◆ retained profit <p>Published Balance Sheet of a plc where items are grouped using the following headings:</p> <ul style="list-style-type: none"> ◆ fixed assets – intangible, tangible, investments ◆ current assets ◆ creditors: amounts due within 1 year ◆ net current assets ◆ total assets less current liabilities ◆ creditors: amounts due after 1 year ◆ provisions for liabilities and charges ◆ capital and reserves. <p>These accounts should comply with the current requirements of the Companies Acts and should comply with the main requirements under current accounting practices and statement of principle.</p>
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National Course Specification: Course details (cont)

COURSE Accounting (Advanced Higher)

<p>Consolidated Balance Sheets</p>	<p>Purpose of consolidated financial statements for</p> <ul style="list-style-type: none"> ◆ parent and subsidiary undertaking ◆ parent company with a maximum of one subsidiary company <p>Preparation of Consolidated Balance Sheet taking account of:</p> <ul style="list-style-type: none"> ◆ goodwill ◆ minority interests ◆ cash in transit ◆ goods sold between companies ◆ current/transfer accounts ◆ post acquisition profits
<p>Ratio Analysis</p>	<p>Calculation of the following accounting ratios using the formulae provided in Appendix 2 of the Financial Accounting Unit.</p> <p>Profitability Ratios</p> <ul style="list-style-type: none"> ◆ return on capital employed ◆ gross profit percentage ◆ mark-up ratio ◆ net profit percentage <p>Liquidity Ratio</p> <ul style="list-style-type: none"> ◆ current ratio ◆ acid test ratio <p>Efficiency Ratio</p> <ul style="list-style-type: none"> ◆ expense ratio (individual or total) ◆ rate of stock turnover ◆ debtors' collection period ◆ creditors payment period ◆ turnover to fixed assets <p>Investment Ratio</p> <ul style="list-style-type: none"> ◆ dividend yield ◆ dividend cover ◆ earnings per share ◆ price/earnings ratio ◆ interest cover ◆ capital gearing ratio <p>Inter-firm and intra-firm comparisons</p> <p>Evaluation of the business performance of an organisation or organisations using the above ratios.</p> <p>Use of accounting ratios for decision making.</p>

National Course Specification: Course details (cont)

COURSE Accounting (Advanced Higher)

Cash Flow Statement	<p>Preparation of Cash Flow Statement in accordance with the current accounting standard and should include statements for:</p> <ul style="list-style-type: none"> ◆ reconciliation of operating profit to net cash flow statement ◆ Cash Flow Statement – (layout as current FRS1 statement) ◆ statement of changes in net debt. <p>Comment on the utilisation of the business organisations’ funds by analysing the figures in the completed Cash Flow Statement.</p>
Incomplete records	<p>Preparation of financial statements for organisations which do not maintain full accounting records.</p> <p>Calculation of:</p> <ul style="list-style-type: none"> ◆ cash and/or credit sales ◆ credit purchases ◆ drawings ◆ specific expenses ◆ cash and bank balances ◆ adjustments for accruals and prepayments at the start and end of the financial year ◆ depreciation using straight line, diminishing balance or revaluation methods. <p>and use of control accounts.</p> <p>Statements to include the calculation of stock missing through fire/theft.</p>
Financial Accounting regulations	<p>Role of the Accounting Standards Board (ASB), and International Accounting Standards Board.</p> <p>Procedure for the development of Accounting Standards.</p> <p>Statement of Principles (scope, objectives, performance).</p> <p>Current practice with reference to the following:</p> <ul style="list-style-type: none"> ◆ FRS1 (revised) Cash Flow Statement ◆ FRS3 Reporting Financial Performance ◆ FRS 10 Goodwill and Tangible Assets ◆ FRS 15 Tangible Fixed Assets ◆ FRS 18 Accounting Policies

National Course Specification: Course details (cont)

COURSE Accounting (Advanced Higher)

Social Accounting	Definition and reasons for companies producing social accounts How social accounts are produced: <ul style="list-style-type: none">◆ identification of stakeholders◆ selection of indicators◆ measure and report performance◆ social audit
Principles of Auditing	Role of the external auditor in a plc to include: <ul style="list-style-type: none">◆ general principles of auditing◆ duties and responsibilities of the auditor◆ auditing methods◆ the need for an Auditor's Report.
Issue of Shares	Preparation of accounts necessary to record the issue of shares at par and at a premium including: <ul style="list-style-type: none">◆ application◆ allotment◆ calls◆ treatment of<ul style="list-style-type: none">○ calls in arrears○ calls in advance○ over-subscription○ forfeiture and reissue of shares

NB: The content of the lower levels underpins this Course.

National Course Specification: Course details (cont)

COURSE Accounting (Advanced Higher)

<i>Course Content – Management Accounting (Advanced Higher)</i>	
Classification of costs	An understanding of the significance of direct, indirect, fixed, variable, semi-variable, controllable and non-controllable costs.
Elements of costs	<p>A detailed knowledge of the theory and procedures for calculating costs of</p> <ul style="list-style-type: none"> ◆ Material <ul style="list-style-type: none"> ○ inventory control cycle and procedures ○ computerised stock recording and inventory control ○ stock valuation – FIFO (First In First Out), LIFO (Last In First Out), AVCO (Average Cost) ○ calculation of maximum, minimum and reorder quantities, economic order quantities ○ Just in time ○ EFTPOS ◆ Labour <ul style="list-style-type: none"> ○ documentation and procedures for calculating wages ○ electronic techniques for recording wages ○ issues involved in modern incentive schemes – reward, motivation including advantages and disadvantages ◆ Overheads <ul style="list-style-type: none"> ○ understanding of fixed overhead cost behaviour
Activity Based Costing	<p>Activity Based Costing including</p> <ul style="list-style-type: none"> ◆ cost pools ◆ cost drivers ◆ advantages and disadvantages.
Standard costing – Variance Analysis	<p>An understanding of the theory relating to Standard Costing:</p> <ul style="list-style-type: none"> ◆ an understanding of basic, ideal, and currently attainable, standards, ◆ problems, advantages and disadvantages of Standard Costing <p>Calculation of variances based on standard costs for actual output for:</p> <ul style="list-style-type: none"> ◆ material: cost, price and usage ◆ labour: cost, rate and efficiency ◆ fixed and variable overhead variances: expenditure, volume, efficiency and cost ◆ sales: revenue, price and volume <p>Reasons for variances and the relationship between variances.</p> <p>Statement showing the reconciliation of budgeted and actual profits.</p>

National Course Specification: Course details (cont)

COURSE Accounting (Advanced Higher)

Budgets	<p>Knowledge and understanding of:</p> <ul style="list-style-type: none"> ◆ budgeting and budgetary control procedures ◆ understanding of controllable and non-controllable costs ◆ advantages and disadvantages of budgetary control <p>Preparation of:</p> <ul style="list-style-type: none"> ◆ functional budgets - sales, production, purchases, material usage, labour, overheads (fixed, variable and semi-variable), master and cash ◆ flexible budgets for range of activities ◆ budgeted profit statements
Service or operating costing	<p>Knowledge and understanding of the theory of service/operating costing.</p> <ul style="list-style-type: none"> ◆ Preparation of more complex service or operating costing statement. ◆ Calculation of service/operating unit cost and revenue. ◆ Calculation of cost per unit of service.
Contract costing	<p>Knowledge and understanding of the terminology relating to contract costing.</p> <p>Preparation of contract costing statement for single and multiple contracts including:</p> <ul style="list-style-type: none"> ◆ opening balances in contract accounts ◆ direct costs ◆ allocation of fixed overheads ◆ treatment of establishment expenses ◆ calculation of notional profit and profit recognised ◆ treatment of anticipated losses.
Process costing and Joint-product and By-product costing	<p>Knowledge and understanding of the theory relating to Process Costing accounts including the calculation of:</p> <ul style="list-style-type: none"> ◆ normal and abnormal gain/loss ◆ valuation of opening and closing stocks using AVCO and FIFO ◆ transfer of completed good output to another process and/or stock ◆ calculation of value of equivalent units <p>Knowledge and understanding of the theory relating to Joint Products and By-products.</p> <p>Calculation and apportionment of costs on a sales or unit basis.</p>

National Course Specification: Course details (cont)

COURSE Accounting (Advanced Higher)

Marginal and Absorption Costing	<p>Distinguish between Marginal and Absorption Costing techniques.</p> <ul style="list-style-type: none"> ◆ Preparation of costing and profit statements valuing stock in absorption costing by application of normal activity. ◆ Identification of contribution. ◆ Calculate closing stock values using both methods. ◆ Calculation of over- and under-absorption of overheads using both methods. ◆ Evaluation and advantages and disadvantages of Marginal and Absorption Costing.
Marginal costing and decision making	Preparation of complex and comprehensive decision-making statements including multi-product break-even techniques.
Investment appraisal	<p>Definition of and necessity for Investment/Project appraisal. Evaluation of the different methods of appraisal. Advantages and disadvantages. Knowledge and understanding of the different investment appraisal techniques. Preparation of investment appraisal of two mutually exclusive projects using:</p> <ul style="list-style-type: none"> ◆ Accounting Rate of Return ◆ Payback ◆ Net Present Value ◆ Internal Rate of Return ◆ Profitability Index
Information technology and accounting	<p>Awareness of the uses of information technology in accounting – spreadsheets, databases, word processing and specialised accounting packages.</p> <ul style="list-style-type: none"> ◆ Advantages and disadvantages of information technology. ◆ Quality of information.
Use of spreadsheet	<p>Candidates will be able to correctly use the following formulae</p> <ul style="list-style-type: none"> ◆ add ◆ subtract ◆ multiply ◆ divide ◆ percentage ◆ sum ◆ copy relatively and absolutely ◆ IF statements. <p>Printouts must show row and column heading and gridlines.</p>

NB: The content of lower levels underpins this Course.

National Course Specification: Course details (cont)

COURSE Accounting (Advanced Higher)

ASSESSMENT

Assessment Purpose

To achieve the Course award the candidate must pass the Units as well as the Course assessment. The candidate's grade is based on the Course assessment.

Assessment objectives

The key objectives of the Accounting Course at Advanced Higher are to identify, report, analyse and evaluate financial and other information which permits informed judgements and decisions to be made and to develop logical thinking and problem solving skills within a wide variety of contexts with increasingly complex concepts.

Unit assessment aims to allow the candidates to complete a range of computational and theoretical questions within a familiar range of contexts and includes integration of topics at a restricted level.

Course assessment aims to allow candidates to complete a range of computation and theoretical questions in more unfamiliar and complex contexts where integration of topics may occur.

Summary of Unit assessment

In Accounting (Advanced Higher), the two Units are *Financial Accounting* (Advanced Higher) and *Management Accounting* (Advanced Higher). The Unit assessment will be of a closed book nature and should take place towards the end of the Units. The maximum time allowed for this is 1 hour 30 minutes.

Full details of the structure, Outcomes, Performance Criteria, evidence and conditions for Unit assessment can be found in the Unit Specifications for *Financial Accounting* (Advanced Higher) and *Management Accounting* (Advanced Higher). It is **mandatory** that a spreadsheet is used as an assessment tool in the *Management Accounting* (Advanced Higher) Unit assessment. Further details about Unit assessment for this Course can be found in the National Assessment Bank materials and in the Unit Assessment Specifications.

Course Assessment

The Course assessment is a Question Paper, which will last for 3 hours and have a total of 240 marks available.

The question paper will be of a computational and theoretical nature, which will sample equally across the content of the *Financial* and *Management Accounting* Units of the Course and may include the integration of topics within each of the financial and management accounting areas.

Further details of the Course assessment are given in the Course Assessment Specification.

National Course Specification: Course details (cont)

COURSE Accounting (Advanced Higher)

Links between Unit and Course assessment

The Unit assessment will assess candidates' application of their knowledge and understanding and practical skills within the familiar contexts taught throughout the Unit. The Course assessment will require candidates to apply their practical skills to integrate the Course content and use their problem solving skills and apply them to more complex concepts and unfamiliar contexts. For knowledge and understanding candidates will be required to apply, comment, evaluate and communicate the principles of accounting.

The Course assessment requires candidates to retain and recall their knowledge and understanding of the whole Course.

Avoiding unnecessary duplication

The design of the Unit and Course assessments for this Course ensures that there is no unnecessary duplication of assessment.

For Unit assessment candidates will be required to complete or partially prepare accounting statements, eg published profit and loss account or appropriation account or balance sheet of a plc, or prepare part of a process costing account, whereas for the Course assessment candidates will be required to prepare and integrate the full range of accounting statements, eg preparation of a full set of published final accounts, or of a process cost account including the valuation of work in progress using equivalent units.

The 'added value' of the Course

The Unit and Course assessments are designed to complement each other. The holistic nature of the Unit assessment provides evidence of a specific level of achievement within the Unit, whereas the Course assessment samples equally from both Units and allows candidates to clearly demonstrate retention and integration of a larger body of knowledge from the whole Course.

Candidates wishing to succeed in the Course, as distinct from achievement of the individual Units, must be aware that the Course will impose additional demands over and above those of the Units.

These additional demands will require candidates to:

- ◆ apply knowledge and understanding across the scope and content of the Course
- ◆ integrate contents of the Units and Course
- ◆ problem solve and make decisions in complex contexts
- ◆ integrate the theoretical and practical aspects of the Course
- ◆ demonstrate the retention of a larger body of knowledge from the whole Course content
- ◆ adequately respond to computational and knowledge and understanding questions from the whole Course on a single occasion
- ◆ integrate Course topics and respond to more complex questions
- ◆ respond to questions set in less familiar contexts
- ◆ apply their knowledge and understanding of accounting theory to demonstrate their ability to analyse, evaluate and make recommendations for a given situation.

National Course Specification: Course details (cont)

COURSE Accounting (Advanced Higher)

The purpose of the additional 40 hours is to enable these additional demands to be met and to allow Course providers to employ a wider variety of learning and teaching strategies in the delivery of the Course.

Further details about assessment for this Course and its Units can be found in National Assessment Bank materials, the Course Specifications and the Specimen Question Paper.

National Course Specification: Course details (cont)

COURSE Accounting (Advanced Higher)

GRADE DESCRIPTIONS

The candidate's grade will be based on the total score obtained from Course assessment.

The descriptions below indicate the nature of achievement required for the award at Grade C and Grade A in the Course.

For an award at Grade C, candidates should be able to:

- ◆ demonstrate extensive knowledge and understanding of financial and management accounting theory
- ◆ apply knowledge and understanding to a range of complex contexts
- ◆ demonstrate an ability to integrate material drawn from the Course content
- ◆ produce accounting statements with a high degree of accuracy
- ◆ demonstrate an ability to draw conclusions and make recommendations based on complex accounting problems.

For an award at Grade A, candidates should be able to:

- ◆ demonstrate a highly detailed knowledge and understanding of financial and management accounting theory
- ◆ consistently apply knowledge and understanding to a range of complex contexts
- ◆ demonstrate a high degree of ability to integrate material drawn from the Course content
- ◆ produce accounting statements with a consistently high degree of accuracy
- ◆ demonstrate clear ability to draw appropriate conclusions and make recommendations based on complex accounting problems.

ESTIMATES AND APPEALS

Estimates

In preparing estimates, evidence must take account of performance across the Course and must be judged against the Grade Descriptions. Further advice on the preparation of estimates is given in the Course Assessment Specification.

Appeals

Evidence assembled to support an assessment appeal should cover the content of the Course and must relate to the Course Grade Descriptions. Ideally this will comprise evidence generated by a properly constructed, integrated prelim which reflects the range, balance and depth of the question paper.

Although a prelim is not mandatory it is desirable in that it can provide evidence of how well a candidate can perform in questions which require integration, retention and application of knowledge and understanding in less familiar contexts within a time restraint.

National Course Specification: Course details (cont)

COURSE Accounting (Advanced Higher)

Centres generating their own prelim papers sometimes draw heavily on past SQA papers for their questions. These questions should be carefully selected from a range of Question Papers to ensure a balanced paper of acceptable format and standard. Questions should not be lifted en bloc from past papers and should contain some degree of moderation or adaptation in order to provide an unseen test of candidates' abilities. Past papers or SQA specimen papers, in their entirety, will not be accepted as evidence to support an appeal.

While high scoring Unit assessments can provide some evidence in support of an appeal they are not sufficient on their own and should be supplemented by additional evidence. This evidence should cover the Course content and should mirror the nature, range and scope of the Course assessment.

NABs can provide evidence of attainment within familiar contexts and demonstrate limited retention, however, they do not provide evidence of a candidate's ability to cope with questions based on integrated topics or to deal with questions of a more complex nature based on unfamiliar contexts. Where NABs are used for appeal purposes, they must be supplemented by evidence which mirrors the nature, range and scope of the Course assessment. This evidence may take the form of a closed book coursework assessment, supplementary prelim and/or end of Unit tests designed to show retention, integration and application of skills and knowledge.

QUALITY ASSURANCE

All National Courses are subject to Course marking and/or moderation. External markers, visiting examiners and moderators are trained by SQA to apply national standards. SQA is currently seeking to assist centres by preparing exemplification of standards materials in a number of subject areas. This will be rolled out to all subjects in due course.

The Units of all the Courses are subject to internal moderation and may also be chosen for external moderation. This is to ensure that national standards are being applied across all subjects.

Courses may be assessed by a variety of methods. Where marking is undertaken by a trained marker in their own time, markers meetings are held to ensure that a consistent standard is applied. The work of all markers is subject to scrutiny by the Principal Assessor (PA) and a PA report is published for all subjects.

National Course Specification: Course details (cont)

COURSE Accounting (Advanced Higher)

APPROACHES TO LEARNING AND TEACHING

The Course content is designed to allow candidates to develop a knowledge and understanding of the role, scope and importance of both financial and management accounting in the business world and to apply this knowledge in a wide variety of contexts. The Advanced Higher Course, in particular, presents opportunities for candidate-centred learning, with an emphasis on analysis, problem-solving, critical thinking and a strong element of practical work. It is designed to build on knowledge, understanding and skills introduced at Higher level and learning and teaching approaches should reflect this progression. There are a number of approaches which may be taken in delivering this Course and the approach chosen will depend on the teaching time and tutorial time available within the centre.

Unit by Unit

***Financial Accounting* Unit possible approach**

- ◆ internal and published accounts of a plc
- ◆ ratio analysis including investment ratios
- ◆ FRS1 – Cash Flow Statements
- ◆ consolidated balance sheets
- ◆ recording the issue of shares in ledger accounts
- ◆ dissolution of a partnership
- ◆ preparation of final accounts from incomplete records
- ◆ Financial Accounting regulations.

***Management Accounting* Unit possible approach**

- ◆ understanding the role of financial and management accountants
- ◆ classification of costs
- ◆ inventory control cycle and stock valuation using FIFO, LIFO, and AVCO
- ◆ labour control and costs
- ◆ fixed overhead control and costs
- ◆ activity based costing
- ◆ more complex marginal and decision making including multi-product break-even analysis
- ◆ marginal and absorption costing
- ◆ more complex service/operating costing
- ◆ contract costing
- ◆ process costing including equivalent units and joint-products and by-products
- ◆ investment appraisal
- ◆ budgeting – functional and flexible
- ◆ standard costing – variance analysis
- ◆ IT in accounting.

National Course Specification: Course details (cont)

COURSE Accounting (Advanced Higher)

Alternating approach

Alternatively teachers or lecturers may decide to teach topics from both the *Financial* and *Management Accounting* (Advanced Higher) Units by selecting one Financial topic followed by one Management topic then a second Financial topic and so on.

National Course Specification: Course details (cont)

COURSE Accounting (Advanced Higher)

Simultaneous approach

Teachers or lecturers may decide to divide the time available each week equally between the two Units.

<i>Financial Accounting Unit</i>	<i>Management Accounting Unit</i>
<ul style="list-style-type: none"> ◆ internal and published accounts of a plc ◆ ratio analysis including investment ratios ◆ FRS1 – Cash Flow Statements ◆ consolidated balance sheets ◆ recording the issue of shares in ledger accounts ◆ dissolution of a partnership ◆ preparation of final accounts from incomplete records ◆ Financial Accounting regulations 	<ul style="list-style-type: none"> ◆ understanding role of financial and management accountants ◆ classification of costs ◆ inventory control cycle and stock valuation using FIFO, LIFO, and AVCO ◆ labour control and costs ◆ fixed overhead control and costs ◆ activity based costing ◆ more complex marginal and decision making including multi-product break-even analysis ◆ marginal and absorption costing ◆ more complex service/operating costing ◆ contract costing ◆ process costing including equivalent units and joint-products and by-products ◆ investment appraisal ◆ budgeting – functional and flexible ◆ standard costing – variance analysis ◆ IT in accounting

The use of information technology

Throughout the Course candidates should be encouraged to use spreadsheets when preparing financial and management accounting statements.

The use of a spreadsheet is **mandatory** in the Unit assessment for *Management Accounting* (Advanced Higher).

Learning and teaching strategies could also include the use of accounting software packages. This will not only help candidates appreciate the ways in which accounting is carried out in the business world but also enable integration of additional information technology into the study of accounting.

While the majority of the Course is computationally based, any learning and teaching approach used should also include the development of knowledge and understanding. Candidates should be encouraged, and be given opportunities, to appreciate the links between the theoretical and practical aspects of the subject.

National Course Specification: Course details (cont)

COURSE Accounting (Advanced Higher)

Although the additional 40 hours could be a discrete block of time used entirely after completion of the two Units, this is not the recommended approach. While some of the time may be used in this way, it would seem more appropriate for this time to be used in a variety of ways throughout the Course, for example, for remediation, the greater use of information technology in researching material relating to current accounting practice or the introduction to a wider range of accounting and business contexts.

This course provides opportunities for the use of imaginative learning and teaching approaches, which could include case studies, computer-based tutorials, outside speakers and visits to firms.

CANDIDATES WITH ADDITIONAL SUPPORT NEEDS

This Course Specification is intended to ensure that there are no artificial barriers to learning or assessment. The additional support needs of individual candidates should be taken into account when planning learning experiences, selecting assessment instruments or considering alternative Outcomes for Units. For information on these, please refer to the SQA document *Guidance on Assessment Arrangements for Candidates with Disabilities and/or Additional Support Needs (SQA 2004)*.

National Course Specification: Course details (cont)

COURSE Accounting (Advanced Higher)

ACCOUNTING IN A BROADER CONTEXT

A number of national initiatives and programmes have been designed to promote themes that are important to contemporary society such as citizenship and enterprise. These themes contribute to individual subjects and Courses by making connections beyond the subject boundaries to enrich the learning experience. Similarly, specialist knowledge and skills developed through the study of a particular subject contributes to the understanding of these themes.

Accounting is a subject which relates easily to many aspects of everyday life and, therefore, many of the topics can be used to allow candidates the opportunity of learning experiences which are relevant to current initiatives such as financial education for all, enterprise in education, education for citizenship, life-long learning and the national priorities for education.

CROSS CURRICULAR THEME	UNIT	LEVEL	ISSUES
Financial Education for all	Financial	All Intermediate 1	Understanding the importance of financial decisions in relation to: <ul style="list-style-type: none"> ◆ the concept of debt ◆ the balancing income with expenditure ◆ sources of finance ◆ the reconciliation of bank statements with bank account
Enterprise for Education	Financial Managerial	All Intermediate 2, Higher, Advanced Higher Higher, Advanced Higher	Understanding of the importance of: <ul style="list-style-type: none"> ◆ characteristics of business organisations ◆ ratio analysis to determine the efficiency of business organisations ◆ career opportunities — role of Financial and Managerial Accountants ◆ decision making to the success of business organisations
Education for citizenship	Financial and Managerial	All	Development of citizenship skills: <ul style="list-style-type: none"> ◆ working independently ◆ analysing and reporting using ICT ◆ using relevant data to solve problems

National Unit Specification: general information

UNIT Financial Accounting (Advanced Higher)

NUMBER DF47 13

COURSE Accounting (Advanced Higher)

SUMMARY

This Unit is designed to enable candidates to develop the skills and techniques which will allow them to record the dissolution of a partnership, to prepare (with calculations) external accounting statements for a single public limited company (plc) and a consolidated balance sheet for a parent company and one subsidiary. They will also learn to prepare and analyse accounting ratios for business organisations, prepare a cash flow statement for a public limited company and prepare accounting statements from incomplete data for a business organisation. Candidates will develop knowledge and understanding of the theory relating to accounting standards and statement of principles.

OUTCOMES

1. Describe and apply the theory of partnership dissolution.
2. Prepare financial statements of a plc for external reporting purposes and describe the underpinning theory.
3. Evaluate the performance of a business organisation using accounting ratios.
4. Calculate the figures for inclusion in accounting statements from the data contained in incomplete records.
5. Prepare the ledger accounts necessary to record the issue of shares.

RECOMMENDED ENTRY

While entry is at the discretion of the centre, candidates would normally be expected to have achieved one of the following or equivalent:

- ◆ Higher Accounting
- ◆ the *Financial Accounting* (Higher) Unit.

Administrative Information

Superclass: AK

Publication date: April 2005

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Version: 1

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National Unit Specification (cont)

UNIT Financial Accounting (Advanced Higher)

CREDIT VALUE

1.5 Credits (12 SCQF points at SCQF level 7)*

**SCQF points are used to allocate credit to qualifications in the Scottish Credit and Qualifications Framework (SCQF). Each qualification in the Framework is allocated a number of SCQF points at an SCQF level. There are 12 SCQF levels, ranging from Access 1 to Doctorates.*

CORE SKILLS

There is no automatic certification of Core Skills or Core Skills components in this Unit.

National Unit Specification: statement of standards

UNIT Financial Accounting (Advanced Higher)

Acceptable performance in this Unit will be the satisfactory achievement of the standards set out in this part of the Unit specification. All sections of the statement of standards are mandatory and cannot be altered without reference to the Scottish Qualifications Authority.

OUTCOME 1

Describe and apply the theory of partnership dissolution.

Performance criteria

- (a) Record the appropriate entries for the dissolution of a partnership in the realisation account.
- (b) Record the entries necessary for the dissolution of a partnership to close off specified ledger accounts.
- (c) Describe the theory of partnership dissolution.

OUTCOME 2

Prepare financial statements of a plc for external reporting purposes and describe the underpinning theory.

Performance criteria

- (a) Calculate figures to be included in published financial statements.
- (b) Prepare financial statements.
- (c) Describe the theory relating to Financial Reporting Standards (FRSs) and published accounts.

OUTCOME 3

Evaluate the performance of a business organisation using accounting ratios.

Performance criteria

- (a) Calculate accounting ratios using the appropriate formulae (*See Appendix 2*).
- (b) Evaluate accounting ratios.

OUTCOME 4

Calculate the figures for inclusion in accounting statements from the data contained in incomplete records.

Performance criterion

- (a) Calculate specified accounting information consistent with the data supplied.

National Unit Specification: statement of standards (cont)

UNIT Financial Accounting (Advanced Higher)

OUTCOME 5

Record the ledger account entries necessary for the issue of shares, and describe the underpinning theory.

Performance criteria

- (a) Calculate the figures relating to the issue of shares.
- (b) Enter the figures in specified ledger accounts.
- (c) Describe the theory relating to the issue of share capital.

EVIDENCE REQUIREMENTS FOR THE UNIT

The content of this Unit is specified in Appendix 1 – *Unit Content* and the Ratio Formulae are specified in Appendix 2.

Evidence is required to demonstrate that candidates have met the requirements of all Outcomes and Performance Criteria.

Candidates are required to demonstrate knowledge and understanding by responding to questions under closed-book, supervised conditions in a maximum of one hour 30 minutes.

Candidates' evidence must demonstrate appropriate knowledge and understanding of the Unit content provided in Appendix One. Candidates are required to:

- ◆ prepare specified accounts to record the dissolution of a partnership
- ◆ calculate figures for the published Profit and Loss Account
- ◆ describe directors' reports, notes to the final accounts and relevant FRS
- ◆ prepare or partially prepare figures for inclusion in a Consolidated Balance Sheet
- ◆ calculate and interpret accounting ratios*
- ◆ calculate elements for inclusion in Cash Flow Statements
- ◆ calculate figures for inclusion in accounting statements from incomplete records
- ◆ record the issue of shares in specified ledger accounts
- ◆ describe the underpinning theory relevant to the above.

Candidates' responses to questions set in one context of the Unit will allow inference of competence in similar contexts.

Assessment can be carried out on a single occasion or broken down into two sessions of 45 minutes.

* **NB:** The ratio formulae given in Appendix 2 **must not** be provided for assessment purposes in this Unit.

National Unit Specification: statement of standards (cont)

UNIT Financial Accounting (Advanced Higher)

Accounting software packages **must not** be used for assessment purposes in this Unit. Calculators may be used.

If a re-assessment is required, it should contain a different sample of the content.

Achievement can be determined by the use of a cut-off score. The standard to be applied and the breadth of coverage are illustrated in the National Assessment Bank items available for this Unit. If a centre wishes to design its own assessments, they should be of a comparable standard.

National Unit Specification: support notes

UNIT Financial Accounting (Advanced Higher)

This part of the Unit specification is offered as guidance. The support notes are not mandatory.

While the exact time allocated to this Unit is at the discretion of the centre, the notional design length is 60 hours.

GUIDANCE ON THE CONTENT AND CONTEXT FOR THIS UNIT

This Unit deals with the following financial accounting aspects:

- ◆ dissolution of partnership where assets are sold outwith the partnership or taken over by one or more partners; fixed assets are realised at a figure more than and/or equal to and/or less than book value; partners' current accounts have either an opening debit or credit balance and there is a realisation profit or loss
- ◆ calculation of specific items such as administration, and distribution expenses, cost of sales, dividends and the preparation and knowledge of appropriate notes to the published accounts
- ◆ calculation and interpretation of financial statements using the standard accounting ratios provided in Appendix 2
- ◆ preparation of a section or sections of a Cash Flow Statement in accordance with current accounting standards, such as net inflows from operating activities, and/or returns on investment and servicing of finance, and/or capital expenditure and financial investment, and/or management of liquid resources and finance
- ◆ calculation of the figures required for inclusion in final accounts for a business organisation such as sole trader or partnership which does not maintain full accounting records. Calculation to include some or all of the following: credit purchases, cash and/or credit sales, drawings, expenses, capital, cash and/or bank balances; adjustments for accruals and/or prepayments at the start and/or end of the accounting period
- ◆ preparation of consolidated balance sheets for a plc
- ◆ accounting theory relating to accounting practices and Standards of Principle
- ◆ recording the issue of shares at par, premium, including applications, allotment, calls in advance, arrear, forfeiture, re-issue, over-under-subscription.

The extent of the knowledge required for each outcome in this Unit is detailed in Appendix 1 - Unit Content.

National Unit Specification: support notes (cont)

UNIT Financial Accounting (Advanced Higher)

GUIDANCE ON LEARNING AND TEACHING APPROACHES FOR THIS UNIT

The emphasis throughout the Unit should be on a candidate-centred approach where candidates undertake practical exercises which enable each candidate to progress at his/her own pace. It is important that candidates' computational skills and knowledge and understanding are developed concurrently throughout the Unit, particularly for those candidates undertaking this Unit as part of the Advanced Higher Accounting Course.

Although not mandatory, there are opportunities for candidates to develop their information technology skills. For example the use of spreadsheets for practical exercises, word processing for reporting on the analysis and interpretation of financial statements and demonstrating knowledge and understanding.

Accounting packages may also be used as a teaching tool. However, candidates **must** understand the principles and concepts, which underpin the preparation, analysis and interpretation of financial statements.

GUIDANCE ON APPROACHES TO ASSESSMENT FOR THIS UNIT

Assessment should be carried out an appropriate time. The holistic nature of the assessment requires it to be carried out at the end of the Unit.

Candidates will be required to:

- ◆ record the dissolution of a partnership showing specified ledger accounts, the realisation account one or more capital accounts and/or the bank account
- ◆ prepare or complete final accounts accompanied by appropriate notes for a plc for external reporting purposes
- ◆ analyse and evaluate the performance of a business organisation such as sole trader, partnership or plc, for two consecutive accounting periods using the ratios provided in Appendix 2
- ◆ prepare a specified section or sections of a Cash Flow Statement and comment on how the company has utilised its funds
- ◆ prepare or complete the final accounts (showing all appropriate calculations) of a business organisation such as sole trader or partnership which does not maintain full accounting records
- ◆ produce restricted response answers to demonstrate knowledge and understanding in the above areas.

Accounting packages **cannot** be used for assessment purposes, however calculators can be used.

National Unit Specification: support notes (cont)

UNIT Financial Accounting (Advanced Higher)

CANDIDATES WITH ADDITIONAL SUPPORT NEEDS

This Unit Specification is intended to ensure that there are no artificial barriers to learning or assessment. The additional support needs of individual candidates should be taken into account when planning learning experiences, selecting assessment instruments or considering alternative Outcomes for Units. For information on these, please refer to the SQA document *Guidance on Assessment Arrangements for Candidates with Disabilities and/or Additional Support Needs* (SQA, 2004).

National Unit Specification: statement of standards

UNIT Financial Accounting (Advanced Higher)

Appendix 1 – Unit Content

NB: *This Appendix is within the statement of standards, ie the mandatory requirements of the Unit*

<p>Dissolution of a Partnership</p>	<p>Reasons and procedures for the dissolution of a partnership to include:</p> <ul style="list-style-type: none"> ◆ preparation of a realisation account (gain/loss), ◆ partners taking over assets at valuations above, equal to or less than book value ◆ debtors (receipts from, bad debts, discount allowed) ◆ creditors (payments to and discount received) ◆ treatment of <ul style="list-style-type: none"> ○ partners' current account balances ○ loans to and from partners ◆ goodwill ◆ dissolution where partner is unable to meet shortfall
<p>Final Accounts and Balance Sheets of a plc</p>	<p>Preparation of final accounts for internal and external reporting purposes.</p> <p>Main provisions of the Companies Acts including:</p> <ul style="list-style-type: none"> ◆ procedures for the formation of a plc ◆ stewardship ◆ statutory accounts <p>Preparation of accounting statements for external reporting purposes including a knowledge of:</p> <ul style="list-style-type: none"> ◆ Directors' Report to include information on <ul style="list-style-type: none"> ○ the principal activities of the company ○ a fair review of the current and future activities of the company ○ details of the sale, purchase or valuation of assets ○ recommended dividends ○ employee statistics, including details of health and safety statistics, employment of disabled people ○ details of directors – names, and shareholding in the company ○ details of any political or charitable donations ◆ Notes to the Accounts : <ul style="list-style-type: none"> ○ disclosure of the accounting policies eg depreciation and a note of any changes in these policies ○ detailed explanation of any deviation from accounting standards

National Unit Specification: statement of standards (cont)

UNIT Financial Accounting (Advanced Higher)

	<ul style="list-style-type: none"> ○ sources of turnover from different geographical markets ○ details of fixed assets, investments, share capital, debentures and reserves ○ directors' emoluments – pensions, earnings and other benefits ○ calculations of basic earnings per share <p>Published Profit and Loss Account which takes account of :</p> <ul style="list-style-type: none"> ◆ turnover ◆ cost of sales ◆ gross profit or loss ◆ distribution and administration expenses ◆ other operating or investment income ◆ interest or financial charges ◆ profit before and after tax ◆ corporation tax ◆ proposed and paid dividends ◆ retained profit <p>Published Balance Sheet of a plc where items are grouped under the following headings:</p> <ul style="list-style-type: none"> ◆ fixed assets – intangible, tangible, investments ◆ current assets ◆ creditors: amounts due within 1 year ◆ net current assets ◆ total assets less current liabilities ◆ creditors: amounts due after 1 year ◆ provisions for liabilities and charges ◆ capital and reserves <p>These accounts should comply with the current requirements of the Companies Acts and should comply with the main requirements under current accounting practices and Statement of Principle.</p>
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National Unit Specification: statement of standards (cont)

UNIT Financial Accounting (Advanced Higher)

<p>Consolidated Balance Sheets</p>	<p>Purpose of consolidated financial statements for:</p> <ul style="list-style-type: none"> ◆ parent and subsidiary undertakings ◆ parent company with one subsidiary company <p>Preparation of Consolidated Balance Sheet taking account of:</p> <ul style="list-style-type: none"> ◆ goodwill ◆ minority interests ◆ cash in transit ◆ goods sold between companies ◆ current/transfer accounts ◆ post-acquisition profits
<p>Ratio Analysis</p>	<p>Calculation of the following accounting ratios using the formulae provided in Appendix 2.</p> <p>Profitability Ratios</p> <ul style="list-style-type: none"> ◆ return on capital employed ◆ gross profit percentage ◆ mark-up ratio ◆ net profit percentage <p>Liquidity Ratio</p> <ul style="list-style-type: none"> ◆ current ratio ◆ acid test ratio <p>Efficiency Ratio</p> <ul style="list-style-type: none"> ◆ expense ratio (individual or total) ◆ rate of stock turnover ◆ debtors collection period ◆ creditors payment period ◆ turnover to fixed assets <p>Investment Ratio</p> <ul style="list-style-type: none"> ◆ dividend yield ◆ dividend cover ◆ earnings per share ◆ price/earnings ratio ◆ interest cover ◆ capital gearing ratio <p>Inter-firm and intra-firm comparisons Evaluation of the business performance of an organisation or organisations using the above ratios. Use of accounting ratios for decision making.</p>

National Unit Specification: statement of standards (cont)

UNIT Financial Accounting (Advanced Higher)

Cash Flow Statement	<p>Preparation of Cash Flow Statement in accordance with the current accounting standard including statements for:</p> <ul style="list-style-type: none"> ◆ reconciliation of operating profit to net cash flow statement ◆ Cash Flow Statement – (layout as current FRS1 statement) ◆ statement of changes in net debt. <p>Comment on the utilisation of the business organisation’s funds by analysing the figures in the completed cash flow statement.</p>
Incomplete records	<p>Preparation of financial statements for organisations which do not maintain full accounting records.</p> <p>Calculation of:</p> <ul style="list-style-type: none"> ◆ cash and/or credit sales ◆ credit purchases ◆ drawings ◆ specific expenses ◆ cash and bank balances ◆ adjustments for accruals and prepayments at the start and end of the financial year ◆ depreciation using straight line, diminishing balance or revaluation methods <p>and use of control accounts.</p> <p>Statements to include the calculation of stock missing through fire/theft.</p>
Financial Accounting regulations	<p>Role of the Accounting Standards Board (ASB), and International Accounting Standards Board</p> <p>Procedure for the development of Accounting Standards</p> <p>Statement of Principles (scope, objectives, performance). Current practices with reference to the following:</p> <ul style="list-style-type: none"> ◆ FRS1 (revised) Cash Flow Statement ◆ FRS3 Reporting Financial Performance ◆ FRS 10 Goodwill and Tangible Assets ◆ FRS 15 Tangible Fixed Assets ◆ FRS 18 Accounting Policies

National Unit Specification: statement of standards (cont)

UNIT Financial Accounting (Advanced Higher)

Social Accounting	Definition and reasons for companies producing social accounts How social accounts are produced: <ul style="list-style-type: none">◆ identification of stakeholders◆ selection of indicators◆ measure and report performance◆ social audit
Principles of Auditing	Role of the external auditor in a plc to include <ul style="list-style-type: none">◆ general principles of auditing◆ duties and responsibilities of the auditor◆ auditing methods◆ Auditor's Report.
Issue of Shares	Preparation of accounts necessary to record the issue of shares at par and at a premium including: <ul style="list-style-type: none">◆ application◆ allotment◆ calls◆ treatment of<ul style="list-style-type: none">○ calls in arrears○ calls in advance○ over-subscription○ forfeiture and reissue of shares

NB: *The content of the lower levels underpins this Unit.*

National Unit Specification: statement of standards (cont)

UNIT Financial Accounting (Advanced Higher)

APPENDIX 2 – Ratio Formulae

NB: This Appendix is within the statement of standards, ie the mandatory requirements of the Unit.

Candidates must know how to calculate the following ratios.

To remove the possibility of inconsistencies in answers the use of the following formulae is recommended. These **must not** be provided for candidates use during assessment.

Ratio	Formula
<u>Profitability</u> Return on capital employed	$\frac{\text{Net Profit after Tax}}{(\text{Fixed Assets} + \text{Net Current Assets} - \text{Long Term Liabilities})} \times 100 = \%$
Gross profit Ratio	$\frac{\text{Gross Profit}}{\text{Turnover}} \times 100 = \%$
Net profit Ratio	$\frac{\text{Net Profit}}{\text{Turnover}} \times 100 = \%$
Mark-up Percentage	$\frac{\text{Gross Profit}}{\text{Cost of Goods Sold}} \times 100 = \%$
<u>Liquidity</u> Current ratio	Current Assets: Current Liabilities (Answer should be expressed as 2.35 : 1)
Acid test ratio	(Current Assets – Stock):Current Liabilities (Answer should be expressed as 1.54 : 1)
<u>Efficiency</u> Expense/s ratio	$\frac{\text{Expense/s}}{\text{Turnover}} \times 100 = \%$
Average stock	$\frac{\text{Opening Stock} + \text{Closing Stock}}{2} = \text{£}$
Rate of stock turnover	$\frac{\text{Cost of Sales}}{\text{Average Stock}} = \text{times}$ NB: Rate of stock turnover may be expressed as an average stockholding in days (365) or weeks (52) or months (12) by multiplying the number of times the average stock is sold by the appropriate bracketed figure.

National Unit Specification: statement of standards (cont)

UNIT Financial Accounting (Advanced Higher)

Debtors collection period	$\frac{\text{Average Debtors}}{\text{Credit Sales}} \times 365, \text{ or } 52, \text{ or } 12 = \text{days, weeks or months}$
Creditors payment period	$\frac{\text{Average Creditors}}{\text{Credit Purchases}} \times 365, \text{ or } 52, \text{ or } 12 = \text{days, weeks or months}$
Turnover to fixed assets	Turnover: Fixed Assets (Answer should be expressed as 0.85 : 1)
<u>Investment</u> Dividend yield	$\frac{\text{Ordinary dividend per share}}{\text{Market price per share}} \times 100\%$
Dividend cover	$\frac{(\text{Net Profit after tax} - \text{Preference dividends})}{\text{Dividends on ordinary shares}}$
Earnings per share	$\frac{(\text{Net Profit after tax} - \text{Preference dividends})}{\text{Number of ordinary shares}}$
Price/earnings ratio	$\frac{\text{Market price per share}}{\text{Earnings per share}}$
Interest cover	$\frac{\text{Profit before interest and tax}}{\text{Interest}}$
Capital gearing ratio	(Preference Shares + Long-term loans): Ordinary Shares NB Answers to be expressed as a ratio to 1, e.g. 2.5:1 or 0.67:1

National Unit Specification: general information

UNIT Management Accounting (Advanced Higher)

NUMBER DF4T 13

COURSE Accounting (Advanced Higher)

SUMMARY

This Unit is designed to enable candidates to develop the skills and techniques which will allow them to prepare and evaluate cost statements for service, operation, contract or process concerns and apply marginal or absorption costing techniques; prepare functional and/or flexible budgets for planning and control purposes; apply break-even analysis, decision making, and investment appraisal techniques for decision making purposes and prepare standard costing statements using variance analysis techniques. It will also develop a knowledge and understanding of the theory relating to management accounting. Candidates will use Information Technology to prepare some of the above.

OUTCOMES

1. Describe and use different costing techniques and methods.
2. Prepare budgets and describe the budgetary control procedures.
3. Apply and evaluate Investment Appraisal techniques.
4. Describe Standard Costing theory and calculate and analyse Standard Costing Variances.
5. Prepare cost statements using spreadsheets.

RECOMMENDED ENTRY

While entry is at the discretion of the centre, candidates would normally be expected to have achieved one of the following or equivalent:

- ◆ Higher Accounting
- ◆ the *Management Accounting (Higher)* Unit.

Administrative Information

Superclass: AK

Publication date: April 2005

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Version: 1

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National Unit Specification (cont)

UNIT Management Accounting (Advanced Higher)

CREDIT VALUE

*1.5 Credits (12 SCQF credit points at SCQF level 7)**

** SCQF points are used to allocate credit to qualifications in the Scottish Credit and Qualifications Framework (SCQF). Each qualification in the Framework is allocated a number of SCQF points at an SCQF level. There are 12 SCQF levels, ranging from Access 1 to Doctorates.*

CORE SKILLS

Core Skills Component for this Unit: Critical Thinking at Higher

National Unit Specification: statement of standards

UNIT Management Accounting (Advanced Higher)

Acceptable performance in this Unit will be the satisfactory achievement of the standards set out in this part of the Unit specification. All sections of the statement of standards are mandatory and cannot be altered without reference to the Scottish Qualifications Authority.

OUTCOME 1

Describe and use different costing techniques and methods.

Performance criteria

- (a) Finalise partially completed cost statements.
- (b) Complete partially prepared marginal costing and absorption costing statements.
- (c) Describe different costing techniques and methods.

OUTCOME 2

Prepare budgets and describe the budgetary control procedures.

Performance criteria

- (a) Describe budgeting and the budgetary control procedures.
- (b) Prepare functional budgets.
- (c) Prepare flexible budgets.

OUTCOME 3

Apply and evaluate Investment Appraisal techniques.

Performance criteria

- (a) Explain investment appraisal theory.
- (b) Prepare an investment appraisal.
- (c) Make and justify recommendations based on an investment appraisal.

OUTCOME 4

Describe Standard Costing theory and calculate and analyse Standard Costing Variances.

Performance criteria

- (a) Calculate cost and revenue variances.
- (b) Analyse the reasons for cost and revenue variances.
- (c) Describe Standard Costing theory.

National Unit Specification: statement of standards (cont)

UNIT Management Accounting (Advanced Higher)

OUTCOME 5

Prepare cost statements using spreadsheets.

Performance criteria

- (a) Use spreadsheets to prepare and update cost statements.
- (b) Use of spreadsheet formulae is comprehensive and consistent with purpose.
- (c) Produce a printout of data and formulae.

EVIDENCE REQUIREMENTS FOR THE UNIT

The content of this Unit is specified in Appendix 1 – *Unit Content*, Appendix 2 – *Standard Costing Variance Analysis Formulae* and Appendix 3 – *Contract Costing Formula*.

Evidence is required to demonstrate that candidates have met the requirements of all Outcomes and Performance Criteria.

Candidates are required to demonstrate knowledge and understanding by responding to questions under closed-book, supervised conditions in a maximum of one hour 30 minutes. The assessment will test knowledge and understanding and computational ability and will include the production of statements using manual calculations and spreadsheets. Calculators may be used for those parts of the assessment where a spreadsheet is not used.

Candidates are required to demonstrate appropriate knowledge and understanding of the Unit content provided in Appendix 1. Candidates are required to use spreadsheets as an accounting tool and to prepare:

- ◆ service or operating cost statements to establish the service or operating unit cost
- ◆ contract costing statements to establish the contract profit *
- ◆ process costing including the calculation of equivalent units
- ◆ functional budgets, material, labour, fixed and variable overhead, cash and master budgets for a specified period
- ◆ flexible budgets for specified activity ranges
- ◆ marginal costing statements and absorption costing statements
- ◆ investment appraisals, making recommendations supported by reasoned argument as to which project to adopt
- ◆ Standard Costing calculations for variance analysis of materials, labour, fixed and variable overheads and sales.*

*** NB: The ratio formulae given in Appendix 2 and Appendix 3 must not be provided for assessment purposes in this Unit.**

National Unit Specification: statement of standards (cont)

UNIT Management Accounting (Advanced Higher)

Candidates' responses to questions set in one context of the Unit will allow inference of competence in similar contexts.

Assessment can be carried out on a single occasion or broken down into two sessions of 45 minutes.

If a re-assessment is required, it should contain a different sample of the content.

Achievement can be determined by the use of a cut-off score. The standard to be applied and the breadth of coverage are illustrated in the National Assessment Bank items available for this Unit. If a centre wishes to design its own assessments, they should be of a comparable standard.

National Unit Specification: support notes

UNIT Management Accounting (Advanced Higher)

This part of the Unit specification is offered as guidance. The support notes are not mandatory.

While the exact time allocated to this Unit is at the discretion of the centre, the notional design length is 60 hours.

GUIDANCE ON THE CONTENT AND CONTEXT FOR THIS UNIT

This Unit deals with the following management accounting aspects:

- ◆ service or operating costing statements prepared in order to establish the service or operating cost per unit and calculation of unit charge in order to make specific profit
- ◆ contract costing statements to establish the contract profit
- ◆ functional budgets – production or material purchase, or direct labour or fixed and variable overheads - for a specified period
- ◆ flexible budgets for a specified range of activities which could be below and/or above normal capacity
- ◆ marginal and absorption costing statements to establish closing stock values and over or under absorption of overheads
- ◆ investment appraisal using the accounting rate of return, payback, discounted cash flow and/or the internal rate of return methods and making recommendations as to the preferred course of action
- ◆ labour, materials, fixed and variable overheads and sales variance analysis. Reasons for any variances. An awareness of the principles, advantages and disadvantages of standard costing
- ◆ the use of spreadsheets and the embedding of appropriate formulae and data relating to management accounting cost statements
- ◆ the background theory relevant to the above topics.

The formulae necessary to complete the above are given in Appendices 2 and 3 of this Unit.

The content of this Unit is detailed in Appendix 1 - *Unit Content*.

GUIDANCE ON LEARNING AND TEACHING APPROACHES FOR THIS UNIT

The emphasis throughout the Unit should be on a candidate-centred approach where candidates undertake practical exercises which enable each candidate to progress at his/her own pace. It is important that candidates' information technology, computational skills and knowledge and understanding are developed concurrently throughout the Unit, particularly for those candidates undertaking this Unit as part of the Advanced Higher Accounting Course.

National Unit Specification: support notes (cont)

UNIT Management Accounting (Advanced Higher)

In addition to the mandatory use of a spreadsheet, there are additional opportunities for candidates to develop their information technology skills, eg the additional use of spreadsheets for other practical exercises, and word processing for reporting on the analysis and interpretation of management accounting statements.

Accounting packages may also be used as a teaching tool. However, candidates **must** understand the principles and concepts which underpin the preparation, analysis and interpretation of management accounting statements.

GUIDANCE ON APPROACHES TO ASSESSMENT FOR THIS UNIT

Assessment should be carried out at an appropriate time. The holistic nature of the assessment means that this is likely to be towards the end of the Unit.

Candidates will be required to:

- ◆ prepare a functional or flexible budget
- ◆ prepare investment appraisals for two projects using the payback, accounting rate of return, net present value and internal rate of return method, and recommending with justification which project should be chosen for each method
- ◆ use variance analysis techniques for labour, materials, sales, fixed and variable overheads. Comment on possible reasons for any variances. Comment on the nature, advantages and disadvantages of standard costing techniques. Formulae for the variance analysis are given in Appendix 2
- ◆ prepare a service or operating costing statement to calculate a service or operating unit cost
- ◆ prepare a contract costing statement to establish the contract profit. A formula for the calculation of profit recognised is given in Appendix 3
- ◆ prepare process cost accounts calculating abnormal gain and including the calculation of equivalent units of production, work in progress and closing stock values
- ◆ prepare a marginal costing statement or an absorption costing statement to calculate closing stock values and the over or under absorption of overheads
- ◆ use a spreadsheet as a management accounting tool
- ◆ produce restricted responses to demonstrate their knowledge and understanding in the above areas.

Accounting packages **cannot** be used for assessment purposes.

National Unit Specification: support notes (cont)

UNIT Management Accounting (Advanced Higher)

CANDIDATES WITH ADDITIONAL SUPPORT NEEDS

This Unit Specification is intended to ensure that there are no artificial barriers to learning or assessment. The additional support needs of individual candidates should be taken into account when planning learning experiences, selecting assessment instruments or considering alternative Outcomes for Units. For information on these, please refer to the SQA document *Guidance on Assessment Arrangements for Candidates with Disabilities and/or Additional Support Needs (SQA, 2004)*.

National Unit Specification: statement of standards

UNIT Management Accounting (Advanced Higher)

Appendix 1 – Unit Content

NB: This Appendix is within the statement of standards, ie the mandatory requirements of the Unit.

<i>Topic</i>	<i>Depth of knowledge required for Unit</i>
Classification of costs	An understanding of the significance of direct, indirect, fixed, variable, semi-variable, controllable and uncontrollable costs
Elements of costs	<p>A detailed knowledge of the theory and procedures for calculating costs of:</p> <ul style="list-style-type: none"> ◆ Material <ul style="list-style-type: none"> ○ inventory control cycle and procedures ○ computerised stock recording and inventory control ○ stock valuation – FIFO (first in first out), LIFO (last in first out), AVCO (Average Cost) ○ calculation of maximum, minimum and reorder quantities, economic order quantities ○ Just in time ○ EFTPOS ◆ Labour <ul style="list-style-type: none"> ○ documentation and procedures for calculating wages ○ electronic techniques for recording wages ○ issues involved in modern incentive schemes – reward, motivation including advantages and disadvantages ◆ Overheads <ul style="list-style-type: none"> ○ understanding of fixed overhead cost behaviour
Activity Based Costing	<p>Activity Based Costing including</p> <ul style="list-style-type: none"> ◆ cost pools ◆ cost drivers ◆ advantages and disadvantages
Standard costing – Variance Analysis	<p>An understanding of the theory relating to Standard Costing:</p> <ul style="list-style-type: none"> ◆ an understanding of basic, ideal, and currently attainable, standards ◆ problems, advantages and disadvantages of Standard Costing <p>Calculation of variances based on standard costs for actual output for:</p> <ul style="list-style-type: none"> ◆ material: cost, price and usage ◆ labour: cost, rate and efficiency ◆ fixed and variable overhead variances: expenditure, volume, efficiency and cost

National Unit Specification: statement of standards (cont)

UNIT Management Accounting (Advanced Higher)

	<ul style="list-style-type: none"> ◆ sales: revenue, price and volume <p>Reasons for variances and the relationship between variances.</p> <p>Statement showing the reconciliation of budgeted and actual profits.</p>
Budgets	<p>Knowledge and understanding of:</p> <ul style="list-style-type: none"> ◆ budgeting and budgetary control procedures ◆ understanding of controllable and non-controllable costs ◆ advantages and disadvantages of budgetary control <p>Preparation of</p> <ul style="list-style-type: none"> ◆ functional budgets - sales, production, purchases, material usage, labour, overheads (fixed, variable and semi-variable), master and cash ◆ flexible budgets for range of activities ◆ budgeted profit statements
Service or operating costing	<p>Knowledge and understanding of the theory of service/operating costing.</p> <ul style="list-style-type: none"> ◆ Preparation of complex service or operating costing statement ◆ Calculation of service/operating unit cost and revenue. ◆ Calculation of cost per unit of service
Contract costing	<p>Knowledge and understanding of the terminology relating to contract costing.</p> <p>Preparation of contract costing statement for single and multiple contracts including:</p> <ul style="list-style-type: none"> ◆ opening balances in contract accounts ◆ direct costs ◆ allocation of fixed overheads ◆ treatment of establishment expenses ◆ calculation of notional profit and profit recognised ◆ treatment of anticipated losses
Process Costing and joint-product and by-product costing	<p>Knowledge and understanding of the theory relating to Process Costing including the calculation of:</p> <ul style="list-style-type: none"> ◆ normal and abnormal gain/loss ◆ valuation of opening and closing stock using AVCO and FIFO ◆ transfer of completed good output to another process and/or stock ◆ calculation of value of equivalent units

National Unit Specification: statement of standards (cont)

UNIT Management Accounting (Advanced Higher)

	<p>Knowledge and understanding of the theory relating to joint-products and by-products. Calculation and apportionment of costs on a sales or unit basis</p>
Marginal and Absorption Costing	<p>Distinguish between Marginal and Absorption Costing techniques.</p> <ul style="list-style-type: none"> ◆ Preparation of costing and profit statements valuing stock in absorption costing by application of normal activity ◆ Identification of contribution ◆ Calculate closing stock values using both methods ◆ Calculation of over- and under-absorption of overheads using both methods ◆ Evaluation and advantages and disadvantages of Marginal and Absorption Costing
Marginal costing and decision making	<p>Preparation of complex and comprehensive decision making statements including multi-product break-even analysis</p>
Investment appraisal	<p>Knowledge and understanding of the different investment appraisal techniques</p> <ul style="list-style-type: none"> ◆ Definition of and necessity for investment/project appraisal ◆ Evaluation of the different methods of appraisal ◆ Advantages and disadvantages ◆ Preparation of investment appraisal of two mutually exclusive projects using: <ul style="list-style-type: none"> ○ Accounting Rate of Return ○ Payback ○ Net Present Value ○ Internal Rate of Return ○ Profitability Index
Information technology and accounting	<p>Awareness of the uses of information technology in accounting – spreadsheets, databases, word processing and specialised accounting packages.</p> <ul style="list-style-type: none"> ◆ Advantages and disadvantages of information technology ◆ Quality of information <p>Note: Candidates will be expected to produce ONE spreadsheet solution as part of the assessment. The spreadsheet will be drawn from the topics for outcomes 1-4.</p>

National Unit Specification: statement of standards (cont)

UNIT Management Accounting (Advanced Higher)

Use of Spreadsheet	<p>Candidates will be able to correctly use the following formulae</p> <ul style="list-style-type: none">◆ add◆ subtract◆ multiply;◆ divide;◆ percentage,◆ sum◆ copy relatively and absolutely◆ IF statements. <p>Printouts must show row and column heading and gridlines.</p>
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NB: The content of the lower levels underpins this Unit.

National Unit Specification: statement of standards (cont)

UNIT Management Accounting (Advanced Higher)

APPENDIX 2 – Standard Costing Variance Analysis Formulae

NB: *This Appendix is within the statement of standards, ie the mandatory requirements of the Unit.*

To remove the possibility of inconsistencies in answers the use of the following formulae is mandatory. These **must not** be provided for candidates' use during assessments.

Total Material Cost Variance	$(\text{Standard Quantity for Production} \times \text{Standard Price}) - (\text{Actual Quantity used} \times \text{Actual Price})$
Material Price Variance	$(\text{Standard Price} - \text{Actual Price for Unit}) \times \text{Actual Quantity used}$
Material Usage Variance	$(\text{Standard Quantity for production} - \text{Actual Quantity used}) \times \text{Standard Price}$
Total Labour Cost Variance	$(\text{Standard Rate} \times \text{Standard Hours for Production}) - (\text{Actual Rate} \times \text{Actual Hours worked})$
Labour Rate Variance	$(\text{Standard Rate} - \text{Actual Rate}) \times \text{Actual Hours worked}$
Labour Efficiency Variance	$(\text{Standard Hours for Production} - \text{Actual Hours worked}) \times \text{Standard Rate}$
Variable Overhead Cost Variance	$(\text{Standard Hours for Production} \times \text{Variable Overhead Absorption Rate}) - \text{Actual Variable Overhead Cost}$
Variable Overhead Expenditure Variance	$(\text{Actual Hours Worked} \times \text{Variable Overhead Absorption Rate}) - \text{Actual Variable Overhead Cost}$
Variable Overhead Efficiency Variance	$(\text{Standard Hours for production} - \text{Actual Hours worked}) \times \text{Variable Overhead Absorption Rate}$
Fixed Overhead Cost Variance	$(\text{Standard Hours for production} \times \text{Fixed Overhead Absorption Rate}) - \text{Actual Fixed Overhead Cost}$
Fixed Overhead Expenditure Variance	Budgeted Fixed Overheads – Actual Fixed Overhead Cost
Fixed Overhead Volume Variance	Budgeted Fixed Overheads – (Standard Hours for production x Fixed Overhead Absorption Rate)
Total Sales Revenue Variance	$(\text{Actual Selling Price} \times \text{Actual Quantity}) - (\text{Budgeted Selling Price} \times \text{Budgeted Quantity})$
Sales Price Variance	$(\text{Actual Selling Price} - \text{Budgeted Selling Price}) \times \text{Actual Quantity}$
Sales Volume Variance	$(\text{Actual Quantity} - \text{Budgeted Quantity}) \times \text{Budgeted Selling Price}$

National Unit Specification: statement of standards (cont)

UNIT Management Accounting (Advanced Higher)

APPENDIX 3 – Contract Costing Formula

The following formula will be provided to candidates when completing Unit and Course assessment.

Profit recognised on uncompleted contracts:

Profit Recognised	$\frac{\text{Work certified} \times \text{Notional Profit}}{\text{Contract Price}}$
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